AN ASSESSMENT OF SINO-AFRICA TRADE CO-OPERATION AND ITS IMPACT IN AFRICA (A CASE OF SUB-SAHARA AFRICAN ECONOMIES)

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ABSTRACT
Over three decades ago, China has become a major economic partner of Sub-Saharan Africa region with an expansion of the Sino-African Trade volumes evident by the presence of various Chinese projects in SSA, especially the one implemented by the Ministries of Foreign Affairs and Trade supported by quite a lot of State-owned Banks with a strategic focused on bilateral relationships with the African governments. However, the trade relation between China and Africa has remarkably displayed an amount of diversity across the Countries within the SSA region over time, and for different kinds of trade. The purpose of this thesis is to examine the determinant of the Sino-Sub Sahara Africa Trade relation and evaluate the impact of Chinese trading activities in Sub-Saharan African economies. The research paper selected twenty-four (24) Sub-Saharan African Countries including six (6) from each region respectively and adopt three (3) empirical models for data analyses. Firstly, a simple Augmented-Growth Model was adopted for Analysis employing a times-series dimension in the data for the period 1995 to 2013 (18 years) using a panel data approach to predict Trade with China determined by three (3) factors: Access to local markets, securing natural resources, and political considerations reflecting the three strategic challenges facing China highlighted by Brautigam (2009): The thirst to discover new export markets to enhance the expansion of domestic production; The need to find more resources abroad in meeting the demand of rapid economic growth and the necessity for allies among developing countries to compensate the prevalence of developed countries such as; the IMF and the UN. Secondly, the study also used an empirical model for explaining Chinese FDI export to Africa adopting a panel data and a time series data to investigate the effect of its imports from Africa and for explaining China’s imports from Africa during the period under review.

Key Words: China, Sino-Africa Trade Co-operation, Foreign Direct Investment, Sub-Sahara Africa

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1.0 INTRODUCTION

China's trade and investment relationship with Africa is very much of significant for both trading partners. For China, Africa represents a growing source of raw materials –most importantly, crude oil, iron ore/concentrates, and copper which have helped fuel China's rapid infrastructure development. For Africa, China represents a major trading partner and investor that provides it with cheap consumer products, buys its natural resources, and helps build its infrastructure.

It is worthy to note that China has become a major development partner of Africa, especially the Sub-Sahara Africa (SSA) region, as its Trade, Investment and Aid ties with the region have increased remarkably in the past decade to date. China’s real GDP has grown by an average of a 10% a year in the past decade up to 2013 and an average of 6.5% to 7% 2014 to 2015. China needs to import a whole variety of products, minerals, farm products, timber and oil to satisfy the fast pace of domestic investment, which increased geometrically by five fold in the same period.

A broad range of private-sector players from China have also been involved in China-SSA relations, including multinationals, small businesses, traders, migrants, and Chinese local governments through their own firms. The increase in China-SSA relations is not unexpected, because both China and SSA have maintained significantly faster economic growth than advanced economies in the last decade. The increasing role of China in SSA reflects China's increasing share as a major player in world trade and its historic reorientation toward new markets that started in the last decade, including toward SSA countries (IMF, 2011). The increasing relations also reflect the natural resource intensity in China’s economic growth and SSA's natural resources abundance. This trend is likely to continue in the coming years.

The traditional friendship between China and Africa started an age long ago in the early 50s that cut across social infrastructural ties, economy, bilateral trade, Investment, culture, Security and Diplomatic Cooperation etc. This friendly bond was indicated by the 2014 International Ebola Virus Disease (EVD) response in West Africa as China being the first committed player in the fight to combat the virus that causes a devastating negative ramification on the health sector, socio-economic and culture-traditional fabrics in the region especially the three most affected MRU Countries- Sierra Leone, Guinea, and Liberia.

China’s increasing trade and rapid investment-driven economic growth has affected SSA economies via trade, investment, aid, and loans. China-SSA trade, in particular, has increased significantly in the last decade and across the region. Although larger exports to China have helped drive economic growth in the region, they have also led to greater exposure to China. Increasing trade links with China have allowed SSA countries to diversify their export destinations, away from advanced economies.

The Ebola Virus epidemic Disease (EVD) in West Africa also presented the continent and China a better opportunity on exploring and deepening further the friendship. The corresponding instant response from China was just too enough to serve a point to the mutual respect and friendly ties that exist between the two. Not only have China poured in millions of dollars into the Ebola virus affected Countries, running into $120 million, but also sent in a team of medical personnel who braved it into our local communities, air lifting...
of two chartered planes, carrying a China Center for Disease Control and Prevention laboratory team and a China-Aided Mobile Laboratory that support towards the country’s fight against the Ebola all in a bid to help save humanity and sustain human livelihood.

China in her further thirst to its commitment to this married also donated the New African Union (AU) Conference and Office Complex Facility as a gift to Africa as the Headquarters of the African Union in Addis Ababa, Ethiopia which also symbolizes this long standing partnership between Africa and China. The Chinese people and the people of Africa have all along given sympathy and support to each other as in the case of their thirst and fight for national independence, and their relentless efforts towards nation-building and in attaining an efficient, effective and sustainable socio-economic development. Both regions claim to share a number of common historical values, which have also served to lay reasons for the evolving married between the two giants.

Figure 1: Map showing China and Africa on the Globe

China’s strategic position in Africa’s development, especially in the last two decades has been extremely beneficial, especially in strengthening the Sino-Africa relationship and in giving it a new life. Africa’s quest to achieve stable and sustainable development and more investment in the fields of trade, infrastructure and a host of others has taken center stage in the continents strategic thinking framework and in this vain, China has been a leading player in engaging Africa for trade and investments.

This briefing describes China’s trade and investment in Africa’s major raw material markets, and addresses the roles that Chinese State-owned Enterprises (SOEs) and special economic zones have played in this relationship.

It’s a gospel truth that over a decade now, China’s recent growing presence in Africa is a reflection of its broader emergence as a global power; as it has become a major economic partner of the African Continent. The Sino-Africa Trade and investment has rapidly
expanded over the past three decades which has however displayed a remarkable amount of diversity across the African Continent over time with an increase of a total merchandise trade from $9 billion in 2000 to over US$200 billion in 2014 with a forecast to reach the sum of US$400 billion by 2020 making China Africa’s largest trade partner. (UN Comtrade, 2014); Chinese Foreign Direct Investment (FDI) flows also increased from $200 million in 2000 to US$30 billion in 2014 with plans to scale up to US$100 billion by 2020, turning China into the largest developing country investor in Africa.\(^5\)

Additionally, Chinese Aid initiatives in Africa in the form of economic or technical cooperation have also increased remarkably in the last decade. According to China’s National Bureau of Statistics (NBS), the turnover on economic cooperation projects in Africa reached $29 billion in 2011 compared to $1.2 billion in 2000. At the same time, Africa’s growth performance has improved significantly. Following two decades of negative growth rates in the 1980s and 1990s, Africa’s Gross Domestic Product (GDP) per capita grew by an annual average of 2.4 % in 2000-2009, while the growth rate in 2010-2012 amounted to 1.8%.\(^6\)

According to Zhang Ming, vice-minister of foreign affairs, speaks during the China-Africa Relations Roundtable conference in Johannesburg on December, 2015, he said “Despite the fact that China and Africa implementing different development agenda’s, the coming together of the 2.4 billion people in China and Africa presents an enormous resource and market advantage that is greater than the mere sum of individual strengths. Africa is working on accelerating industrial revolution and modernization. China, on the other hand, is deepening reforms from being an export-oriented economy to domestic Consumption while at the same time relocating its competitive industries and surplus production capacity overseas.

China has not only the capacity but more importantly strong political will to support Africa in realizing independence and sustainable development. China-Africa cooperation is facing unprecedented historical opportunities”.

Also during the China-Africa Relations Roundtable conference held in Johannesburg on December, 2015, China’s President Xi Jinping announced a massive $60 billion to ensure the success of a 10-point African development plan covering the areas of “industrialization, agricultural modernization, infrastructure, financial services, green development, trade and investment facilitation, poverty reduction and public welfare, public health, people-to-people exchanges, and peace and security”.

President Xi further said “China and Africa will deepen co-operation in industrialization, high-speed railways, expressways & regional aviation.” Xi also announced that Beijing would send $60 million to the African Union in aid to build the homegrown continental strike force, the African Standby Force, emergency response and quick-response force. The ASF attains “full operational capability” in December.

Notwithstanding the gains made by both giants in this relation in which Africa has been a key market of China, with regards raw materials, trade and investment. The current visit of President Xi in Africa following the visit of the Foreign Minister Wang Yi, reassure and spur the Continent for a continual need for both parties to work towards redoubling efforts to draw up a robust blueprint for promoting cooperation and laying a solid foundation for making new and greater progress in growing this bond. Albeit the fact China being the world’s largest developing nation with Africa being the home to richly endowed natural resources as in the case of Sierra

\(^5\) UNCTAD, 2013; MOFCOM

\(^6\) World Bank, 2014
Leone, South Africa, Nigeria, Ghana, Zimbabwe and South Sudan, etc. cannot overemphasize the need to scale up efforts in ensuring a surge in infrastructural growth, human resource development and other socio-economic development. Albeit the gains made, Africa is still fraught with difficulties and challenges, especially in trade and investment and also includes including inadequate infrastructure, lack of quality human capital, broken health system, lack of food sufficiency and liquidity shortages amongst others.

Africa is a big place with many different countries, rather than the monolithic view of the continent often portrayed in the popular press. Given this cross-country diversity, economically and culturally diverse, with different regional economic blocs it is not surprising that Chinese engagement in Africa has varied from country to country.

The purpose of this study is to assess the factors that influence Chinese trade with particular reference to twenty-four (24) Sub-Saharan Africa Countries constituting 6 Countries from each region, respectively-The Southern Africa Development Community (SADC), Eastern Africa Community (EAC), the Economic Community of West African States (ECOWAS) and the Economic Community of Central African States (ECCAS) respectively. The 24 Countries include; Angola, Benin, Botswana, Cameroon, Cape Verde, Central African Republic, Congo Republic, Cote D'Ivoire, DR Congo, Ethiopia, Gabon, Ghana, Kenya, Lesotho, Madagascar, Mauritius, Tanzania, Namibia, Nigeria, Sierra Leone, South Africa, Swaziland, Zambia and Zimbabwe.

**Table 1: List of Selected Countries in SSA**

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<tr>
<th>SERIAL NO.</th>
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7 Web google.com browser
The determinants of trade patterns with China are examined across countries and over time as well as for different kinds of trade flows. The key result of my study will depend on the premise that Chinese trade depends on three broad factors: Access to local export markets, Access to natural resources, and Political considerations reflecting the three strategic challenges facing China highlighted by Brautigam (2009): The need to find new export markets to fuel further expansion of domestic production; The need to find more

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<td>24</td>
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resources abroad to keep pace with resource demand from rapid economic growth; and The need for allies among developing countries to counter-balance the predominance of developed countries in international organizations like the IMF and the UN.

When assessing trade impact on Africa, it is important to note that China’s economic activities have resulted in an overall increase of not only trade but FDI, and Aid in Africa rather than a diversion of existing flows from third countries. In principle, this should have positive effects. An expansion of international trade with a new partner like China could boost growth rates by increasing demand for African products (mainly raw materials). Also, the diversification of Africa’s traditional trading partners could reduce export volatility, thereby decreasing output volatility and thus boosting long-run growth rates (Hnatkovska and Loayza, 2004). Albeit, various factors have contributed to Africa’s better growth performance, including a marked improvement in institutions and infrastructure and a decrease in conflicts and macroeconomic distortions, all of which have to be controlled for in an empirical investigation. Though the topic of economic trade relations between China and Africa has received considerable attention in the media, there have been relatively few systematic studies documenting the determinants of these relations. Most studies have focused on documenting the expansion of economic trade relations or assessing the impact of these relations rather than looking at why these relations have been growing. For example, Wang (2007) argues that the Forum on China-Africa Cooperation (FOCAC) in 2000 and 2006 were watershed moments. At the 2000 FOCAC, China pledged to write off over $1.3 billion in debt owed by African countries. This debt relief figure was matched at the 2006 FOCAC. In addition, China removed import tariffs on over 454 goods from Africa by 2007. Chinese engagement in Africa is often part of a multi-pronged strategy linking trade with investment and Aid. Several studies have examined the determinants of FDI, which can be seen as complementary to trade in the case of Chinese investment in Africa. Gu (2009) finds that local market access is a key determinant of Chinese FDI, with a survey of 80 Chinese firms indicating that access to local markets was the top motivating factor in their investment decision. There is also some evidence of tariff-jumping FDI, as Sanllipo (2010) finds that Chinese investment is higher in countries that are members of the African Growth and Opportunity Act (AGOA), a trade agreement with the United States. We see further evidence of Chinese firms investing in Africa to take advantage of African access to third-country markets with the end of the Multi Fibre Arrangement (MFA), a system of textile tariffs notably limiting Chinese textile exports, in 2005. Besada, Wang, and Whalley (2008) find that when the MFA expired, many Chinese textile firms operating in African countries with preferential access to developed country textile markets shut down their operations and moved back to China.

The novelty of my study is that it systematically examines the determinants of trade with China across four dimensions: countries, time, the type of good being traded (homogeneous to differentiated) and the direction of trade flow (exports or imports) and its impact. The prevailing subject across these dimensions critically give the heterogeneity of countries in Sub-Saharan Africa. Some countries are large natural resource exporters, while others represent potentially lucrative export markets. Some nations have preferential trade agreements with the developed world (often going back to colonial legacies), while others are international players as far as developed countries are concerned. In view of this development, the research question arises as to "what constitute China’s trade engagement in Africa and its contribution to the Sub-Saharan African economies".

STATEMENT OF THE PROBLEM

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OECD et al., 2013; UNECA, 2013
Albeit the fact that China’s economic activities have remarkably given positive impact on both the richly endowed natural resource giant and the economic giant of the emerging economies, there are also negative ramifications especially in China’s trading activities in Africa evident has problem that has been exacerbated by dependence on a small range of commodity exports to meet foreign exchange requirements and debt servicing, resulting in a long-term decline in these Countries’ terms of trade (TOT). Supply-side deficiencies, principally poor physical and poor business infrastructure, and low levels of human resource development further inhibited market integration and investment prospects. Problems further have been compounded by chronic balance of payments difficulties, characterized by large current account deficits. This indeed inhibited the ability to import goods and services critical to domestic production and consumption, further entrenching the circle.

Though trade, foreign investment from China could also have positive growth effects in Africa that is expected to enlarge the capital stock in African countries, increase productivity levels through higher competition intensities, and it is associated with higher tax revenues could foster productivity spillovers to African firms. Also, China’s trade engagement in Africa could have negative consequences for economic growth partly due to China’s strong demand for raw materials, African exports are more and more concentrated in the primary sector. This enhances the risk of encountering (or deepening) the resource curse in African countries. Extracting and exporting natural resources could lead to rent-seeking and corruption. This matters as most African countries have already weak institutions and China bound by its “non-interference” policy, does not tie trade and investment to any reform conditions like in the case of the bureaucratic traditional partners of Africa say United States of America and Europe with their IMF and World Bank Conditionality-Structural Adjustment policy and so on.

Addendum to that, Chinese manufactured firms could displace their African competitors in case they produce similar goods. Both exchange rate overvaluations and low-cost competition from China threaten African suppliers in manufacturing due to increasing exports of natural resources could crowd out manufacturing products. Depending on the country considered, this applies in particular to textiles, furniture, footwear, or ceramic products. Either the home market of African suppliers could be contested by Chinese firms or African exports to third markets, for instance in Europe or America, could be displaced.

China’s shift to an economic emphasis in its relations to Africa especially in terms of trade not only poses competition for the vast natural resources of the Continent, but also acts as an alternative for African states in need of financial assistance to combat the difficulties and challenges such as the inadequate infrastructure, lack of quality human capital, broken health system, lack of food sufficiency and liquidity shortages amongst others – an alternative value system.

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9 Nnadozie and Elhiraika, 2005
10 UNCTAD, 2006
11 Carmignani and Chowdhury, 2012
12 Busse and Gröning, 2013
13 Morrissey and Zgovu, 2011
14 Giovannetti and Sanfilippo, 2009
The unprecedented growth of trade and investment flows between Africa and China has recently been attracting a lot of media and academic attention that lead to number of researches on the Sino-African economic exchange to be available.

Summing up, there are opportunities and risks that arise from China’s trading activities in Africa. This calls for an empirical analysis to investigate the Trade determinants of the Sino-Africa bilateral relation and its impact to the Sub-Sahara African Region.

So this research main Aim is to come out with an answer by examining and proving the crucial Main question about the component of the Sino-SSA Trade determinants and whether China trading activities in Africa is economically viable or not.

There are several sub-questions to answer the main question as steps to find a viable conclusion:

1) What are the determinants of the Sino-Sub-sahra African Trade?
2) What explains China’s trading Activities in Sub-Sahara Africa and its effect?
3) What explains the impact of Chinese direct investment in Africa on the value of Chinese export to Africa?

The main Aim of this research study, given the broad context of the nature of the Sino-Africa Trade relations and the framework of arguments expressed in respect of the motive of China’s trade engagement in Africa is to:

"Investigate the Sino-SSA Trade determinants and evaluate the impacts of the growing Chinese trading activities in Sub-Sahara Africa trying to know whether the growing role of China in terms of Trade positively impact the economies in the SSA region".

In an attempt to answer these question, the potential positives and negatives of the swiftly growing Sino-African trade co-operation will be analyzed.

The analysis will be made in the framework of assessing the behavior and motives of China and its African Policy in the context of its Trade engagement and its implications of the relations on African economies.

The specific Objectives are as follow:

- Depict the trends of the Chinese African Trade policy.
- Assesses and identify factors that pose challenges on the growing trade and investment relations between Africa and China, and their implications.
- Assess the overall contributions of China trading and investment activity and Make an analysis of personal perspectives on local, national and international levels on Chinese Trade contributions to economic growth and development in Africa.
- Examine the different arguments and opinions reflected with respect to the motive of China’s Trading Activities in Africa.
- Identification and analyses of the challenges facing the 24 selected Sub-Sahara African Countries from their trading relationship with China.
- Judicious utilisation of the increased income especially the foreign exchange earnings to relax supply-side constraints and diversify the economic base;
- Responding strategically to the price competition promoted by Chinese imports;
- Dealing with the risks of the structure of the country’s exports to China perpetuating specialization in primary commodity production;
 dealing with the risk of China’s cheap imports leading to de-industrialization, increased unemployment and discouraged economic diversification; and
 handling the possibility that imports from China may be hazardous on account of low quality.
 Finally put forward policy recommendations emanating from the findings of the study as a proxy for policy implication by regulators.

The main assumption of this research study is that China Trading Activities in the Africa Continent can be instrumental in growing the African economies (GDP), create job, availability and accessibility of commodities in the Africa market, building better infrastructures, eradicating poverty and promoting human Capital development livelihood whilst the Sino-Africa relationship continued to be strong and viable ties. The greater the levels of Chinese trade in Sub-Saharan African states, the greater the level of African support for Chinese involvement in the Continent. This hypothesis implies that Africans appreciate the country-level developmental benefits accruing to their respective states as a consequence of Chinese trade underway across the Continent.

THE STRUCTURE OF AFRICAN ECONOMIC OUTLOOK

Despite the Ebola virus that invaded the fabrics of Africa in December, 2013 that lasted for about 2 years, Africa’s Gross domestic product (GDP) growth rate recorded 4.3% in 2015 indicating a growth strength though a bit lower than as expected Africa’s gross domestic product (GDP) growth is expected to strengthen to 4.5% in 2015 and 5% in 2016 after subduing expansion in 2013 (3.5%) and 2014 (3.9%). The 2014 growth was about one percentage point lower than predicted in last year’s African Economic Outlook, as the global economy remained weak and some African countries saw severe domestic problems of various natures. But the world economy is improving and if the AEO 2015 predictions are right, Africa will soon be closing in on the impressive growth levels seen before the 2008/09 global economic crisis.

West Africa achieved relatively high growth of 6% in 2014 despite its battle with the Ebola virus. Nigeria’s growth of 6.3% came mainly from non-oil sectors showing that the economy is diversifying. But Southern Africa’s growth fell below 3% as the key South African economy only grew by 1.5%.

Domestic demand has continued to boost growth in many countries, while external demand has remained mostly subdued because of flagging export markets, notably in advanced countries and to a lesser extent in emerging economies. Export values of goods were also depressed by lower export prices. African exports are expected to strengthen in 2015 and 2016 as the world economy improves. In 2014, domestic demand was in most countries boosted by private consumption and public infrastructure investment with the latter also increasingly financed by issuing international sovereign bonds. On the supply side, many African countries have improved their investment climate and conditions for doing business, which enhance long-term growth prospects. Benin, Côte d’Ivoire, the Democratic Republic of the Congo (DRC), Senegal and Togo are even in the top ten countries worldwide with the most reforms making it easier to do business. Africa’s supply side growth in 2014 was mainly driven by agriculture, extractive industries, construction and services, and to a lesser extent by manufacturing. But sectoral growth should not be seen in isolation, as there are important spillovers between

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15 AEO 2015 predictions
sectors. Furthermore, modernisation and structural transformation, the process by which new, more productive activities arise and resources move from traditional activities to these newer ones, is also happening within some sectors. So far African economies have been relatively resilient to the sharp fall of international commodity prices. Production of commodities has often increased despite the lower prices, and overall growth has also been boosted by other sectors. But if commodity prices remain low or decline further, growth in resource-rich countries might slow down as governments need to cut spending. Governments will be keeping a close watch on conditions in key markets, especially China and Europe. There are some positive effects, however, as lower oil prices ease inflation, increase real incomes and strengthen export markets. In countries where inflationary pressures have eased – such as Botswana, the members of the Central African Economic and Monetary Community (CEMAC), Mozambique and Rwanda – policy interest rates have been reduced to stimulate growth. By contrast, in countries where exchange rates came under pressure, such as Nigeria, central banks responded by tightening policies to stabilize exchange rates and contain inflation. Most African countries continued their prudent fiscal policies to keep budget deficits at sustainable levels. But in several countries, including oil exporters, fiscal positions weakened despite efforts to limit spending and to improve tax revenues16.

Table 3: Natural resources available in some African countries17

<table>
<thead>
<tr>
<th>COUNTRIES</th>
<th>NATURAL RESOURCES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>petroleum, diamonds, iron ore, phosphates, copper, feldspar, gold, bauxite, uranium etc.</td>
</tr>
<tr>
<td>Liberia</td>
<td>rubber, timber, iron, diamonds, cocoa, coffee etc.</td>
</tr>
<tr>
<td>Senegal</td>
<td>agricultural and fish processing, phosphate mining, fertilizer production, petroleum refining, construction materials, ship construction and repair (no oil) etc.</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Diamond, rutile, bauxite, timber, cocoa, coffee, petroleum, agriculture, marine resources and fish processing etc.</td>
</tr>
<tr>
<td>Zambia</td>
<td>copper mining and processing, construction, foodstuffs, beverages, chemicals, textiles, fertilizer, horticulture etc.</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Crude Oil etc.</td>
</tr>
</tbody>
</table>

16 Source: AEO, 2015
17 Web google.com browser
China, not trying to be a hero or anything quite like that, recognized a mutually beneficial need in Africa. China needs Africa’s raw materials to maintain its thirst for fuel to run its industries and vehicles - and Africa in turn needs foreign investment and infrastructure development. The West shuns Africa generally because of its seemingly endless trail of political corruption and economic instabilities. The West is accustomed to bailing African nations out of financial troubles by yet extending lines of credit with no expectation of paying it back except by further devaluing their already depressed currency.

China, over the centuries has undergone numerous turmoil and periods of unrest as it “found” itself. Significant to this paper was the advent of the Great Proletarian Cultural Revolution which started as a result of protests regarding the educational system, disgruntled party members having a difference in opinions with Mao and the workers revolting against the Party. “In the summer of 1966, a group of Beijing high school girls protested against the system of college entrance examinations. The Central Committee acceded to the students' demand by promising a reform and postponing the 1966 enrollment for half a year. Freed from their studies, students demonstrated in Beijing in August, touching off demonstrations of young people in general.” This radical movement caused schools to be closed down, slowed economic production and trade, and virtually severed China’s relations with the rest of the world. It lasted for two years in its intense form, lingered on for another year and a half, and was not officially declared over until 1977. During this period, Chinese youths had lost a generation of education, China itself had lost its trading relations with all countries – China’s desires to be an economic power was set back another ten years.

THE STRUCTURE OF CHINA ECONOMIC OUTLOOK

During the first quarter of 2016, China recorded a GDP of about 6.7% and economic growth is projected to decline gradually to 6.2% by 2017. The announced infrastructure stimulus measures will help overall investment, but adjustment in several heavy industries is set to continue and this stimulus is not sustainable in the longer term. Real estate investment is bottoming out, but working off housing inventories will take some more time. Consumption is set to remain robust. Food and services prices are rising, but the absence of price pressures in other areas will keep consumer price inflation low.

Monetary and fiscal policies should accommodate the ongoing re-balancing of the economy, which will lead to more sustainable and inclusive growth. Spending should be targeted at areas that promote long-term inclusive growth, such as extending the social safety net, upgrading skills and ensuring equal access to public services. Pension reform should be stepped up to safeguard fiscal sustainability.

Meeting the commitment to increase the share of non-fossil fuels in primary energy consumption to about 20% and to have carbon emissions peak by 2030 will be aided by weakening growth and restructuring of the economy. A national cap-and-trade carbon emissions system, to be rolled out from 2017, can meaningfully reduce emissions only if it raises the cost of polluting sufficiently for the polluter to cut output, switch to new technology or reduce emissions in other ways.

Figure 2: China Industrial output & Manufacturing Investment

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18 China Chamber of commerce, March 2016
19 CEIC
AN OVERVIEW AND EVOLUTION OF THE SINIO-AFRICA MARRIAGE

Historical evidence from researchers and academic scholars have shown that the two(2) giants- Africa and China have been in an economic and political ties far back as 500 years ago\textsuperscript{21} though not much is known about the ancient relations between the two with evidence of early trade connections. Highlights of medieval contacts were the 14th Century journey of Ibn Battuta, the Moroccan scholar and traveler, to parts of China; the visit of Sa'id of Mogadishu, the Somali scholar and explorer to China; and the Ming Dynasty.

\textsuperscript{20} CEIC

\textsuperscript{21} Mohan and Kale, 2007
voyages of Chinese admiral Zheng He and his fleet, which rounded the coast of Somalia and followed the coast down to the Mozambique Channel are all evidence of the ancient relation. The stimulation of the traditional friendship between them which serve as a foundation stone started in the mid 1950s and cut across social ties, economy, bilateral trade, investment, culture, security and diplomatic cooperation and was lunched at the Asia-African Conference (the Bandung Conference) held in Bandung, Indonesia which started on the 18th and ended on the 24th April, 1955. The Conference was purposely “to promote Afro-Asian economic and cultural cooperation for the common goal to overcome the legacies of colonialism and forge closer ties with one another. The conference brought together, for the first time, 29 African and Asian nationalist leaders. Between 1955 and 1965, China entered into relations with 14 newly independent states in Africa and the trade volume by then increased geometrically by nearly seven folds. Sino-African economic relations and diplomatic Cooperation have only surged and deepened since 2000. Despite growing trade relations, China’s interest in Africa during the 1950s and 1960s was ideological rather than economic. China’s relationship with Africa took a nose-dive during the Cultural Revolution in China. However, in the 1970s China “embarked on an extensive Aid program to Africa.” Between 1970 and 1976, China committed about US$1,815 million to Africa. During this period China also sponsored several prestigious projects in Africa such as the TAZARA railway between Tanzania and Zambia. Africa was also of some help to China during this period as in the case of its instrumental role played to China’s success in gaining admission into the United Nations in 1971.

Since the founding of the People’s Republic of China in 1949, Chinese and African leaders have attached high importance to developing cooperation with African countries. Jiang Zemin, Mao Zedong, Deng Xiaoping, Zhou Enlai to the present leaders has since been paying visits to Africa (Ian, 2006). In the early 1960s Zhou Enlai made a ten-country tour between December 1963 and January 1964 to Africa. Relations at this time were often reflective of China's foreign policy in general. Premier Zhou En Lai vowed to support African people in what he called "their struggle to oppose imperialism and old and new [forms of] colonialism and to win and safe guard national in-dependence". In 1956, the United Arab Republic (Egypt), led by Garmal Abdel-Nasser became the first African state to recognize the PRC. The Cairo Conference of 1957 in many ways marked a turning point in China’s policy regarding the developing world (Africa), which resulted in the creation of the Afro-Asian People's Solidarity Organization (Joseph, 2006). In 1998, South Africa, one of Taipei's most important partners in the continent, cut off its diplomatic ties with Taiwan (while maintaining economic cooperation) and reestablished links with China. Senegal followed suit in 2004 and Liberia in 2005. Recently in August 2006 and 2007 Chad and Malawi, respectively normalized diplo-matic relations with Beijing. Currently only 3 of the 54 African nations uphold ties with Taipei (Gambia, Swaziland, and Burkina Faso).

A profound increase in the Sino-Africa ties in the last two decades may have been related to the shifts in the world economy, geopolitical competition, and changes in Chinese foreign policy (Brautigam, 2003). According to Mohan and Kale (2007), the Chinese-Africa business contact is divided into three phases. The first phase from 1850 to 1950 related to colonial labor demand called "coolie trade." "Coolie trade" focused mainly on plantation, mining, and railway construction. Alongside this were small but enterprising businesses that serviced Chinese labor markets and undertook small-scale export. The second phase was from 1960-1980. With the establishment of the People’s Republic of China and the subsequent cold war, relations between China and Africa became political. China challenged the superpowers through foreign Aid to Africa in order to cement ‘South-South’ relations. It also encouraged the independence movement in Africa. This is also when Chinese economic reforms were being instituted allowing liberalization, special economic zones, and permitting Foreign Direct Investment (FDI) (Shenkar, 1994).
In 1956, bilateral relations grew as others states gain independence and Africa been instrumental in China gaining UN seat and Today China is Africa biggest trading partner. Currently, the world being a dynamic and complex engulf with various continent with their diversified socio-economic and political activities is undergoing major and profound changes, the most notable are the affirmation of African countries and the development of the People’s Republic of China (PRC). As rising forces, on both Political and Economic Plans internationally. China and Africa Countries continue to strengthen and expand their relations of friendship and cooperation with mutual benefits, which involve a significant impact on the evolution of the international order.

The concept of integration and international cooperation evolved due to the need for mutual relations among nation states, for the purpose of development, peace and socio-economic growth. This invariably led to the signing of treaties, agreements, alliances and defense pacts by nation states all aimed at strengthening relations for the common good of all. Many countries are increasingly forging political, economic, social and military integration through alliances. This has further made economic and socio-political alliances key imperatives towards integration and socio-economic development.

These relationships, the test of time and international upheavals over the past decades, have entered a stable orbit of continuous development and cooperation in several areas and at different levels. China and African countries are trying to develop these relationships comprehensive strategic partnership. Over the years, high-level exchanges have become increasingly common: the systematic holding bilateral meetings, China-Africa summits and political dialogues at various levels continue to take place in a wider and deeper scale. Cooperation between China and African countries has expanded into more than forty areas including: Economic, Trade & Investment, Science & Technology, Education & Training, Information Technology, Energy & Power, Environmental Protection, Technical, Health and Agriculture cooperation etc. which Presage a promising future.

Accordingly, developed and developing countries have become increasingly dependent on each other at sub-regional, regional and global levels. A common feature of international economic relations today is the pre-eminence of globalization and the desire for the successful accomplishment of strategic partnership agreements between countries or even between a country and a continent. It was against this background that the Forum on China-Africa Cooperation (FOCAC) was formed in the year 2000 as a bridge for the conduct of relations between China and Africa. China is in Africa in a vigorous way and doing business in several countries like Sudan, Senegal, Congo DRC, Angola, South Africa, Nigeria and Sierra Leone; to mention but a few. There are certain Economic Organization in Africa that enforce this relation such as; FOCAC, ECOWAS, IGAD, ECCAS, EMAC, COMESA, EAC, CEPGL, MRU and SADC. Trade and Investment between China and Africa have increased geometrically as at 2015 and China is currently Africa's largest trading partner.

During the 1980s and 1990s Sino-African relations were still mainly political, as China itself was undergoing extensive economic reform and opening up its economy to the rest of world. In the late 1990s China’s remarkable growth performance made policy makers realize that in order to sustain high-level growth it needed to ensure its future supply of natural resources. In this regard, Africa became a particularly important region for China.

The importance of Africa in China’s foreign policy culminated in the establishment of the Forum on China-Africa Cooperation (FOCAC) in 2000. The forum holds ministerial 6 conferences every three years and is an important platform to implement specific economic
policy programs with Africa. Moreover, China’s “Going-Global” policy, announced in 2001, also contributed to the rise in Sino-African economic relations. In order to encourage foreign trade and outward FDI, the policy provides Chinese firms with easy access to loans, foreign exchange and preferential policies for taxation, imports and exports. Although the policy is not primarily targeted at Africa, it identifies key areas in which to encourage FDI, including resource exploration projects which are a particularly important Chinese activity in Africa. When analysing Sino-African economic relations, three channels of economic interaction are dominant, namely; Trade, Foreign Direct Investment and Foreign Aid (economic cooperation).

In line with the Beijing Declaration of FOCAC, China’s policy on Africa aims at “fostering solidarity and cooperation based on partnership, consultation, consensus, friendship, interdependence, equality and mutual benefit”. However, as a result of economic globalization, some countries not only in Africa lack the capacity to catch up with optimal global economic status and are therefore not exercising much of interdependence with China; rather their only option is a form of dependency theory where Sierra Leone for example in the field of commerce/trade, technology and investment relies on China. Nonetheless, China’s Africa policy vows to continue to offer such African countries economic assistance with no political conditions attached and take positive measures to increase the economic benefit of the China-aid project in Africa. In October, 1999, the Chinese President proposed a dialogue forum between the two trading parties to boost economic exchange. That proposal transformed into an October summit in Beijing where FOCAC was formed. It was important south-south cooperation. So far about five (5) summits had been held at an interval of three (3) years; 2000, 2003, 2006, 2009 and 2012.

The first Beijing summit held in China, China announced a RMB 10 billion debt relief for least developed countries. The second summit was held in Addis Ababa, Ethiopia, in 2003. As economic strategy, China announced a zero tariff for African least developed import into China, increase in training and development of human resources; improved culture exchange; promotion and encouragement of tourism; improved company business in Africa. These were adopted to form the Addis Ababa Action Plan 2004-2006. The third summit was held in Beijing in 2006, November. On this summit, the Chinese Hu Jintao rolled out a $5 billion package of concessionary loans to Africa. This meeting also created the China-Africa Development Fund which becomes a catapult for the Chinese investments in Africa with a $1 billion initial funding.

The fourth summit was held in 2006 in Egypt when China announced a $10 billion loan on technology research. China also pledged the construction of 100 clean-energy project. There would also be a lower of customs on Africans product imported into China from countries with which China has diplomatic links.

The last summit was held in Beijing in 2012. FOCAC as cooperating body had a major impact on Sino-Africa relations. It enables China to have stronger ties with Africa. From the start of FOCAC trade volume between the two rose to over 1000% in ten years, 2000-2010 from $10 to $114 billion. All this is done to enhanced and strengthen the tie between these two (2) giants.

As Chinese President Xi Jinping pointedly noted in a recent meeting in Beijing with visiting Senegalese President Macky Sall, this year marks a milestone in China-Africa trading relations. “It is the year that trade between China and Africa has surpassed $200 billion, making China Africa’s biggest trading partner, up from just $10 billion in 2000.” “That all stands witness to the endlessly renewed vitality of Sino-African friendship, to the scale of the potential for co-operation and the excellent outlook for the new kind of Sino-African strategic partnership,” Xi told Sall.

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22 UNCTAD and UNDP, 2007
Through a complex network of state-owned enterprises, and direct government engagement, Sino-Africa corridors represent a brisk trade in all manner of primary goods such as foodstuffs, minerals and oil etc. Chinese trade flows are not only a welcome investment in the global growth and poverty reduction agenda, but they can also play an enormous impact in staving off civil unrest and instability by creating local job opportunities for the poorest around the world in general and Africa to be specific.

Over the last decade across Africa, and beyond, China's foray beyond her borders has rested on powerful three-pronged approach of trade, Foreign Direct Investment (FDI) and Aid largesse, which although declining in importance, remains sizeable. It is these substantial flows that have placed China firmly at the helm of the discourse of Economic Growth & Development in many emerging economies as whole and Africa to be specific. This leaves African policymakers, and others elsewhere, the impression that China will play an ever-expanding role in driving economic growth and reducing global poverty, and less so traditional development partners (such as developed countries and multilateral institutions).

More generally, China's worldwide infrastructure build-out has delivered the full complement of roads, ports, railways, airports and power stations; showing an eagerness to invest in infrastructure even where the private sector tends to be deterred due to relatively low return profile and project maturities that can run over 50 years.

Conclusively, China has been and continue to be playing leading role in strengthening and enforcing the Sino-Africa ties since when this friendly started to date and it can be justified as in the case of President Xi's visit to the last Sino-Africa Summit in South Africa in December, 2015 where he reassured the African Continent and its people about China's commitment and pledge a sum amount of $60 billion non interest loan to liberate the Continent from poverty, prevailing human livelihood and socio-economic challenges with a 10-point African development plan to ensure the success of the project.

1.5 Economic Cooperation

Modern political and economic relations commenced in the era of Mao Zedong, the first leader of the Chinese Communist Party, following the Chinese Civil War. Starting in the 21st century, the modern state of the People's Republic of China has built increasingly strong economic ties with Africa. There are over millions Chinese citizens residing, working and doing business in Africa and as well Africans working, studying and doing business in China.

China's Economic Cooperation projects in Africa constitute both Foreign Direct Investment (FDI) and Trade indicators in addition to its political desired output on the African Continent (Biggeri and Sanfilippo, 2009; Sanfilippo, 2010). The structure of economic cooperation in Africa by China is more actively focused on infrastructure development (railways, roads, public housing, bridges and telecommunication etc.) with more premium placed in facility construction projects such as; government buildings, stadiums, hospitals and schools.

Addendum to the aforesaid, China also provides financial Aid in the form of grants, zero-interest loans, debt relief, and concessional loans as well as preferential export credits, market-rate export buyers' credits, and commercial loans from Chinese banks (Bräutigam, 2011). In addition, the China Africa Development Fund launched by the China Development Bank in 2007 provides

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23 Biggeri and Sanfilippo, 2009
equity investment capital for Chinese enterprises to invest in Africa. The fund has received $3 billion in capital up until 2012 and has (co-)financed 60 projects across 30 African countries, and is expected to reach its full $5 billion capitalization in 2014.

It’s worthy to note that China’s most significant desired objective in Africa are not primarily geared at financial Aid model but rather at a form of South-South Cooperation, particularly technical assistance. Chinese companies often work on contracted projects in Africa as a result of a greater finance or trade deal the Chinese government agreed upon with the government of a particular African country which entails some sort of economic or technical cooperation. Data on economic cooperation illustrate the level of activity of Chinese companies in African countries thereby reflecting China’s emphasis on technical assistance in Africa. Therefore, we argue that data on economic cooperation may serve as an adequate proxy for the level of Chinese technical assistance to Africa. During the last decade Africa’s share in China’s economic cooperation worldwide has nearly tripled from 10 % in 2000 to 29 % in 2011 showing the growing importance of China’s projects in Africa.

Interestingly, in the period 2000-2011 the highest turnover of Chinese economic cooperation projects occurred in Angola, Sudan, and Nigeria. As stated above, China has considerable resource investments in Sudan and Nigeria, and provided a sizeable soft loan to Angola which is repaid in oil at fixed prices. This is only one example that reflects the strategic interaction of trade, FDI, and aid in China’s Africa policy. Below are some of the economic sectors benefitting from this long term friendly relationship:

**Billateral Trade**

It is an absolute fact that the Sino-African trade volumes were negligible before 2000, bilateral trade increased significantly in the last decade with a total merchandise trade from $9 billion in 2000 to over US$200 billion in 2014 with a forecast to reach the sum of US$400 billion by 2020 making China Africa’s largest trade partner. Overall, African exports to China (7.8 % of GDP) exceeded its imports (4.8 % of GDP) in 2012. In dollar terms, that amounts to a sizable total trade surplus of some $ 39 billion; African GDP data taken from World Bank (2014).

China started buying cotton from Egypt since 1956. Today, China imports a wide range of commodities from Africa. These include oil, iron ore, cotton, diamonds, logs and several other minerals. African agricultural products which have suffered from the cruelty of globalization now find profitable markets in China. Burkina Faso, Benin and Mali provide China with 20 % of its cotton imports. Ivory Coast and Ghana are important sources of cocoa and Kenya sells large quantities of coffee and tea to China. Namibia and Sierra Leone provide large shipments of fish and fishmeal. The figures about China-Africa trade illustrate the depth of this economic cooperation. This trade rose by 700% in the 1990s. In 1999, the trade volume stood at US $6.5 billion. From 2002 to 2003, trade doubled to US $18.5 billion. In 2005, it stood at US $39.7 billion and again jumped to US$50 billion in 2006. A year later in 2007, it rose to US$ 55 billion.

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24 CCS, 2013
25 UN Comtrade, 2014
26 UN Comtrade 2014
China’s Trade With Sub-Sahara Africa (SSA)

Trade flows between China and SSA have undergone a dramatic expansion during the past 12 years over a decade now and there are no signs of slowing down with a certainty of positive projection in the future. China-SSA trade has grown by a remarkable 26% per year since 1995, reaching a total trade value of US$170 billion in 2013. As at end 2013, China accounts for about 24 % of SSA’s total trade volume indicating a huge increase from a 2.3 % total trade volume in 1995. Albeit, China’s might and its and rapidly increasing vital role regionally and globally, its economic relationship with SSA is not symmetric: in 2013, SSA’s share in Chinese trade reached just 3%.

The Chart below shows the Relative trade shares, import, export and trade balance within the period under review.

Figure 9: Trade Between China and Sub-Saharan Africa (SSA)

SSA’s exports to China have grown faster than its imports, generating a large, positive trade balance. SSA’s exports are concentrated in primary commodities, especially extractable resources such as oil, uranium, aluminum, zinc, phosphates, copper, nickel, and gold, as well as renewable resources and agricultural commodities such as timber, rubber, coffee, cotton, cocoa, fish, and cashew nuts. While SSA’s export mix is narrowly focused on the primary sector, Africa’s imports from China are extremely diversified. Consumer goods represent the largest share, particularly textiles and clothing, footwear, and consumer electronics, but capital goods such as machinery, commercial electronics, and transportation equipment are also well represented. Chinese products are often less expensive than similar products imported from the European Union or the United States, which makes the products attractive to firms and individual consumers alike. In addition, Chinese capital goods imports are boosted in the presence of large Chinese-financed infrastructure projects, which frequently include country-of-origin procurement rules.
One of China's major imports from Africa is Oil and it has become a fundamental challenge for China, and at the same time it has become an important issue in the relations with Africa. Before 1992, China steadily ranks sixth among the world's leading oil producers, but since 1993, the country has become a major importer of oil products. This is due to the country's rapid economic growth, with a steady growing number of vehicles. Trade in oil is therefore among China's priority areas in Africa. Projected to become the world's biggest oil importer soon after 2010, China seeks to expand its foothold in the African oil sector. The Beijing government has minimized its dependence on Middle East oil, which is politically unstable and has high content of sulphides, which requires special refining facilities unlike the oil from Africa (Sudan’s oil) which has a low concentration of sulphides (Downs, 2006; Pan, 2007). As China continues to search for stable sources and also tries to acquire oil fields via direct investment, Africa has become its main target. China already has investment of Sudan, Chad, Nigeria, Angola, Algeria, Gabon, Equatorial Guinea and the Republic of Congo, Africa’s frontline oil producers.

In Nigeria, Africa’s largest exporter of crude, China National Offshore Oil Corporation (CNOOC) has paid US$2.7 billion for the right to explore oil, China has a 45% share was expected to produce 225,000 b/d by the end of 2008, BP-operated Greater Plutonic project. China Petroleum and Chemical Corporation (Sinopec) has a 50% stake which was to pump 200,000 barrel per day by 2007. In Angola, China Petrochemical Corporation (SINOPEC) gained a 50% stake in the BP operated Greater Plutonic project. In Sudan where China National Petroleum Corporation (CNPC) helped develop Sudanese oil fields (in the chaotic 1990s), China receives 60% of Sudan’s oil output. In Somalia, CNOOC has signed a production sharing deal with the transnational government of Somalia, one of the world’s most volatile countries. Africa is one of the most promising regions of the world for future oil production, in Ghana oil exploration is presently going on and by 2010 Ghana will start to sell its oil to the outside world. IHS Energy projects West Africa will account for 38% of global oil production growth through 2010, more than any other region except the Middle East.

27 Source: Global Trade Atlas

28 China’s Oil Imports, 2006


http://www.ijmsbr.com
Minerals In the mineral sector, China stretches its hands very far into Africa. President Hu Jintao’s inauguration of an African economic and Trade Zone during his Africa tour of 2007 is proof of China’s emerging monopoly in the mineral trade in Africa (Li, 2007). The Chinese controlled Chambisí Copper Smelter in Zambia is at the heart of this economic zone and is a joint venture between China Nonferrous Metal Mining (CNCM) and Yunnan Copper Industry (YNCIG). China also lays claims on vast mineral resources in neighboring Zimbabwe, where President Robert Mugabe, spited by the west, has passionately embraced a "look east policy" with inspiration from China. In Angola, China outbids Brazil in 2005 for the site to tap into iron ore deposits. In the Democratic Republic of Congo, China struck a deal in 2006 with US$ 8 billion dollars, which gives China 68% stake in Grecamines. In the Ivory Coast, China exercises control over a manganese mine at Lozoua where it exports manganese to the Chinese market. In Gabon the state owned China National Machinery and equipment Import and Export Corporation struck a US$ 3 billion deal to mine Iron ore in Belinga. In Mauritania, China’s Transtech Industry (together with a Sudanese company) have invested more than US$600 million in the construction of a railway line in exchange for an estimated 165m tons of phosphate used in the production of fertilizers while China imports cobalt from the DR Congo, South Africa remains China’s largest supplier of ore and manganese. In Sierra Leone where there are large deposits of diamonds and iron ore China is expected to take control of those minerals which are presently under the control of British and South African companies.

Sino-African trade is largely concentrated on a few countries and product groups. In 2012 natural resources accounted for 66% of Africa’s exports to China. Major resource exporters to China in 2012 were Angola, South Africa, the Republic of Congo, the Democratic Republic of Congo, and Zambia. With the exception of South Africa, resource exports accounted for well over 90% of the aforementioned countries total exports to China, reflecting the high concentration of trade in natural resources. When looking at African imports from China, the trade pattern is mirror-inverted, that is, African countries import mainly non-resource products from China (97% of total imports in 2012). In 2012 South Africa, Nigeria, and Egypt were the largest importers of non-resource goods from China. Africa’s heavy concentration on resource exports and non-resource imports reflects a traditional Heckscher-Ohlin-type trade pattern. Africa concentrates on the export of natural resources where it has a comparative advantage, and in turn imports labour-intensive manufactured goods from China which is labour-abundant. Interestingly, South Africa’s trade with China differs from that of other African countries in the sense that both South African exports to and imports from China concentrate mainly on non-resource goods. Although South Africa is one of the main resource exporters to China, the share of non-resource exports in its total exports to China in 2012 was 72%. Overall, South Africa was China’s most important trading partner in non-resource goods (40% of total Sino-African non-resource trade) and second most important trading partner in resource goods in 2012 (16% of total Sino-African resource trade).

In terms of resource trade, Angola was China’s most important African trading partner in 2012 (42% of total Sino-African resource trade).

Foreign Direct Investment (FDI)
Although Chinese FDI to Africa is low relative to FDI flows from other countries, its growth over the last decade has been remarkable. There has been an upward trend of Chinese FDI to Africa since 2000 as it increased from $200 million to US$30 billion in 2014 with

UNCTD, 2008
plans to scale up to US$100 billion by 2020, turning China into the largest developing country investor in Africa.\textsuperscript{31} However, despite the fast growth in Chinese FDI flows, the actual volumes are fairly small, both in terms of African GDP and total FDI inflows in Africa. Average Chinese FDI flows to Africa in 2000-2011 accounted for only 5\% of total FDI inflows to Africa. In fact, Chinese investment is a particularly important source of capital for certain African countries. For instance, when looking at the average share of Chinese FDI in total FDI flows in 2000-2011, Chinese FDI accounted for 52\% of FDI inflows in Zimbabwe, 26\% in Mauritius and 13\% in both South Africa and Zambia.

Major African host countries in terms of Chinese FDI stock are South Africa, Sudan, Nigeria, and Zambia. As is the case with Sino-African trade, Chinese FDI in Africa also concentrates on resource-rich African economies with the exception of South Africa. According to Asiedu (2006) FDI to Africa is related to the host country's resource endowments, market potential and good institutions. China's investment pattern differs as China also invests heavily in African countries with weak institutions. For instance, Chinese national oil companies have major resource investments in Angola, Sudan, Nigeria, Equatorial Guinea, and Kenya (Kolstad and Wiig, 2011). Moreover, the state-owned China Nonferrous Metal Mining has a considerable investment in Zambia’s copper industry and has even established a special economic zone called Zambia-China Economic and Trade Cooperation Zone. The majority of Chinese firms investing in Africa are state-owned, although FDI by private Chinese enterprises has increased notably in recent years (Gu, 2009). In addition, Chinese FDI are promoted by strategic national policy objectives, such as the Going Global Policy or the Forum on China Africa Cooperation, resulting in large and long-term oriented investments, complicating a comparison between Chinese FDI with FDI from other countries.

**Agriculture**

Agriculture has been a potential area for African economies especially in terms of diversifying in the various economic sectors to deviate from sectoral concentration, “pareto optimality and dutch disease”. This has also been one of China's greatest concerns following its accession to the World Trade Organization (WTO). Many Chinese officials and farmers are investing in Africa when they were considering ways to cope with the challenges brought about by the WTO entry. Beginning in the 1960s, China initiated a large number of cooperative agricultural projects in the Republic of Congo, the Democratic Republic of Congo, Guinea, Mali, Mauritania, Niger, Sierra Leone, Somalia, Tanzania, Togo and Uganda. Most were initially aid projects, however, agriculture cooperation has continued up to the present time.

**Education**

To date, about an estimate of 5,000 overseas students from nearly 50 African countries have graduated from Beijing Language and Culture University in the past 40 years. They undertake studies in various majors, including Chinese language, science, Arts and law. Also in my University Liaoning University about 3 students have graduated and one currently on course of Study.

China provides about 1, 200 government scholarships to African students every year. By the end of 2005, a total of 18,919 scholarships had been granted to students from 50 African countries, MOE figures show. China has also set up six non-profit Confucius Institutes in six African countries to teach Chinese language and culture. So far, through nearly 60 assistance programs,

\textsuperscript{31} UNCTAD, 2013; MOFCOM
China has helped 25 African countries to develop neglected disciplines and train science and technological talents. China has also dispatched professional teachers to 35 African countries to assist them in developing higher and middle school education.

Aid
Besides commercial trade in oil, minerals, agriculture and manu-factured goods, the Aid model as also being a significant component in the Sino-Africa economic ties. The major disparity between China's Aid to Africa and that of the west is that; Beijing does not attach too many strings and "conditionalities" on its loan packages as in the case of our traditional partners-USA, Europe and UK with their usual World Bank and IMF conditionalities which in real terms doesn’t remedy the African Continent but rather creating more indebtedness leading to a more budget deficit. Approximately, statistical records has shown that Chinese loans to Africa at US$19 billion as of 2006. These loans despite western outcry on humanitarian grounds have been seen as positive instruments for Africa’s development. "What the Chinese are doing is taking a long term perspective of the ability to repay debts" says Donald kaberuka, President of the African Development Bank.

Tourism
The cultural heritage source in most African countries have serve as a source of Tourist attraction to Chinese tourists as recently more and more Chinese choose to visit the "magic" Continent mostly during their seven-day National Day holiday that lasts for a week in early October. The number of Chinese tourists to Africa reached 110,000 in 2005, doubling that in the previous year. African countries have already seen the huge potential in tourism therefore; governments and tour operators are seeking ways to penetrate into China's emerging tourist market. The number of Chinese visitors to Kenya, Zimbabwe, Angola, and a number of African countries has been on an upward trend in the last four years especially after China granted these countries the Approved Destination Status for outbound Chinese tourist groups in 2004, this increase contributes positively towards the recovery of Africa’s tourism sector and significantly to the growth of the economy.

The World Tourism Organization predicted that China is to be the world's largest tourist market by 2020. Currently there are 16 African states that have been granted the Approved Destination Status by China. Regional giant South Africa, which is one of the first African countries to get the status, has long been active in tapping into China's burgeoning travel market (Giles and Marcus, 2008). The number of Chinese tourists to South Africa has increased from over 10,000 in 2003 to more than 40,000 in 2005. South Africa has sent a series of tourism exhibitions to big cities in China, such as Beijing, Shanghai and Chengdu, as part of its aggressive tourism promotion campaign. South Africa’ hosting of the 2010 Football World Cup in June and July is expected to be a key draw for Chinese tourists especially if their national teams qualifies in the run up (Erica, 2007). Tourism to South Africa is currently dominated by arrivals from Germany, UK and the United States, but heavy investments on promoting South Africa’s tourism in China has led to solid growth in Chinese travelers. Since the two countries established diplomatic relations in 1998, South Africa has become China’s top trading partner in Africa with a growing trade volume of US$7.3 billion in 2005.

Exponential Growth in The Sino-Africa Trade relations
The year 2016 marks the 60th anniversary of Sino-African diplomatic relations. Sino-African trade too has 60 years of history. In the past six decades, the volume of Sino-African trade has been gradually increasing. Now a greater variety of products are traded, evidence of friendly cooperation between China and African countries.

The volume of trade between China and Africa was worth US$12 million in 1950. In 1955, this grew to $34.74 million, and in 1965 it reached $250 million. Since China launched its reform and opening-up program in the 1980s, it has attached great importance to friendly cooperation with African countries. The volume of Sino-African trade has maintained an average annual growth rate of 3.6 percent%, but in some years that figure has been higher than 40 %. In 2000, the volume of trade exceeded $10 billion. In 2015, that figure increased to over 1000 times what it was worth 60 years ago.

The most important feature of the development of Sino-African trade is its accelerating growth. It took 10 years for the value of trade to grow from $10 million in 1950 to over $100 million, then another 20 years for $100 million to grow to $1 billion, and another 20 years from $1 billion to $10 billion. However, it only took four years for $10.8 billion in 2000 to become nearly $40 billion in 2005. Since 2001, the volume of Sino-Africa trade has risen at a rate of close to 40 percent annually, which demonstrates the enormous potential for the development of Sino-Africa trade.

The second feature of the development of Sino-African trade is the quality, which has changed fundamentally. This has happened because of the continuing optimization of product structure. In the early 1950s, Sino-African trade focused on cotton, minerals and other primary agricultural products; from the 1960s to the 1970s, Sino-African trade focused mainly on light products and there was an increase in the export of manufactured and semi-manufactured goods; in the 1990s, China mainly exported textiles, light industrial products, and other labor-intensive products to Africa, then gradually shifted to electromechanical products with greater technology and value. Since 2000, mechanical, electrical and high-tech products have accounted for more than 50% of China’s exports to Africa.

The third feature of the development of Sino-African trade is the increasing diversity of trade. In the past 50 years, Sino-African trade has shifted from bookkeeping trade to spot exchange trade. In the early days of the partnership, Sino-African trade was nongovernmental; nowadays normal trade is integrated with foreign investment, project contracting, foreign aid and more. More and more regions are involved. In the 1950s and 1960s, only northern African countries such as Egypt, Morocco and Tunisia were trading with China. Now China has trade partners in nearly every comer of Africa. Most significantly, it has established diplomatic relations with South Africa, the most developed economy in Africa. This has effectively promoted the development of Sino-African trade. As of 2005, there were 26 African countries importing over $100 million of worth of products from China annually. China also imports over $100 million worth of goods annually from 18 African countries.

In the 21st century, Sino-African trade relations have grown closer because the volume of trade is more significant and the quality enhanced. China has established trade relations with more than 50 African countries and signed bilateral trade agreements with more than 40 Countries. It has set up a committee on economy and trade with 28 African countries and signed a "Bilateral Agreement on Encouragement and Protection of Investment" with those nations. It also signed an agreement to avoid being doubly taxed with eight African countries. Since 2005 China has allowed 29 of Africa’s least developed countries tariff-free imports across 190 products. These

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32 Data from domestic authorities; estimates(e) and projections(p) based on authors’ calculations
mutually beneficial agreements and policies undoubtedly play a positive role in promoting the sustainable development of Sino-African trade.

After 50 years of close cooperation, China and Africa have a brilliant trade record; in the future China and Africa will further promote bilateral trade to make even greater progress.

**CHINA’S NATURAL RESOURCE HUNT**

The pattern of trade between China and Africa indicates that gaining access to the continent’s foreign resources is a priority for Beijing. China’s imports from Africa highly depend on crude oil and other natural resources. Enviable, double-digit economic growth in China in the past two decades has pushed up energy consumption and demands in the country making energy security a top priority for Beijing. In the 1950s, China was sufficient in oil. China has been a net oil importer since 1993. Today, China is the world’s second largest consumer of oil behind United States. The Energy Information Administration predicts that China’s oil demand will reach 9.4 million bbl/d by 2020, with net imports of 5.9 million bbl/d, making it a major factor in the world oil market. Given present domestic demands for oil, growing future dependence on oil imports, and Beijing’s declared intention to build a national strategic petroleum reserve, Africa is of strategic importance to China. Expansion of exploration and production joint ventures with foreign companies is a top priority for Beijing.

**THE FOREIGN POLICY CONSEQUENCES OF TRADE**

In what has become known as the seminal work on the foreign policy consequences of trade, Hirschman (1945) asserted that increased trade and trade dependence between states produce foreign policy convergence. The more states trade, the more costly the interruptions to that trade relationship; both sides therefore have incentives to converge on matters of foreign policy, fearing that foreign policy disputes could interfere with the benefits of trade. As Hirschman notes, “the total gain from trade for any country is indeed nothing but another expression for the total impoverishment which would be inflicted upon it by a stoppage of trade. This connection can serve as a modern application of the ancient saying “fortuna est servitus” (i.e., “a great fortune involves great obligation”; 1945, 18). Differences in how the two sides value the trade relationship also impact incentives to maintain the trading relationship and therefore their respective bargaining positions. The side that can afford to walk away from the trade relationship at little cost to it economically is in a better bargaining position than the side that would suffer more if trade were disrupted. As such, disparities in trade dependence are what Hirschman referred to as an “effective weapon in the struggle for power” (1945, 17). Seeking to perpetuate the trade relationship, the state that is more dependent on the trade relationship should be more willing to grant political concessions than the less dependent state, which would suffer little from changes to the trade relationship. Pointing to the relationship between Germany and countries in Eastern Europe, Hirschman concluded that the dependence of the latter countries on Germany for their economic well-being explained their willingness to acquiesce to Germany’s foreign policy demands.

The assertion that foreign policy convergence follows in the wake of growing commercial ties has not passed without scrutiny. One line of criticism of Hirschman’s argument is that he buttressed his claims with a case Nazi Germany’s efforts to leverage economic dependence among central European states in the interwar period in which one actor was stronger not just economically but also militarily, politically, historically, and in a position of proximity that allowed it to exercise its power disparities over the less powerful actor. Finding that Germany was able to elicit foreign policy convergence from several neighboring states could have been the result of
its asymmetric commercial relations, but it more plausibly resulted because Germany was a growing, feared power in close proximity to less powerful states. It is the latter reason, according to this power politics argument, that states such as Czechoslovakia would ultimately acquiesce to Germany’s political demands, not because of economic dependence (Ross 2006). Studying the foreign policy consequences of trade by looking at relations between the Soviet Union and Eastern Europe or between the United States and Latin America, common examples in the literature on dependency (Cardoso 1977, 7–24; Prebisch 1959, 251–73), suffers similar problems. Focusing on relationships in which one country has had historical or regional hegemony makes it difficult to isolate the independent effects of trade.

A more general line of criticism is that asymmetric trade dependence is neither necessary nor sufficient for obtaining political influence. Disparities in the trade relationship do not necessarily translate into influence because states that are dependent on a particular trade relationship can rely on more intangible factors to help offset the bargaining disadvantage that Hirschman and Keohane and Nye would otherwise attribute to them: will, resolve, and willingness to suffer adverse economic consequences (Wagner 1988, 466–67). Holsti suggests that dependent states can “learn how to maximize their bargaining advantages and eventually develop the intellectual, technical, and bureaucratic skills to manage their resources in such a way as to avoid exploitation” (1978, 515). Foreign policy consequences, according to this counterargument, may not follow from increasingly robust or asymmetric trade relations between states.

Given the rate at which China is increasing its trade relations with other states and the degree to which other states are increasingly dependent upon China for trade, these historical debates about the foreign policy consequences of trade are ripe for a revival. Few studies have directly examined the foreign policy consequences of trade with China, but those that do arrive at conflicting conclusions that mirror the historical discrepancies on the subject. Kirshner (2008) theorizes that increases in trade between countries strengthen the constituencies that favor closer foreign policy ties between those countries. As trade increases, constituencies that gain from trade become louder and more salient in their advocacy for closer foreign policy coordination.

1.9 Reasons Why China Trade, Invest And do Business with SSA

SSA is one of the most sophisticated, diverse and promising emerging markets in the world.

Strategically located at the tip of the African continent, SSA is a key investment location, both for the commercial opportunities within its borders and the potential it offers as a gateway to the rest of the continent - a market of some 1-billion people.

SSA has enormous potential as an investment destination: a unique combination of highly developed first-world economic infrastructure with a vibrant emerging market economy. It is also one of the most advanced, broad-based industrial and productive economies in Africa.

Here are just 10 of the many reasons to do business in Sub-Saharan Africa region:

1. Richly endowed natural resources
2. Appropriate and sound macroeconomic policies

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33 Abdelal and Kirshner 2000; Kirshner 2008
3. Market Availability (Market target segmentation)
4. Trade and Investment structural reforms and strategic alliances
5. Favourable legal and business environment
6. Cheaper labour cost
7. Cheaper cost and ease of doing business
8. Political will and environmental friendly
9. Global competitiveness
10. Virgin Market - opening for tourism and other sectors

2.0 Theoretical Framework

This section reviews the empirical literature in the context of the economic trade impact and its determinant in the Sino-Sub-Saharan African Trade co-operation. The Chinese presence in SSA, especially the project activity implemented by the Ministries of Foreign Affairs and Trade supported by quite a lot of State-owned banks with a strategic focused on bilateral relationships with the African governments. The connection between the Sino and Sub-Saharan Africa Countries in terms Trade is very crucial and important in the understanding of carrying out an empirical analysis on Trade relation performance and its impacts on economic growth and human livelihood in Africa.

In considering the options for developing the framework for the examination of the data and presentation of policy options, I adopted econometrics Analysis. Many existing studies focus on whether China’s larger involvement in Africa benefits or hurts the region overall. While some scholars and African policymakers have claimed that more trade between China and SSA has benefited the region. Trade patterns with China are examined across countries over time in to three (3) main driving indicators: to local export markets, access to natural resources and political considerations reflect the three strategic challenges facing China highlighted by Brautigam (2009): The need to find new export markets to fuel further expansion of domestic production; the need to find more resources abroad to keep pace with resource demand from rapid economic growth, though the topic of economic relations between China and Africa has received an overwhelming attention in the media, there have been relatively few related studies documenting the determinants of these relations.

Though the topic of economic relations between China and Africa has received considerable attention in the media, there have been relatively few systematic studies documenting the determinants of these relations. Most studies have focused on documenting the expansion of economic relations or assessing the impact of these relations rather than looking at why these relations have been growing. For example, Wang (2007) argues that the Forum on China-Africa Cooperation (FOCAC) in 2000 and 2006 were watershed moments. At the 2000 FOCAC, China pledged to write off over $1.3 billion in debt owed by African countries. This debt relief figure was matched at the 2006 FOCAC.

In addition, China removed import tariffs on over 454 goods from Africa by 2007. Few studies, however, attempt to quantify the impact of China’s domestic economic development on Africa’s trade and economic growth. Among the studies that attempt to quantify China’s
impact on the global economy, Ahuja and Nabar (2012) argue that a 1% contraction in investment in China is associated with a reduction of global growth of just below 0.1%.

In Africa, Ademola, Bankole, and Adewuyi (2009) analyzed trade patterns between China and Africa both at the aggregate Africa and at the national level. They conclude that African countries that gain from trade with China are oil exporters; ore and metal exporters; cotton exporters; and log timber exporters.

Most studies have focused on documenting the expansion of economic relations rather than looking at the impact of these trade relations. Wang (2007) argues that the Forum on China-Africa Cooperation (FOCAC) in 2000 and 2006 were watershed moments. At the 2000 FOCAC, China pledged to write of over $1.3 billion in debt owed by African countries. This debt relief figure was matched at the 2006 FOCAC. In addition, China removed import tariffs on over 454 goods from Africa by 2007.

Chinese engagement in Africa is often part of a multi-pronged strategy linking trade with investment and Aid. Several studies have examined the determinants of Foreign Direct Investment (FDI), which can be seen as complementary to trade in the case of Chinese investment in Africa. Gu (2009) finds that local market access is a key determinant of Chinese FDI, with a survey of 80 Chinese firms indicating that access to local markets was the top motivating factor in their investment decision.

There is also some evidence of tariff-jumping FDI, as Sanlippo (2010) finds that Chinese investment is higher in countries that are members of the African Growth and Opportunity Act (AGOA), a trade agreement with the United States. We see further evidence of Chinese firms investing in Africa to take advantage of African access to third-country markets with the end of the Multi Fibre Arrangement (MFA), a system of textile tariffs notably limiting Chinese textile exports, in 2005.

Besada, Wang, and Whalley (2008) find that when the MFA expired, many Chinese textile firms operating in African countries with preferential access to developed country textile markets shut down their operations and moved back to China. As stated earlier, Chinese engagement in Africa has combined trade, direct investment, and aid. In fact, the bundling of Chinese bids with economic aid packages is one way in which American and European contractors and aid organizations cannot compete.

MacKinnon (2010) argues that most deals between China and African countries are quasi-barter. Take for example, the 600 km of roads that Chinese firms have built in Mozambique. Chinese construction and engineering firms, employing mostly skilled Chinese labor and some local workers, receive funding directly from the Chinese Exim Bank. The infrastructure project gets completed, then over several years, the host country (Mozambique in this case) agrees to repay the Exim Bank in commodity terms (iron ores for example), whose production is facilitated by the infrastructure project itself. Infrastructure investment has been a common entry point into Africa for many Chinese enterprises. These investments have been largely funded by the Chinese Exim Bank and include for example a 70% stake in Zimbabwe’s only electricity generation facilities among the nearly 300 Exim Bank infrastructure projects across 26 African countries.
Besada et al (2008) argue that African countries prefer to deal with China for these projects not only because China does not attach political conditionality to their bids, but also because Chinese enterprises have been able to deliver these projects at significant cost savings. These firms charge 25%-50% less than foreign competitors, partially by using cheap Chinese labor (often cheaper than even local labor) and partially by a strong past experience in completing these projects.

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Chinese engagement in Africa has combined trade, direct investment, and Aid MacKinnon (2010) argues that most deals between China and African countries are quasi-barter. Infrastructure investment has been a common entry point into Africa for many Chinese enterprises.

These investments have been largely funded by the Chinese Exim Bank. Besada et al (2008) argue that African countries prefer to deal with China for these projects not only because China does not attach political conditionality to their bids, but also because Chinese enterprises have been able to deliver these projects at significant cost savings.

Given huge and growing urban-rural inequality, debate is emerging around whether China can continue to fund aid and investment at current levels, when pressures are coming for domestic redistribution rather than international aid (Naidu, 2007). China’s involvement will not fundamentally alter Africa’s place in the global division of labor. It simply adds a new and significant market without challenging the continent’s extraversion. In some states this will entrench renter states, concentrate ownership in a few hands, and deliver limited multipliers to marginalized Africans.

The more upbeat take amongst policymakers (Wild and Mephan, 2006) is that if Africans can ‘control’ the benefits of Chinese involvement then Africa will benefit. This requires strengthening civil society (Obiorah, 2007) and opening up development to democratic debate to see how redistribution might work Chinese demand for oil has outpaced the increase in domestic production, forcing Beijing to look abroad for energy supplies.

The pressures of globalization and liberalization have also forced many African countries to open up to the outside world, thus embracing "easy-coming" investment and trade from Chinese companies. A bulk of these companies are privately owned many of them
are involved in building schools and hospitals for the local people where they have their investment, and they also pay attention to the localization of labor to hire local laborers (Li, 2005).

The positive effect of Chinese FDI on bilateral trade is supported in the literature by Buckley et al. (2002), Sun (1999), Zhang and Song (2000) and Jinping and Wenjun (2008). Based on the similar consideration, real exchange rate and military expenditure are expected to have a negative effect on China’s export to those Africa countries. The real appreciation of Chinese RMB means the rise of the relative price in China to those of Africa countries; this will negatively affect China’s export to those countries. A large proportion of the budget reserved for defense expenditures may imply future uncertainty which means the country is politically unstable; this will have a negative effect on Chinese exports to that country. Finally, inflation in those Africa countries will have a positive effect on China’s export to those countries because domestic product will become expensive, hence, will be forced to purchase (import) foreign goods. Also, Chinese FDI in Africa, Chinese per capita income and annual growth rate of Chinese GDP are expected to have positive effect on China’s import from Africa. Thus, a high level of both Chinese per capita income and annual growth rate of GDP will positively affect Chinese import from Africa.

The purpose of this thesis is to assess the factors that influence Chinese trade with countries in SSA. The determinants of trade patterns with China are examined across countries and over time as well as for different kinds of trade flows. The key result of this study is that Chinese trade depends on three broad factors of Chinese engagement reflect the three strategic challenges facing China highlighted adopting Brautigam (2009).

Consistent with Rauch (1999) classification for goods disaggregated at the 4 digit Standard International Trade Classification (SITC) level, this study will be a proxy for policy makers on the trade impact on the economic growth of Africa economies in general and Sub-Sahara Africa eco To achieve the objective that Chinese FDI in Africa, per capita income, annual growth rate of GDP and credit available to domestic sector in each of the host country are expected to have positive effect on China’s export to Africa. Also, the positive effect of Chinese FDI on bilateral trade is supported in the literature by Buckley et al. (2002), Sun (1999), Zhang and Song (2000) and Jinping and Wenjun (2008) inorder to achieve the objective that Chinese FDI in Africa, per capita income, annual growth rate of GDP and credit available to domestic sector in each of the host country are expected to have positive effect on China’s export to Africa. Based on the similar consideration, real exchange rate and military expenditure are expected to have a negative effect on China’s export to those Africa - countries.

3.0 Research Methodology & Data Analysis
Due to the lack of possibility to perform a field research, the thesis employs induction and analysis of the academic sources as the main methodological tools, while occasional comparison with the traditional partners’ practices will be introduced in order to emphasize both the qualitatively and quantitative using different aspects of the Chinese trading engagement in the Sub-Saharan Africa Region adopting both descriptive Statistics(using tables, Charts, graphs and trends) and Econometrics Analyses. The study collected secondary data from various sources from twenty-four(24) SSA Countries within the period of 1995 to 2013(18 years) such as; the
Ministry of Commerce of China; the Economic and Commercial Counsel of the Embassy of China; Written valuable materials and books; United Nation Conference for Trade And Development (UNCTAD), Trade flow data are from the United Nations Trade Statistics, Data on export processing zones will be primarily taken from the International Labor Organization's and the website for each EPZ in a country. The research adopt three(3) models for econometric data analyses and estimate. Firstly, a simple Augmented Gravity model was used to predict the Sino-Africa trade determined by three (3) factors: Access to local markets, securing natural resources, and political considerations Brautigam (2009). Secondly, a panel model was adopted for explaining China’s export from Africa and thirdly, a Time Series model was adopted for explaining China’s imports from Africa during the period under review.

This section will explain and argue for the research methodology used in order to answer the research question of the study. Moreover, it will describe the methodological approach, the research strategy, employed empirical data and sources. At last, The study also assess the time horizon of the project as well as the fulfillment of the project requirements.

The results of the analysis will be presented with due discussions and assessments with empirical studies conducted on the trade relations between Sub-Saharan Africa and China.

The twenty-four (24) selected Sub-Saharan African Countries includes six (6) Countries from each region in SSA: Southern Africa Development Community (SADEC), East Africa Community (EAC), Economic Community of West African States (ECOWAS) and Economic Community of Central African States (ECCAS) respectively during the period 1995-2013(18years)-includes: Angola, Benin, Botswana, Cameroon, Cape Verde, Central Africa Republic, Congo Republic, Cote D’Ivoire, DR Congo, Ethiopia, Gabon, Ghana, Kenya, Lesotho, Madagascar, Mauritius, Tanzania, Namibia, Nigeria, Sierra Leone, South Africa, Swaziland, Zambia and Zimbabwe. Data will be collected from aforesaid Countries on total bilateral exports and imports between each country and China, determinants of Chinese trade different when looking at differentiated vs. homogeneous goods will be assessed adopting the Rauch (1999) classification for goods disaggregated at the 4 digit Standard International Trade Classification (SITC) level over the period 1995 to 2013(18 years).

The novelty of the study is that it will systematically examine the determinants of trade with China across four dimensions: Countries \(j\), time \(t\), the type of good being traded (homogeneous to differentiated) and the direction of trade flow (exports or imports). The issues across these dimensions are critical given the heterogeneity as some countries are large natural resource exporters, while others represent potentially lucrative export markets etc.

The focus on the specific country is relevant for information at the country level is more homogeneous, the legal and institutional factors are similar, and the relevant structures are more accurately defined. To assess the importance of the three (3) factors of Sub-Saharan Africa Trade with China, I utilize an augmented gravity model of trade. The simple Augmented gravity model of trade predicts that trade should increase as the economic gravity, as measured by economic mass of trading partners rises and as trade costs falls. This model has been quite successful at predicting trade flows and a theoretical justification for this model based on imperfect competition given by Bergstrand (1985).

The study also adopted a method that enabled the examination of the effect of Chinese FDI on the Sino-Africa bilateral trade for the period under review which employed panel model to investigate the effect of Chinese FDI on Chinese Export to Africa and time series.
model to examine the impact of Chinese FDI on Chinese import from Africa. In the panel model, Chinese export to African countries is considered as dependent variable. China’s FDI in each of the host country and some macroeconomic indicators of the host countries (per capita income, annual percentage growth rate of gross domestic product (GDP), real exchange rate between RMB and local currencies, annual inflation rate of consumer price, credit available to domestic sector as percentage of GDP and military expenditure) are taken as independent variables. However, using the time series model, total value of Chinese Import from Africa is considered as dependent variable and the total value of China’s FDI in Africa, China’s per capita income, China’s annual growth rate of GDP are taken as independent variables. Our primary objective in this study is to investigate whether Chinese FDI in Africa is for resource seeking motive as well as for market seeking behavior.

The Analysis will also be done using demographic descriptive Statistical approach such as; statistical tables, figures and charts.

3.2 Model Specification

Model 1: Simple Augmented Gravity Model

The gravity model of trade predicts that trade should increase as the economic gravity, as measured by economic mass (proxied by income) of trading partners rises and as trade costs (proxied by distance) falls as in the case of Bergstrand (1985).

\[
\ln(\text{Trade}_{jt}) = \beta_0 + \beta_1 \ln(Y_{jt}) + \beta_2 \ln(n_{jt}) + \beta_3 \ln(P_{Zjt}) + (\beta_4 F_{DIj,t} \times EPZ_{jt}) + \beta_5 \ln(\text{CommShr}_{jt}) + \beta_6 \ln(\text{SSA}_{jt}) + \alpha + \delta_t + u_{jt}
\]

\[Y_{jt} = \log \text{GNI}
\]

were GNI is Gross National Income.

'j'- specific countries & 't' is time/year

Model 2- Panel Model

The empirical model for explaining Chinese export to Africa is as follows:

\[
\ln(\text{Export}_{jt}) = \beta_0 + \beta_1 \ln(\text{FDI}_{j,t}) + \beta_2 \ln(\text{PGDP}_{j,t}) + \beta_3 \ln(\text{GROW}_{j,t}) + \beta_4 \ln(\text{REXCH}_{j,t}) + \beta_5 \ln(\text{INF}_{j,t}) + U_{jt}
\]

Model 3- Time series model

The empirical model for explaining Chinese imports from Africa is specified as:

\[
\ln(\text{Import}_{it}) = \beta_0 + \beta_1 \ln(\text{TFDI}_{i,t}) + \beta_2 \ln(\text{GROW}_{i,t}) + \beta_3 \ln(\text{PGDP}_{i,t}) + U_{it}
\]
4.4 Description Of The Explanatory Variables

From Model 1,

\[\ln \text{Trade}_{jt} = \beta_0 + \beta_1 \ln Y_{jt} + \beta_2 \ln y_{jt} + \beta_3 EPZ_{jt} + (\beta_4 FDI_{jt} \times EPZ_{jt}) + \beta_5 \text{CommShr}_{jt} + \beta_6 SSA_j + \alpha_j + \delta_t + u_{jt}\]  

(4.5)

\[Y_{jt} = \log \text{GNI}\]  

(4.6)

The logarithm of trade flows between country \(j\) and China in year \(t\) is a function of log GNI \((Y_{jt})\), log GNI per capita \((y_{jt})\), the presence of an export processing zone in country \(j\) in year \(t\) \((EPZ_{jt})\), whether China is a major investor in that EPZ \((FDI_{jt} \times EPZ_{jt})\), the share of primary commodities in country \(j\)'s exports \((\text{CommShr}_{jt})\), a dummy variable for countries in the Sub-Saharan Africa \((SSA_j)\), and unobserved country and year effects.

Where

- Trade is the dependent variable whilst the Explanatory variables are \(Y_{jt}, EPZ_{jt}, FDI_{jt}, \delta\), and \(SSA_j\) are dummy variables respectively define in details below:
- \(EPZ_{jt}\) - whether China is a major investor in that EPZ \((FDI_{jt} \times EPZ_{jt})\), Export Processing Zone whether or not country \(j\) had diplomatic relations with China, \(FDI\)-Foreign Direct Investment(whether China is a major investor in that EPZ \((FDI_{jt} \times EPZ_{jt}))\)
- \(\text{CommShr}_{jt}\) - share of primary commodities in country of exports
- \(SSA_j\)-dummy variable for the countries in Sub-Saharan Africa
- \(\alpha_j\) - unobserved Country effect
- \(\delta_t\) - unobserved year effect \(U_{jt}\)-is the error term and \(\beta_0, \beta_1, \beta_2, \ldots \beta_6\) are coefficient parameters
- Trade with China is predicted to be determined by three (3) factors: access to local markets, securing natural resources, and political considerations.
- The gravity model of trade predicts that trade should increase as the economic gravity, as measured by economic mass (proxied for by income) of trading partners rises and as trade costs (proxied for by distance) falls as in the case of Bergstrand (1985).

From Model 2, The empirical model for explaining Chinese export to Africa is as follows:
\[\ln(\text{Exit}) = \beta_0 + \beta_1\ln(\text{FDI}_{t+1}) + \beta_2(\text{PGDP}_{t+1}) + \beta_3(\text{GROW}_{t+1}) + \beta_4(\text{REXCH}_{t+1}) + \beta_5(\text{INF}_{t+1}) + U_t \] (4.7)

Where EX = Chinese export to each country; PGDP = real per capita GDP (current per capita GDP divide by GDP deflator); GROW = annual percentage growth of GDP in the country; REXCH = real exchange rate (obtained by multiplying the nominal exchange rate with China’s Consumer Price index and then divided by domestic consumer price index); and INF = inflation, consumer price (as an annual percentage), in the country.

From Model 3- Time series model

The empirical model for explaining Chinese imports from Africa is specified as:

\[\ln(\text{TIM}) = \beta_0 + \beta_1\ln(\text{TFDI}_{t}) + \beta_2(\text{GROW}_{t}) + \beta_3(\text{PGDP}_{t}) + U_t \] (4.8)

Where TIM = Total value of Chinese import from Africa every year; TFDI = Total value of Chinese investment in Africa every year; GROW = annual percentage growth rate of GDP in China; PGDP = real per capita GDP in China (current per capita GDP divide by GDP deflator).

3.3 EPZ-Export Processing Zone & FDI- Foreign Direct Investment

If Chinese trade with Africa is driven by access to local markets, then the income measures in the above relation should have a significant influence. Another means by which Chinese exporters may gain access to export markets is through EPZ's. These EPZ's are areas of a country in which barriers to trade have been significantly lowered (and often eliminated) in an attempt to attract foreign investment.

Thus, the presence of an EPZ in a country may increase access to Chinese goods. This could be direct access through Chinese firms setting up distribution centers in these EPZ's or indirect access through non-Chinese firms that distribute Chinese goods through these EPZ's. Thus, including the interaction effect between Chinese FDI and the presence of an EPZ allows us to distinguish between these direct and indirect effects. It would also be interesting to include data on the amount of Chinese FDI in these countries, but unfortunately, data on this topic is limited. Information on export processing zones was primarily taken from the International Labor Organization’s database on export processing zones. This database lists EPZ's by country and indicates the key foreign countries investing in each nation. Further information (such as the year the first EPZ in a country was established) was found by going directly to the website for each EPZ in a country.

The scope of Chinese investment in SSA is extensive. Chinese FDI reaches almost all African countries, even those that do not have a formal diplomatic relation with China. However, the bulk of Chinese investment is focused on a few resource-rich countries. South Africa is the top destination, followed by Zambia, Nigeria, Angola, and Zimbabwe34. Investment in these sectors is particularly strong in

34 (MOFCOM 2014)
countries that have benefitted from more recent FDI, such as Ethiopia. Other important sectors include commercial services (5%); scientific research, technology and geological prospecting (4.1%); wholesale and retail commerce (2.7%); agriculture (2.5%); and real estate (1.1%) (Figure 8b; State Council of China 2013). Since the 1990s, the range of Chinese investment in Africa has broadened significantly. It has evolved from a few sectors such as resource development, including oil, agriculture and fishing to other areas such as textiles, consumer electronics, tourism telecommunications and road construction.

3.4 Share of Primary Commodities in Country of Exports

Another potential determinant of Chinese trade with Africa is access to natural resources. To assess this determinant, I construct the variable CommShrj,t, which represents the share of a country's total exports that are primary commodities. Here, I define primary commodities as SITC single digit classifications 2 (Crude Materials, inedible, except fuels), 3 (Mineral fuels, lubricants and related materials), and 4 (Animal and vegetable oils, fats, and waxes). If China is engaging with Africa to secure natural resources, then this variable should have a significant effect on trade, particularly on exports from Africa to China.

Table 5: Economic Growth, Chinese Trade, and Primary Commodity Exports

<table>
<thead>
<tr>
<th>Countries/Indicators</th>
<th>Avg. Growth</th>
<th>Trade Growth</th>
<th>Trade Share</th>
<th>EPZ</th>
<th>CommShr</th>
<th>TB</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>1.3%</td>
<td>23.1%</td>
<td>10.5%</td>
<td>2000</td>
<td>25.2%</td>
<td>$617 (0.1%)</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2.9%</td>
<td>30.9%</td>
<td>5.9%</td>
<td>1991</td>
<td>97.8%</td>
<td>-6,259 (-2.0%)</td>
</tr>
<tr>
<td>Angola</td>
<td>4.0%</td>
<td>47.8%</td>
<td>27.3%</td>
<td>-</td>
<td>99.4%</td>
<td>19,440 (18.3%)</td>
</tr>
<tr>
<td>Ghana</td>
<td>1.5%</td>
<td>27.9%</td>
<td>11.5%</td>
<td>1995</td>
<td>19.7%</td>
<td>-1,654 (-4.8%)</td>
</tr>
<tr>
<td>Benin</td>
<td>0.5%</td>
<td>31.2%</td>
<td>93.5%</td>
<td>-</td>
<td>69.8%</td>
<td>-2,204 (-15.9%)</td>
</tr>
<tr>
<td>Cameroon</td>
<td>-1.2%</td>
<td>27.9%</td>
<td>9.9%</td>
<td>1990</td>
<td>77.6%</td>
<td>100 (0.2%)</td>
</tr>
<tr>
<td>Cote D’Ivoire</td>
<td>-1.0%</td>
<td>21.0%</td>
<td>3.4%</td>
<td>-</td>
<td>36.8%</td>
<td>-461 (-1.3%)</td>
</tr>
<tr>
<td>DR Congo</td>
<td>-4.7%</td>
<td>34.6%</td>
<td>22.6%</td>
<td>-</td>
<td>54.9%</td>
<td>-250 (-1.2%)</td>
</tr>
<tr>
<td>Congo</td>
<td>-0.6%</td>
<td>61.4%</td>
<td>36.5%</td>
<td>-</td>
<td>96.9%</td>
<td>3,117 (20.5%)</td>
</tr>
<tr>
<td>Botswana</td>
<td>3.9%</td>
<td>57.9%</td>
<td>3.4%</td>
<td>-</td>
<td>16.8%</td>
<td>15 (0.1%)</td>
</tr>
<tr>
<td>Mauritius</td>
<td>4.5%</td>
<td>24.0%</td>
<td>4.6%</td>
<td>1985</td>
<td>1.2%</td>
<td>-314 (-2.0%)</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>-1.2%</td>
<td>13.7%</td>
<td>5.6%</td>
<td>1995</td>
<td>20.1%</td>
<td>15 (0.4%)</td>
</tr>
</tbody>
</table>

Table 5, presents some evidence that access to local markets and natural resources are important considerations for trade with China. There has been a wide range of economic growth rates across Sub-Saharan Africa. Some countries have experienced spectacular rates of growth (Angola, Botswana, Mauritius, Sudan), while others have seen their economies shrink in real terms (DR Congo, Cameroon, Zimbabwe, Cote D’Ivoire). The past eighteen (18) years have also seen these countries open up, with growth rates in trade far exceeding economic growth rates. A lot of this increased trade has been with China, as many of the countries on this list have at least 10% of their total trade with China (and some significantly more). Export processing zones (EPZ’s) have been established at various
times and in various countries. While it's not clear from the table above, how much of an impact these EPZ's have in promoting trade across countries, the results in the next section suggest that they have led to large increases in imports from China over time. Most of the countries in this sample rely heavily on primary commodity exports, with well over 90% of total exports in many cases. Although most primary commodity exporters run large trade surpluses with China (e.g. Angola, Congo, Botswana), some of the largest commodity exporters actually run substantial trade deficits with China (e.g. Nigeria, Benin, Ghana.) This suggests that access to natural resources is not the only factor driving Chinese engagement in Africa.

Trade flow data is from the United Nations Direction of Trade Statistics. This database covers disaggregated bilateral trade flows between China and 24 Countries in Africa in general and specifically Sub-Sahara Africa over the period 1995-2013. I First gather data on total bilateral exports and imports between each country and China over the sample period. I am also interested in seeing how these determinants vary across different kinds of goods being traded. Specifically, are the determinants of Chinese trade different when looking at differentiated vs. homogeneous goods? To assess this issue, I use the Rauch (1999) classification for goods disaggregated at the 4 digit SITC level. Rauch classifies goods as Homogeneity.

If Chinese trade with Africa is driven by access to local markets, then the income measures in the above relation should have a significant influence. Another means by which Chinese exporters may gain access to export markets is through EPZ's. EPZ's are areas of a Country in which barriers to trade have been significantly lowered (and often eliminated) in an attempt to attract foreign investment and increase access to Chinese goods. Another potential determinant of Chinese trade with Africa is access to natural resources. To assess this determinant, I construct the variable CommShrjit, which represents the share of a country's total exports that are primary commodities.

4.0 Presentation And Interpretation of Result

This section discusses the presentation and interpretation of the findings in my thesis with respect to the Main Aim earlier on stated which is "To investigate the Sino-SSA trade determinants and evaluate the impacts of Chinese trading activities in Sub-Sahara Africa economies using Stata 10 economic Software.

Firstly, Econometric Analysis was adopted using three(3) models, namely-the Simple Augmented Gravity Model, Panel Model & Time series model). Stata 10 software was used.

Secondly a Descriptive And Demographic Analysis Of The Sino-Sub-Sahara African Trade Relation presented and analyze using statistical techniques(tables, bar charts, pie charts, trends, histograms and figures/graphs).

4.1 Epirical Analysis Estimates

Table 7: The Determinants Of Trade Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>(Total Trade)</th>
<th>(China Export to SSA)</th>
<th>(China Import to SSA)</th>
</tr>
</thead>
</table>

http://www.ijmsbr.com
lnY_{jt} & 2.214 & 2.333 & 2.127 \\
[0.000] & [0.000] & [0.052] \\
lny_{jt} & 0.203762 & -0.249 & 0.466 \\
[0.133] & [0.081] & [0.000] \\
CommShr_{jt} & 0.978 & 0.251 & 3.792 \\
[0.000] & [0.000] & [0.000] \\
EPZ_{jt} & 0.391 & 0.471 & 0.193 \\
[0.022] & [0.000] & [0.276] \\
FDI_{jt}^{*}EPZ_{jt} & 0.341 & 1.215 & 0.272 \\
[0.249] & [0.001] & [0.368] \\
SSA_{jt} & -3.219 & -1.987 & -2.112 \\
[0.000] & [0.000] & [0.000] \\
R^{2} & 0.447 & 0.376 & 0.401 \\
Observations & 442 & 442 & 442 

Table 7, shows an estimation of equation (1) revealing the various estimates of Trade determinants between China and Sub-Saharan Africa region using a random effects regression. It gives value estimates from the regression for Total Trade with China, China's exports and China’s imports were Total Trade is the dependent variable and the Explanatory variables are Y_{jt}, Export Processing Zone(EPZ_{jt}), Foreign Direct Investment(FDI_{jt}) and SSA_{jt} are dummy variables respectively. Note that, CommShr is the share of primary commodities in country j's total exports. EPZ is equal to 1 if a country has an export processing zone in year t, while FDI * EPZ is equal to 1 for countries with EPZ's in which China is a principal investor. ln Y and ln y are total and per capita GNI respectively, while SSA is equal to 1 if a country is part of Sub-Saharan Africa region. Heteroskedasticity consistent p-values are given in brackets.

The table reveals the dynamics of the interplay of the trade variables, as in the first row, it can be seen that natural resource production also refer to as primary commodity is a significant determinant of trade with China. If you can take a look at the volume of Africa’s total trade with China, there is a near unit elasticity of the commodity share of exports with Chinese trade. Not surprisingly, this effect is being driven entirely by Chinese imports of these resources. The study reveals that 1% increase in a country's commodity share of exports leads to a 3.79% increase in its exports to China. However, Countries that produce more natural resources do not import significantly more goods from China as in the case of Nigeria, Kenya, DR Congo and Sierra Leone etc.

For Countries with EPZ's, they have on average approximately 39.1% more trade with China than those that do not. When breaking trade down by the direction of flow, however, it shows that this result is being driven by imports from China. The presence of an EPZ increases imports from China by an average of 46.9%, while an EPZ does not seem to have any effect on exports to China. This effect is magnified when we consider the interaction between Chinese FDI and an EPZ. For Countries that have an EPZ in which China is a key investor, imports from China are 168% larger than in those countries without an EPZ and 121% larger than in those countries with an EPZ, but without Chinese FDI. These results strongly suggest that while an EPZ may be effective at attracting investment from China, it appears that these investments are acting as a conduit through which Chinese goods may cheaply enter local markets.
As expected, larger economies tend to trade more with China. A 1% increase in a country's GNI is predicted to increase trade flows by 2.21%. This result is consistent across both exports and imports. Though total market size matters, average income in a country appears to have less of an impact. For total trade, the per capita income elasticity of trade is not significantly different from zero. Surprisingly, imports from China actually fall as average income rises. This may suggest that Chinese products exhibit some characteristics of inferior goods and more market access in poorer countries. Countries that have higher per capita GNI's tend to export more to China, though this may simply be a reflection of the fact that in this region, natural resource exporters tend to have higher per capita incomes.

China has on average 321.9% less trade with countries in SSA than those out of the SSA region. Further insights can be gained by looking at the kinds of goods being traded.

Table 8: Trade determinants Across Variety of Goods

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>lnYjt</td>
<td>2.339</td>
<td>[0.000]</td>
<td>0.723</td>
<td>2.414</td>
<td>[0.000]</td>
<td>1.676</td>
</tr>
<tr>
<td>lnYjt</td>
<td>-0.080</td>
<td>[0.339]</td>
<td>-0.356</td>
<td>0.394</td>
<td>[0.055]</td>
<td>0.682</td>
</tr>
<tr>
<td>CommShrjt</td>
<td>-0.071</td>
<td>[0.397]</td>
<td>3.119</td>
<td>0.212</td>
<td>[0.304]</td>
<td>0.917</td>
</tr>
<tr>
<td>EPZjt</td>
<td>0.594</td>
<td>[2.48]</td>
<td>0.411</td>
<td>0.049</td>
<td>[0.26]</td>
<td>-0.067</td>
</tr>
<tr>
<td>FDIjt * EPZjt</td>
<td>0.745</td>
<td>[0.273]</td>
<td>0.230</td>
<td>0.831</td>
<td>[0.02]</td>
<td>0.301</td>
</tr>
<tr>
<td>SSAjt</td>
<td>-2.103</td>
<td>[0.000]</td>
<td>1.012</td>
<td>-0.624</td>
<td>[0.139]</td>
<td>-3.724</td>
</tr>
<tr>
<td>R²</td>
<td>0.391</td>
<td>[0.019]</td>
<td>0.191</td>
<td>0.463</td>
<td>[0.032]</td>
<td>0.324</td>
</tr>
</tbody>
</table>

Table 8, clearly shows out estimates of Equation (1) for Chinese exports and imports of six kinds of trade: exports and imports of differentiated, reference priced, and homogeneous goods. As expected, the intensity of natural resource production only appears to
matter for exports of reference priced and homogeneous goods to China. Note that, Differentiated, Reference Priced, and Homogeneous goods are constructed according to Rauch (1999).

A 1% increase in the share of commodity exports for a country increases exports of reference priced goods to China by 3.53% and exports of homogeneous goods by 0.92%. Exports of differentiated goods (or exports of any type of good) to China are unaffected by whether or not a country's exports are geared towards primary commodities. This confirms that it is indeed primary commodities that China is importing from these countries. Looking at the impact of EPZ's and Chinese FDI, we see that the results are strongest for imports of differentiated and reference priced goods from China. Countries with EPZ's import 59.4% more differentiated and reference priced goods from China than those without EPZ's. Those countries with EPZ's in which China is a principal investor import 133.9% more differentiated goods and 135.2% more reference priced goods than countries lacking an EPZ. Imports of homogeneous goods from China appear to be unaffected by the presence of either an EPZ or Chinese direct investment. These results suggest that Chinese investment in an EPZ is leading to increased manufactured goods entering a country's markets. There is little evidence of vertical FDI, as Chinese firms investing in African countries do not appear to be shipping their products back to China. Only for reference priced goods does the presence of an EPZ appear to significantly increase exports to China (at the 10% level). However, the interaction between Chinese FDI and EPZ is not significant for any kind of export to China, suggesting that Chinese firms investing in Africa are not doing so to take advantage of lower production costs, but rather to gain access to local markets.

Larger economies tend to trade more with China, a result that is consistent across exports and imports of all kinds of goods. Per capita income is only significant for exports to China. This result suggests that there may be some reverse causality, as countries that are able to export more to China have seen their average incomes rise as a result. China trades more with Sub-Saharan Africa than other region out of SSA for all categories of goods except for imports of homogeneous goods from China. SSA countries actually import 101.2% homogeneous goods from China which is relatively lower as compared to other regions outside SSA. This may reflect the fact that most SSA countries are immature and deficient than those in other regions outside SSA. Given that China will have a comparative advantage in less differentiated goods when trading with a more developed economy and a comparative advantage in more differentiated goods when trading with a less developed economy, this result makes sense. The fact that China imports 372.4% more homogeneous goods from Sub-Sahara Africa than from other regions really underscores the fact that this region is providing the natural resources to fuel China's booming growth as a result of a net-surplus effect in China's cost benefit Analyses.

Table 9: Parameter for estimating (random effect)

<table>
<thead>
<tr>
<th>Variables</th>
<th>(1) Lex</th>
<th>(2) Lex</th>
<th>(3) Lex</th>
<th>(4) Lex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lfdi</td>
<td>0.135*** (0.0183)</td>
<td>0.0735*** (0.0156)</td>
<td>0.0712*** (0.0146)</td>
<td>0.0693*** (0.0144)</td>
</tr>
<tr>
<td>Pgdp</td>
<td>0.000732*** (7.65e-05)</td>
<td>0.000664*** (7.16e-05)</td>
<td>0.000596*** (7.84e-05)</td>
<td>0.000596*** (7.84e-05)</td>
</tr>
<tr>
<td>Rexch</td>
<td>-0.000414 (0.000336)</td>
<td>-0.000382 (0.000330)</td>
<td>0.00656 (0.0148)</td>
<td>0.00389 (0.00563)</td>
</tr>
<tr>
<td>Grow</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inf</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 9 reveals that the variables PGDP and FDI are statistically and positively significant at 1% level; indicating that FDI has a very big impact on China’s export to Africa. A particular interest is the coefficient of the FDI, as this indicates the elasticity of export with respect to outward FDI. From Equations 1 to 4, the coefficient of FDI variable is positive and statistically significant at 1% level, confirming the contribution of Chinese FDI to Chinese export to Africa during the period under study. The result show that a 1% increase in FDI leads to a 0.069% increase in export. This finding is consistent with our hypothesis that Chinese direct investment in Africa is for market seeking behaviour. The variables, real exchange rate, annual growth rate and inflation rate are not statistically significant. Although insignificant, these variables have the correct signs in relation to Chinese export to Africa.

Table 10: Estimated results of the Impact of Chinese FDI in Africa on the value of Chinese export to Africa after controlling heteroskedasticity

<table>
<thead>
<tr>
<th>Variables</th>
<th>(1) Lex</th>
<th>(2) Lex</th>
<th>(3) Lex</th>
<th>(4) Lex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lfdi</td>
<td>0.135*** (0.0328)</td>
<td>0.0735*** (0.0163)</td>
<td>0.0712*** (0.0193)</td>
<td>0.0693*** (0.0179)</td>
</tr>
<tr>
<td>Pgdp</td>
<td>0.000732*** (7.82e-05)</td>
<td>0.000664*** (6.96e-05)</td>
<td>0.000596*** (8.12e-05)</td>
<td></td>
</tr>
<tr>
<td>Rexch</td>
<td>-0.000414 (0.000201)</td>
<td>-0.000382 (0.000295)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grow</td>
<td>0.00656 (0.0134)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inf</td>
<td>0.00389 (0.00469)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>20.53*** (0.413)</td>
<td>20.06*** (0.314)</td>
<td>18.57*** (0.348)</td>
<td>118.39*** (0.398)</td>
</tr>
<tr>
<td>Observations</td>
<td>261</td>
<td>261</td>
<td>261</td>
<td>261</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.896</td>
<td>0.994</td>
<td>0.927</td>
<td>0.931</td>
</tr>
<tr>
<td>Number of Country</td>
<td>24</td>
<td>24</td>
<td>24</td>
<td>24</td>
</tr>
</tbody>
</table>

Standard errors in parentheses. *** p<0.01; **, p<0.05; *, p<0.1
Table 11: Estimate of China’s FDI In Sub-Saharan Africa On Bilateral Trade

<table>
<thead>
<tr>
<th>Variables</th>
<th>(1) Ltim</th>
<th>(2) Ltim</th>
<th>(3) Ltim</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lfdi</td>
<td>0.539*** (0.0589)</td>
<td>0.438*** (0.0878)</td>
<td>0.379** (0.0661)</td>
</tr>
<tr>
<td>Pgdp</td>
<td>0.000176* (7.01e-05)</td>
<td>0.000275** (6.62e-05)</td>
<td></td>
</tr>
<tr>
<td>Grow</td>
<td>0.0615 (0.0522)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>17.247*** (1.186)</td>
<td>18.894*** (1.661)</td>
<td>19.191*** (1.341)</td>
</tr>
<tr>
<td>Observations</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.987368</td>
<td>0.972449</td>
<td>0.98796</td>
</tr>
</tbody>
</table>

Robust standard errors in parentheses. ***, p<0.01; **, p<0.05; *, p<0.1

Table 12: Test for Heteroskedasticity

<table>
<thead>
<tr>
<th>Variables</th>
<th>Résidu Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lfdi</td>
<td>-0.00705 (0.00622)</td>
</tr>
<tr>
<td>Rpgdp</td>
<td>-2.5e-05** (1.212e-05)</td>
</tr>
<tr>
<td>Rexch</td>
<td>-7.19e-05 (0.000143)</td>
</tr>
<tr>
<td>Grow</td>
<td>-0.00741 (0.00621)</td>
</tr>
<tr>
<td>Inf</td>
<td>-0.000139 (0.00224)</td>
</tr>
<tr>
<td>Constant</td>
<td>0.494*** (0.0925)</td>
</tr>
<tr>
<td>Observations</td>
<td>261</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.112</td>
</tr>
</tbody>
</table>

Standard errors in parentheses. ***, p<0.01; **, p<0.05; *, p<0.1.

We have tested whether there is heteroskedasticity, and we found evidence of heteroskedasticity in Table 12 (n*R² = 29.232 > 14.09). To correct that, we have used command areg with robust option and we got the output.
Since we are using time series data for estimating the impact of Chinese foreign direct investment in Africa on its import from Africa, the estimation methodology is very crucial. The major concern with the time series is that if non-stationary of data series persists then it may lead to spurious relationship. The empirical results for the effect of Chinese direct investment in Africa on Chinese imports from Africa is in Table 9. The coefficient of FDI is positive and statistically significant at 5% level in Equation (3), 1% level in both Equations (1) and Equation (2). This finding confirms our hypothesis that Chinese direct investment in Africa is for resource seeking motive. An increase of 1% of Chinese direct investment in Africa leads to 0.379% increase in Chinese imports from Africa.

Table 13 : Test for unit root by using Augmented dickey fuller (ADF).

<table>
<thead>
<tr>
<th>Variable</th>
<th>Test Statistic</th>
<th>Critical Value at 5%</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logarithm of Total Import</td>
<td>7.964</td>
<td>3.9</td>
<td>0</td>
</tr>
<tr>
<td>Logarithm of Total Fdi</td>
<td>0.841</td>
<td>3.2</td>
<td>0.883</td>
</tr>
<tr>
<td>Real per capital income</td>
<td>1.293</td>
<td>3.2</td>
<td>0.998</td>
</tr>
<tr>
<td>Annual percentage growth</td>
<td>2.178</td>
<td>3.2</td>
<td>0.2925</td>
</tr>
</tbody>
</table>

Table 13, is shows the estimates of the Unit root test using Augmented dickey fuller (ADF) as a measure to avoid spurious regression for the variable and I realised that variable log import is stationary but log FDI, real income per capita and annual percentage growth of GDP are not stationary but have different level of integration so no risk of cointegration which might lead to spurious regression.

The variable per capita income is also statistically significant at 5% level. Annual growth rate of GDP is not statistically significant but it has the correct sign. This implies that China has been importing raw material from Africa with a view to sustain its economic growth. By using robust option for time series regression, stata 10 control automatically for the heteroskedascty problem, so we have just tested whether there is evidence of autocorrelation of the error term by using command durbina and the test give us a p-value equal to 0.6741,with null hypothesis of no serial correlation. As p-value is higher than 10%, there is no evidence of autocorrelation.

5.0 Conclusion of Research Findings And Policy Recommendations

The research finding reveals that economic growth in Sub-Saharan Africa (SSA) region per year over the past decade has approximately estimated to an average of 5%, indicating an improvement in human livelihood and better standards of living and also strengthening human development and growth indicators across the Continent. For over three(3) decades now, the Sino-African Trade has rapidly expanded and growing from strength to strength. However, the trade relation between China and Sub-Sahara Africa has displayed a remarkable amount of diversity across Countries in the Continent over time, and for different kinds of trade.

The study reveals that,1% increase in a country's commodity share of exports leads to a 3.79% increase in its exports to China. An approximately 39.1% for Countries with Epz indicating more trade with China than those that do not. When breaking trade down by the direction of flow, however, it shows that this result is being driven by imports from China. The presence of an EPZ increases imports...
from China by an average of 46.9%, while an EPZ does not seem to have any effect on exports to China. A 1% increase in a country’s GNI is predicted to increase trade flows by 2.21%. This result is consistent across both exports and imports.

The result show that a 1% increase in FDI leads to a 0.069% increase in export. This finding is consistent with our hypothesis that Chinese direct investment in Africa is for market seeking behavior. An increase of 1% of Chinese direct investment in Africa leads to 0.379% increase in Chinese imports from Africa.

China-SSA trade has been increasing rapidly since the late 1990s to 2015. As at 2013, China became the largest export and development partner of the Sub-Saharan Africa region. China now account for about a quarter of SSA’s total trade volume portfolio indicating a geometric expansion from just 2.3% in 1985. Records also shown that about one-third of China’s energy imports come from SSA as a very important trade ties, especially when China’s energy consumption rates have grown by more than twice the global average over the past decade. Notwithstanding the increased efficiency and growing domestic production, there is the presence of quality innovation, effective Research and Development, rapid urbanization and heavy industrialization that continue to stimulate and attract robust Chinese demand for coal, oil, and natural gas. The Chinese Banking Industry, principally the People’s Bank of China, the China Development Bank, and the Export-Import Bank of China (Exim Bank of China), have supported large-scale investments in African infrastructural development in the past decades to date. United Nations Trade and Development statistics have shown that over 2,200 Chinese enterprises are currently operating in SSA, most of them private firms.

The compound growth rate of china’s total trade with Africa shows that total trade between china and Africa increased by 26% between 1995 and 2012. Over this period China’s imports from and exports to Africa increased by 29% and 23%, respectively. During 2011/12, total trade between China and Africa increased by 19% from US$166 billion in 2011 to US$198 billion in 2012. Over these 12 months imports from Africa increased by 21% (US$20 billion) whilst exports to Africa increased by only 17% (US$12 billion) during this period.

The top twenty (20) products imported by China from Africa in 2012 accounted for 96% of china’s total imports from All African Countries, whilst the top 5 products accounted for 89% of total African imports for the year. This indicates that China’s imports from African countries are highly concentrated. China’s key imports from Africa in 2012 were mineral products (55%), other unclassified goods (26%); base metals (4%); precious stones and metals (3%) and textiles & clothing (1%).

In terms of export the top 20 products China exported to Africa in 2012 represented only 34% of the total China’s export to Africa. This is an indication of the diversity of china’s export products, supported with the fact that China’s top 5 export products accounted for only 13% of total exports to African countries in 2012. The main export product which are highly value added manufacturing products were transport equipment (3%); textiles and clothin (3%); machinery (3%); footwear (2%) and plastic product (2%). China’s major African trading partner were South Africa (30%); Angola (19%), Nigeria (5%), Egypt (5%) and Libya (4%) in terms of total trade for 2012. Trade with this countries accounted for 64% of china’s total trade value with Africa.

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35 UNCTAD 2014; Shen 2014
In 2012, South Africa, Angola, Libya, Congo and the DRC were the top 5 African Countries from which China source imports whilst the main African destination markets for China’s exports were South Africa, Nigeria, Egypt, Algeria and Ghana in the same year. From regional perspective point of view, SADC was both the most important regional configuration in terms of China’s imports and exports. The value of goods China imported from SADC, COMESA and EAC in 2012 were approximately US$83 billion, US$17 billion and US$0.56 billion respectively.

In 2012, China’s exports to SADC, COMESA and EAC accounted for 29%, 26% and 6% respectively of China’s total export to All African Countries. During 2012, China’s total trade with SADC increased by 31%, whilst China’s total trade with the EAC and COMESA increased by 18% and 5% respectively during the same period.

In 1995, China’s total trade with Africa accounted for only 1% of China’s total world trade. However, total trade Sino-Africa trade steadily increased from 1% in 1995 to 3% in 2006 and ranged between 3% to 5% over the last 7 years. Since 1995, mineral products have dominated China’s import from Africa Countries with Angola and South Africa being China’s main African trading partners.

Although China’s main export products have remained unchanged over the last 7 years, the composition of the top 5 export product has changed. Between 1995 and 2006, China mainly exported textiles and clothing to the African Countries whilst between 2007 and 2009, China’s main exports product was machinery and in the last 3 years China mainly exported transport equipment of the African Continent.

This research study used both the variation across time and across countries of different diversity in SSA purposely to examine the economic impact of the Sino-Africa Trade relations to investigate whether the trade relations impacting on the economic growth and human livelihood in Africa or not. The study uses some determinants of trade such as; China’s export to Africa, China’s import from Africa, Export Processing Zones and Foreign Direct Investments amongst others to clearly identify the inter-connection of this explanatory variables and Trade as the Dependent Variable. The study further reveals the reason why China’s trade volumes differ from one country to the other as in the case of South Africa Total Trade in which China alone account for about 41% of total trade volume, but less than 10% of trade with neighboring Swaziland and other Countries like Sierra Leone. Also, the findings show case why does an oil producing OPEC member like Angola have a large share of trade with China (27.3%), while a similar oil producing OPEC members like Nigeria trades significantly less with China (5.9%)? This heterogeneity in trade relations with China both across countries and over time provides an opportunity to identify the factors that influence the degree of economic interaction between these countries and China. I found that the determinants of trade vary across the type of good being traded and the type of trade flow. Exports of differentiated goods from China to Africa are affected by the presence of export processing zones and Chinese direct investment. Political considerations also matter, as countries that recognize the PRC as China in the UN import more from China than those that recognize Taiwan.

When looking at goods flowing from Africa especially in the SSA region. The study also clearly reveals China’s thirst and demand for natural resources as a priority to source primary commodities as an economic driver that stimulate growth and development of the Chinese economy. Political considerations is also a vital indicator in determining trade, investment and in securing resources have in the case of Countries having relation with Taiwan have less trade and investment volumes with China whilst does with no relations.
with Taiwan have bigger trade volumes with so many opportunities. Has the expansion of Chinese economic engagement in this region been beneficial or harmful? Lyons and Brown (2010) and that an influx of Chinese imports actually improves living standards for the poor in the short run by driving down the cost of living. However, the long run effects may be damaging as these imports appear to crowd out domestic competition. This crowding out may be occurring in international markets as well, as Viloria (2009) and Giovannetti and Sanlippo (2009) and that Chinese exports to developed country markets tend to displace African exports to these same markets. Increased trade with China could improve long run living standards if it leads to productivity spillovers. However, Elu and Price (2010) and very little evidence of any increases in total factor productivity due to increased Chinese trade. Thus, the few studies that have assessed the impact of Chinese trade have tended to see it as having negative effects. The results in my study suggest that there are multiple factors influencing Chinese trade in this region, and the impact of trade will depend on why it is taking place. Trade that is seeking out natural resources is likely to have a different effect on the local economy than trade which is seeking out local markets or even trade that complements state-sponsored direct investment and aid given to a country in exchange for political considerations. To accurately assess the effects of Chinese engagement in Africa, we therefore need to understand that this engagement occurs for different reasons.

Regarding the Chinese FDI in Africa, the study found that Chinese FDI in Africa has a substantial impact on Chinese imports from Africa than Chinese export to Africa. An increase of 1% FDI lead to an increase of 0.379% of Chinese import from Africa and 0.069% of Chinese export to Africa. The study indicates that the Chinese government FDI policies have been very successful in sustaining Chinese economic growth. While the main question is how can Africa-countries benefit from Chinese FDI inflow? Government of the host country should adopt the following appropriate policy that we offer; policy which might contribute to human capital training and facilitate international exchange integration; create a conducive investment climate that will promote competition between domestic and foreign (Chinese) companies which will enhance economic growth and development; the government of the host countries can lower the tax so as to encourage Chinese potential investors to establish their companies in those host countries.

Economic growth in Sub-Saharan Africa (SSA) has averaged roughly 5% per year over the past decade, improving living standards and bolstering human development indicators across the continent. Stronger public institutions, a supportive, private sector-focused policy environment, responsible macroeconomic management, and a sustained commitment to structural reforms have greatly expanded opportunities for countries in SSA to participate in global markets. In recent years, many countries in the region have benefited from an increasingly favorable external environment, high commodity prices, and an especially strong demand for natural resources by emerging economies, particularly China.

China-SSA trade has rapidly intensified since the late 1990s and in 2013 China became SSA’s largest export and development partner. China now represents about a quarter of SSA’s trade, up from just 2.3% in 1985. About one-third of China’s energy imports come from SSA a vital trade link, especially as energy consumption rates in China have grown by more than twice the global average over the past 10 years. Despite increased efficiency and rising domestic production, rapid urbanization and heavy industrialization continue to spur robust Chinese demand for coal, oil, and natural gas. China’s banks, notably the People’s Bank of China, the China Development Bank, and the Export-Import Bank of China (Exim Bank of China), have supported large-scale investments in African infrastructure. More than 2,200 Chinese enterprises are currently operating in SSA, most of them private firms (UNCTAD 2014; Shen 2014). Diplomatic contacts and bilateral aid and cooperation initiatives have greatly expanded,1 and the Forum on China-Africa Cooperation,
formed in 2000 and convened every three years, has become the primary institutional vehicle for China’s strategic engagement with SSA.

After expanding at an average annual rate of 10% through the early 2010s, growth of China’s annual gross domestic product (GDP) has slowed to 7.5 % during the past two years. The doubling of Chinese capital stock between 2005 and 2011 has resulted in excess production capacity and the rate of return on capital is declining. Meanwhile, average household consumption remains low by international standards. The Government of China has responded by initiating a gradual process of economic rebalancing designed to shift the economy toward a more sustainable model, one in which growth will be driven less by investment and exports and more by domestic consumption. These policies will be complemented and sustained by the continued implementation of deep structural reforms to promote a more open and competitive private sector. The rebalancing of the Chinese economy will not only have profound domestic implications, but will also permanently alter the pattern of international trade and investment flows, presenting important challenges and enormous opportunities for developed and developing countries.

China’s lower growth rate and changing demand composition are already affecting commodity prices, with particularly strong impacts on global mineral markets. At the same time, the tripling of Chinese labor costs over the past decade has enabled countries with large labor forces and low wage rates to compete with Chinese producers and even attract investment from Chinese firms. This report explores the impacts of China’s economic rebalancing on its trade and investment partners in SSA. The report uses information from the Government of China as well as international databases and individual case studies to review the latest available information on China-SSA trade and foreign direct investment (FDI) flows. The objective of the report is to contribute to an informed policy debate as to how SSA can leverage the complex changes taking place in the Chinese economy to accelerate growth, enhance development outcomes, and maximize the benefits of SSA’s increasingly strong ties to one of the world’s most dynamic economic powers.

Also, albeit the contraction of China’s economic growth rate, Chinese trade volume with SSA has continued to expand geometrically reaching a total volume amounting to US$170 billion in 2013. Historically, Europe has been the largest SSA’s exporting partner but with the current economic giancy of China in the global platform, it has overtaken Europe and regional economies are becoming increasingly fragile and vulnerable to changes in international commodity prices and Chinese demand conditions. The composition of China-SSA trade is not symmetric, with SSA importing a wide variety of consumer and capital goods and overwhelmingly exporting primary commodities, especially oil, minerals like iron ore, rutile and other natural resources etc. This pattern has become more severe during the past 5 years; agricultural goods account for just 5% of SSA’s total exports to China indicating that not much is done in the sector and there more potentials

Notwithstanding the fact that China’s growing presence in Africa has contributed greatly in having a positive socio-economic turn around in the Continent especially in the SSA region but yet the trade relations is fraught with difficulties and challenges which has surfaced with expanding interaction, particularly with labor practices and market strategies, competing commercial and national interests, of which China is blamed for flooding the African markets, destabilizing domestic industries and selling goods of inferior quality to Africans amongst others. The volumes of Chinese businesses and manufactured goods flowing into Africa, conflict over differing labour practices and market strategies has arisen between Chinese and African enterprises. Chinese entrepreneurs rarely employ local workers in Africa. Rather they are accustomed to bringing laborers from China and most management positions are filled
by Chinese nationals. Chinese company practices also lead to discontent among the communities in which these enterprises operate, who perceive that Chinese companies are not contributing enough to local economies and employment. Another source of conflict arises from the success of Chinese goods in African markets, which are often better quality and cheaper than local products. While African consumers are happy, parallel domestic industries (especially textile industries) suffer as a result. And as these relationships grow and the institutional tendrils become more enmeshed we see possible problems of African people, in western fears, being locked into China for many years to come but equally the Chinese are ‘locked’ into Africa, which brings its own risks.

China’s rebalancing has the potential to bring great benefits to countries throughout SSA, but it also comes with considerable challenges. During the past two decades, China’s growth has driven most of the global increases in the demand for commodities such as oil, aluminum, copper, and iron ore. As China moves toward a more consumption-driven growth model, the demand for and price of these commodities are expected to be significantly lower than in the past. This will have a direct, negative impact on the commodity producers in Africa; but it will also offer new opportunities to restructure and transform African economies. Countries that have become excessively reliant on natural resource exports will need to step up efforts to diversify their industrial and agricultural sectors, while a decline in fiscal revenues from the resource sector may force difficult choices in public spending. Policy measures to help raise the competitiveness of sectors that are suffering from import competition from China may also help SSA to respond well to the expected changes.

The window of opportunity created by China’s rebalancing will not remain open indefinitely, but a pragmatic reform agenda designed to increase productivity in the tradable sector and enhance cooperation with the Chinese public and private sectors could greatly accelerate growth and enhance livelihoods in countries throughout SSA. In many countries, this will require a clear shift in policy and institutions toward a pro-growth environment. The specific reforms may not be those that China undertook, but they should be comprehensive enough to demonstrate commitment to a pro-growth strategy despite political changes and exogenous shocks.

Africa can become more competitive. Historically, China’s competitiveness was built on a number of factors including low unit-labor costs, an abundance of subsidized credit, and an undervalued exchange rate. In addition, China’s accession into the WTO in 2001, together with a series of reformative approaches, has brought about enhancement in total factor productivity (TFP), which has also strengthened China’s competitiveness. The recent rise in labor costs and appreciation of the renminbi will reduce China’s export competitiveness, at least in the near term, and benefit low-cost developing countries. African countries have a unique opportunity to attract strategic, job-creating investments from foreign investors, including China. For this to happen, countries in SSA need to develop a supportive policy framework to (a) lower transport costs, (b) eliminate formal and informal barriers that undermine investments in regional processing activity, (c) increase the flexibility of labor markets, and (d) ensure effective competition policies.

Chinese diplomacy in Africa, in particular that carried out by the Ministries of Foreign Affairs and Trade, has focused on bilateral relationships with African governments. In addition, several State owned banks have backed China’s presence in Africa. Exim Bank (China Export-Import Bank) was established in 1994 to promote Chinese exports. China’s presence in Africa also involves a broad range of private-sector actors, including multinationals, small businesses, traders, and migrants, as well as Chinese local governments.
which at times act directly, mainly through the firms they own (Chen and Jian, 2009). In the following section, we will present the main features of the reciprocal trade and investment flows between China and Africa. Weak, inefficient, ineffective political will, weak intellectual capital and shrink economies misappropriating and untimely implementation of macroeconomic policies is daunting and challenging as recipe that reatards the growth and strength of the Sino-SSA relations.

The key challenges facing SSA from its trading relationship with China, in light of its trading relationship with China. It will in turn examine the following challenges:

(1) The challenges of judicious utilisation of the increased income especially the foreign exchange earnings from the oil sector, to relax supply-side constraints and diversify the economic base;

(2) The challenges of responding strategically to the price competition promoted by Chinese imports;

(3) The challenges of dealing with the risks of the structure of Angola’s exports to China perpetuating specialisation in primary commodity production;

(4) The challenges of dealing with the risk of China’s cheap import leading to deindustrialisation, increased unemployment and discourage economic diversification;

(5) The challenges of handling the possibility that imports from China may be hazardous on account of low quality. Such as;

(i) The relaxation of the supply side constraints in the oil sector is not an issue in the case of some Countries in SSA region. As a member of OPEC the governing factor here is the OPEC quotas and as such not under Angola’s direct control. The study briefly discussed the problems facing SSA in its stated desire to develop a competitive manufacturing base and how China impacts here by (a) under-cutting industrialisation efforts by providing cheap consumer goods to SSA home market and (b) crowding potential SSA exports out of third markets. This subject is developed in more detail for Africa in general in Sandrey and Edinger (forthcoming).

(ii) The challenge of responding strategically to the price competition promoted by Chinese imports is not an issue in Angola, as currently the country really has no meaningful industrial capacity. Therefore the competitive forces that enable SSA to source imports from the country that is the global price setter for light manufacturing products is a major plus. Also, as Angola has no tariff preference regimes the issue of trade diversion does not arise. Again, Sandrey and Edinger (forthcoming) report on the challenges that China presents to the African manufacturing base, and most of these African bases are stronger than the non-existent base in in other SSA Countries.

(iii) The challenges of dealing with the risks of the structure of the country’s exports to China perpetuating specialisation in primary commodity production are also not a challenge, as some SSA Countries literally has no export sector other than oil. Diamonds and fish products are very minor exports, and perhaps fisheries will, over time, develop further. Problems of infrastructural constraints are being addressed through other models like in the case of the “Angola model” construction upgrades, and any improvements in this sector will be beneficial. The other challenge is one of Dutch disease whereby the strong and appreciating currency places pressure on a latent export sector. Given Africa’s history and performance of manufacturing capacity it is extremely unlikely that some SSA Countries will establish this capacity in the near future, and especially so that China has a strong presence in the SSA market. Africa’s manufacturing performance is epitomized by South Africa, a country that has a considerable percentage of the entire African manufacturing capability, yet is struggling to maintain its clothing sector in the face of largely Chinese competition despite 40 percent tariff walls.
(iv) It is difficult to assert that cheap imports may be leading to de-industrialization and increased unemployment in some SSA countries when there is no industrialisation at the present time. One may argue that Chinese imports make it more difficult to promote industrialisation outside of the dominant oil sector, but again that needs to be put in perspective. This really results in part from Dutch disease whereby the strong currency (one is reluctant to use that value-laden and misleading term ‘overvalued’ currency) is one of the factors attributing to the ‘curse of oil’ label, but again such a label is a very shallow comment without a detailed analysis of the background. Again, the study argue that SSA must look to its agriculture and agro-processing sectors, and here, as outlined above, we believe that China has much to offer. SSA’s challenge is to redistribute oil wealth to the poor, and given that most of these poor are peasant farmers in a land-rich but technologically backward agricultural economy the lessons from how China transformed its rural economy from such a situation are extremely relevant to SSA region. This is especially relevant now that SSA has access to significant oil revenues for development use.

Also, although we have not discussed or even examined the fisheries sector, we note that there are small exports of fish and fish products in Angola’s exports and suggest that an in-depth examination of this sector may point to economic benefits from a well resourced and managed fisheries sector. There is also an implicit almost accusation here that Chinese imports are ‘cheap’ and of ‘low quality’. Certainly Chinese global exports are setting the international benchmark for manufacturing imports, and we caution some countries in SSA region like Angola that allowing preferences for European imports under the Economic Partnership Agreements carries a trade diversion cost. Furthermore, analysis in this report firmly rejects the hypothesis that China is exporting lower valued merchandise goods to SSA.

(v) The challenges of handling the possibility that imports from China may be hazardous on account of low quality should be answered by pointing out how China has become the global benchmark for lightly manufactured goods. This is in both the richer OECD developed markets and in the poorer markets of the world. Price may have been a factor in establishing this dominance, but it is difficult to argue that price is the only factor. There is a general perception that the quality of Chinese consumer goods is improving, and certainly this Chinese export phenomena of the last fifteen or more years has been across all markets, rich and poor. It is always pertinent to keep in mind the concept of consumer choice in a market economy; consumers are not compelled to use Chinese imports and one must accept that they are choosing to do so in a rational manner. We appreciate that markets are not always free and fair, but we have offered a rebuttal to the argument that the Chinese economy is not a market one.

Recommendations

China is a valuable trading partner and has served as a development model for SSA and an alternative source of trade and finance from Africa’s traditional development partners. China is investing massively in infrastructure, which helps alleviate supply bottlenecks and improve competitiveness. For China, Africa is not only a source of critical commodities necessary to expand its domestic economy, but also a future investment destination for labor intensive manufacturing, especially given that wages are rising much faster in China than in African. The impact of China on African economies has been diverse, depending in part on the sectoral composition of each country’s production. Overall, China’s increased engagement with Africa could generate important gains for African economies.
Africa cannot expect assistance from China to improve governance, which can only result from internal choices and consultations between the State and its citizens. One overriding consideration is that reaping the full benefits from Chinese trade will require substantial improvements in governance in African economies. However, a number of recommendations can be suggested to limit the negative effects on governance of China’s presence in Africa:

Trade in the natural resource sector tend to impair governance and efficiency, have harmed the environment, and often failed to lead to a reduction of poverty. Moreover, the oil sector’s demand for resources has often reduced manufacturing production (due to the Dutch disease effect) and has been associated with imprudent macroeconomic policies resulting in high levels of volatility. The weak impact of oil or mineral exports on poverty reduction has often been highlighted in the literature (Adenikinju and Bamou, 2006). Countries with substantial oil reserves need to be particularly careful to ensure strong, democratic institutions, to pursue prudent fiscal policies (ensuring efficient public expenditures and avoiding excessive monetary expansion), and to allocate a portion of oil revenues towards investment in the non-tradable sectors (Iimi, 2006).

The sharp increase in revenues resulting from Chinese demand must be managed by increasing savings in times of economic boom and making provisions for social assistance, particularly for the unemployed, during downturns. The OECD (Goldstein et al., 2006) cites the example of Chile’s countercyclical policies and recommends the application of Hartwick’s rule (1977). This rule states that a constant level of consumption can be maintained in a rent-based economy if the amount of investment is equal to the value of rent accrued from the natural resource, at all times. Funds have been set up to save the rents from oil windfalls in Nigeria and Botswana, and could be recommended more broadly to stabilize expenditures over the commodity price cycle (absorbing resources when commodity prices rise and spending resources when they fall).

African countries need to increase the value added of their production and exports, irrespective of their partner countries. This implies developing specialisations that may justify limited protectionist measures (Geda, 2006). For example, local content requirements, not only for Chinese investors, but for all investors could be expanded to increase the demand for unskilled African labour and local construction material for investment projects.

Trade growth can be associated with increasing inequality. Zafar (2007) emphasizes that trade with China contributes to an improvement in the terms of trade for resource-rich countries and a deterioration for resource-poor countries. The same distributional effects can be seen within a country, where workers and firms in the oil and mineral sectors see increasing incomes while agriculture and manufactures sectors see reductions. Such changes in income distribution can increase the risk of social unrest, particularly where oil or minerals production is concentrated in particular regions.

REFERENCES


