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CHAPTER EIGHT

CHINA-AFRICA TRADE UNDER FOCAC

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Copies of the original book can be requested from: Hanlie Baudin at researchoutputs@hsrc.ac.za

A. INTRODUCTION

The Beijing Summit and the Third Ministerial Conference on The Forum on Africa-China Cooperation (FOCAC) held in November 2006, confirmed their committment to the Declaration of the Beijing Summit and FOCAC. Trade is dealt with as an individual issue under the section Economic cooperation, as outlined in the FOCAC agreement. This is indicitive of the importance of trade to both sides as it is also reiterated in the FOCAC agreement. Both sides share the view further expansion of trade serves the mutual interests of Africa and China, and noted with 'pleasure' the fast growth in two-way trade since the Second Ministerial Conference of the Forum.

China and Africa agreed to continue to work to create favourable conditions to grow Africa-China trade in a more balanced manner. China unilaterally offered to increase the number of tariff lines (African export products to China) that enjoy zero tariff from 190 to 440, for the least developed countries in Africa with which it has diplomatic relations. China also offered the launch of bilateral negotiations with'countries concerned' for the early conclusion and implementation of 'related' agreements.

In addition, the two sides agreed to strentghen cooperation in customs, taxation, inspection and quarantine to facilitate healthy and orderly growth in China-Africa trade. Both sides agreed to properly address, in a spirit of mutual understanding and accommodation, trade disputes and frictions through bilateral or multilateral friendly consultations. Further hereto, both sides agreed to gradually improve the mechanism of the China-Africa Joint Chamber of

Commerce and Industry and its role in communication, coordination and trade facilitation[i] This same commitment is seen from the 4th and 5th Ministerial Conferences of FOCAC, the last held in 2012. Progress made thus far will alluded to in the following sections.

In this chapter, the authors carefully interpret what FOCAC holds for China-Africa Trade. This is done by interpreting the content of what FOCAC spells out in terms of trade and as summarised above, and by analysing actual trade between the two sides. The main objective of this chapter is to analyse and discuss trade between China and Africa within the context of FOCAC and the realities underlying the relationship between China and Africa. The aims that need to be addressed to achieve this, are: reviewing the main features of the agreement on trade, analysing the expected gains and losses by China and Africa, considering the international critique in regard to trade cooperation between China and Africa, and concluding the study. These aims are addressed in that sequence in the sections that follow.

B. The Main Features of FOCAC Cooperation on Trade

Trade theory and empirical evidence have over the last few decades been exemplary of the gains from trade. It has also been evident that the gains derived by two nations that trade with each other, acrue to both nations. The debate around the issue of the distribution of these gains from trade still rages on.

In the prelogue to the section on trade in the FOCAC agreement, the almost exponential increase in trade between China and Africa is praised. Along with the praise for the continued increases in trade between China and Africa and the gains from it, comes a renewed committment by China and Africa to continue along this path of mutually beneficial trade expansion. Primary to this committment is the view shared by both China and Africa that this growth in trade ought to be more balanced. The FOCAC agreement is vague, to say the least, on what is meant by more balanced trade expansion. It may be inferred that in the distribution of the gains from trade, Africa is at the short end of the stick and recent trade data intimates that China's gains outstrip that of Africa. This is further put under the

spotlight in the section below that deals with the expected gains and losses from trade between China and Africa.

Insofar as protectionsim is concerned, the agreement does not provide for equal treatment of all the countries of Africa. The least-developed countries (LDCs) of Africa enjoy prefential treatment; e.g., LDCs face zero-rated import tariffs when exporting to China on 190 tariff lines. This is said to increase to 440 tariff lines, according to FOCAC[ii]. However, according to the China trade policy document[iii], preferential trade agreements (PTAs) are in place only with LDCs in Africa and covered 186 tariff lines in 2007. These LDCs are Angola, Benin, Burundi, Cape Verde, Central African Republic, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Sudan, Tanzania, Togo, Uganda, and Zambia[iv].

The launch of bilateral negotiations with countries concerned is also uncertain. Would preference be given to conclude bilateral arrangements with the LDCs only? Would these bilateral agreements take into account the existing regional trade agreements (RTAs) in Africa? The reality is that there seems to be a renewed effort to move toward stronger regional cooperation in Africa. The regional economic communities (RECs) in Africa are today more serious than ever to coordinate and harmonise regional integration and regional trade agreements to the extent that overlapping is eliminated.

The most difficult issue with China-Africa bilateral negotiations is probably getting to grips with the multitude of trade agreements that overlap within each of Africa's integration and multilateral trade arrangements. To this extent, it is China that faces an intricate web of different trade rules when dealing with a fragmented Africa. For this very reason it seems plausible that trade between China and Africa would be characterised by a number of multilateral agreements with Africa, each probably relating to different integrated regions. The unilateral preferential trade tariffs offered to LDCs are briefly summarised in Table 1.

Table1. Unilateral Preferential Tariff treatment offered by China to LDCs in Africa

Overall average	9.5

WTO average	15.0
Grains	33.9
WTO non-agriculture	8.6
Leather, rubber, footwear & travel goods	12.0
Textiles & clothing	11.1
Transport equipment	12.5
Petroleum	5.2

Source: WTO, 2009

Market access into China by African exports is mainly determined by the level of tariff protection and technical trade barriers (TBTs). Before turning to TBTs, it is important to note that China only became member of the WTO in 2000. It has since made tremendous advances toward bringing in line with WTO rules, its industrial and trade policies and aligning its trade barriers.

Since 2006, China has, by and large, continued to liberalise gradually its trade and trade-related policies. In particular, it has eliminated tariff-rate quotas on some items, and reduced the number of lines subject to automatic import licensing requirements. Nonetheless, trade and trade-related measures, both at the border and internally, are still used as instruments of industrial policy.

The tariff remains one of China's main trade policy instruments. The overall average applied most favoured nation (MFN) tariff was 9.7 percent in 2007 (the same as in 2005). The average applied MFN tariff rates for agricultural and non-agricultural products were 15.3 percent and 8.8 percent respectively, (also the same as in 2005). Preferential tariff rates are applied under bilateral free-trade agreements to which China is a party; the tariff averages ranged from 3.5 percent to 9.1 percent. In 2007, China applied preferential tariffs unilaterally to 37 LDCs; the tariff averages ranged from 9.0 percent to 9.5 percent, depending on the origin of goods. Tariff-rate quotas on soybean oil, palm oil, and rapeseed oil (ten items) were eliminated in 2006[v].

As mentioned above, the number of lines subject to automatic import licensing requirements has declined. In regard to NTBs, China has adopted measures to increase the

alignment of its national standards with international norms. It has notified the WTO about a number of sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT). With a large number of laws governing SPS measures, the SPS regime remains complex, according to the WTO[vi].

Market access of Chinese exports into Africa is much more complex. These are guided by the multitude of existing PTAs and free trade agreements (FTAs), which are determined mainly by regional economic community (REC). However, China is known for its competitive advantage over a wide range of manufactured goods and does not seem to have major difficulty in overcoming existing trade barriers. To say the least, China currently applies an export tax on the export of its own goods in order to retard its own export growth. According to a recent WTO progress report on China[vii]"…China's already complex export regime has become considerably more restrictive. A variety of measures, including export taxes (notably "interim export duties"), reduced rebates of value added tax (VAT) on exports, and export prohibitions, licensing, and quotas, are used to restrain, if not prohibit, exports of a considerable and growing number of products. Although some of these export restraints are implemented to meet China 's international obligations, many are intended to, inter alia, reduce exports of products using large amounts of natural resources and energy, or to reduce China 's large trade surplus in an attempt to reduce trade friction (related to China 's large and growing current account surplus). For instance, the number of tariff lines subject to interim export duties almost doubled in the last two years, VAT rebate rates on exports of some 2 800 lines (HS 8-digit) were eliminated or lowered in July 2007, and the number of lines subject to export quotas and licensing requirements has increased[viii].

In terms of trade, according to Deming, the total trade volume between China and Africa hit a record high of USD 166.3 billion in 2011, growing by 83 percent from the year 2009[ix]. China stands as the unchallenged largest trading partner of Africa. On the back of robust trade, Chinese goods, in greater quantity and with better quality, are welcomed by African people; more and more African specialty goods have been made available to Chinese consumers. Resource commodities from Africa have secured a stable market and higher prices.

With respect to investment, China's direct investment in Africa had reached USD 14.7 billion by the end of 2011, up 60 percent from 2009. While the number of investment projects in energy, mining, construction and manufacturing keeps growing, collaboration on finance, aviation, agriculture and tourism has also boomed. More than 2000 Chinese firms have invested in Africa. In the process, they have not only helped diversify the African economy, and contributed to local tax revenue and job creation, but also found a promising land for their overseas expansion.

In the area of project contracting, Africa has become China's second largest overseas market. In 2011, the business turnover of Chinese contractors in Africa grew by 28 percent in 2009 to USD 36.1 billion, accounting for 30 percent of China's total turnover in overseas markets. The inflow of capital, equipment and technology from China has helped cut cost and steadily improve infrastructure in African countries[x].

In regard to Africa, China is currently still engaged in a number of trade negotiations with various individual countries, but mainly with the various RECs. Only once these specific bilateral and multilateral negotiations are concluded would it be possible to estimate the impact of these on future trade between China and Africa. In order to improve the understanding of market access of Chinese goods into Africa, a brief account of the most prominent RECs in Africa with whom China is to conclude bilateral and multilateral PTAs, FTAs and Economic Partnership Agreements (EPAs), is provided.

i. West African Economic and Monetary Union (WAEMU/UEMOA)

The WAEMU region is divided in two zones, viz. a Sahellian inland zone and coastal zone. Levels of income, economic resources and potential vary between the two zones and there are substantial interdependencies. The Union's economy is dominated by Senegal and the Ivory Coast who together accounted for 56.3 percent of the Union's gross domestic product (GDP) in 2007. Intra regional trade accounted for close to 12 percent of total trade in 2004[xi]. According to a WTO Report, in 2012, overall, intra-community trade was very limited - 6.5 percent of total goods trade in Côte d'Ivoire and 10 percent in Guinea-Bissau[xii]; Togo has had a higher level of intra-community trade (20 per cent), accounting for more than half of total exports and 7 percent of imports within the WAEMU area. However, the relative share

of intra-WAEMU trade and intra-ECOWAS trade in the three countries had not grown significantly over the last five years. There is overlapping membership of all WEAMU members also being members of ECOWAS.

ii. Economic Community of Western African States (ECOWAS)

The objectives of the ECOWAS Community are: facilitating intra-ECOWAS trade by removing all trade barriers, e.g. customs duties and taxes, establishing a common external tariff, harmonizing economic policy and creating a common market. The main aim of ECOWAS was the creation of a trading bloc that would include economic and monetary union for all members leading to a "collective self-sufficiency"[xiii].

Exports from ECOWAS mainly comprise of agricultural products and oil (Nigeria). This lack of diversification leaves ECOWAS vulnerable to external shocks. All members except for Nigeria are net oil importers and therefore all members except Nigeria are subjected to volatility in oil prices, which combined with export commodity price shocks, leave members exposed to exogenous shocks[xiv]. Between 2000 and 2006, total GDP of ECOWAS increased by nearly 32 percent. Nigeria and the Ivory Coast are the largest economies in ECOWAS; their shares of ECOWAS GDP in 2010 were 61 and 10 percent respectively. Intra regional trade was 23 percent of total trade in 2005 and it declined to 15 percent in 2010[xv]. The members of ECOWAS are Gambia, Liberia, Ghana, Nigeria, Cape Verde, Sierra Leone and Guinea.

iii. East African Community (EAC)

The Eastern African Community (EAC) is a product of the erstwhile East African Cooperation between Kenya, Uganda and Tanzania that ended in 1977. There was a renewed interest shown by the leaders of these countries to revive cooperation between these countries in 2000. In 2007, Burundi and Rwanda joined the EAC. As with other economic integration initiatives, the purpose of the Treaty is deeper economic integration with the ulimate goal to improve the competitiveness in the region. The evolution of integration set out in the Treaty includes the sequential move from a customs union to a common market to a monetary union and ultimately to a political federation[xvi]. GDP in the EAC increased almost 35 percent

between 2000 and 2006. The EAC economy is dominated by those of Kenya and Tanzania who jointly produce more than 75 percent of regional GDP. Intra regional trade was fairly small in the region at 9 percent of total trade in 2007, which deteriorated further in 2010 to only 4 percent in 2010. Reasons for this declining intra regional trade are domestic instability, focus on exports to external trade partners and the financial crisis of 2008[xvii].

iv. Common Market for Eastern and Southern Africa (COMESA)

The Common Market for Eastern and Southern Africa (COMESA) was established in 1994 and followed on the heels of a Preferential Trade Agreement (PTA) for the sub-region. COMESA is the largest regional economic community (REC) in Africa with 19 members. Countries that were previously part of COMESA but have since withdrawn are Tanzania, Namibia, Mozamique and Lesotho. The COMESA REC shares a common heritage and therefore the grouping of countries have a good chance of succeeding in the creation of a larger market by cooperating socio-economically.

COMESA have agreed to trade and investment facilitation measures under the WTO rules with the main aim of strengthening regional integration through an outward-looking strategy, which include the gradual removal of tariff and non-tariff barriers. The economic growth and development performance among COMESA members vary greatly. Between 2000 and 2007, GDP in COMESA increased by 32 percent. The main contributors to regional GDP were Egypt and Sudan who contributed 41 and 19 percent respectively to regional GDP in 2010. Intra regional trade was still low in 2006 at 10 percent of total GDP and deteriorated further to 4.8 percent in 2012. However, trade with the rest of Africa increased to 10.8 percent in 2012[xviii].

Uganda, Rwanda, Burundi and Kenya have overlapping memberships with COMESA and the EAC. Zimbabwe, Malawi and Zambia have overlapping memberships with COMESA and SADC and Kenya, Uganda, Ethiopia, Sudan, Eritrea, Djibouti and Egypt have memberships with COMESA and IGAD and Libya belong to COMESA and the AMU.

v. Southern African Development Community (SADC)

The Southern African Development Community (SADC) was established in 1992 and had its origin in a cooperation initiative known as the Southern African Development Coordination Conference (SADCC). SADC consists of 14 members and in terms of geographical land area, and economics, is considered one of the largest RECs in Africa. SADC formed a Free Trade Area (FTA) to enhance economic growth, development and wealth creation. The FTA, which was agreed to in 2008, contained a duty phase-down commitment. Malawi, the DRC and Angola had at this stage still to address issues around the Protocol on Trade.

The SADC FTA brought with it many new opportunities for some, but challenges for other members. For example, one of the overriding objectives of the FTA is to create economies of scale within this larger consumer market that will bring about a competitive and fast growing REC. However, many economies in the region are too small and infrastructure too weak to support sustainable investments. Although Intra SADC trade is still low at 25 percent of total trade, it is substantially larger than most other RECs. Most of the intra regional trade is at the southern tip of SADC in the Southern African Customs Union (SACU), which comprises South Africa, Botswana, Lesotho, Namibia, and Swaziland. SADC is home to only around one percent of global foreign direct investment, and although this is higher than most other RECs in Africa, it is low by world standards[xix].

In SADC the approach taken was that of integration with development, but taking into account and being sensitive toward diversities in political orientation, economic endowments and diversity in production structure, resource endowments, institutional affiliations, trade patterns, development priorities and resource allocation mechanisms. SADC aims to establish common political and economic interests that would facilitate greater trade and investment flows within the region. Institutions in SADC countries are diverse and at different levels of development. The upside is that there are several common features among some members that lends itself toward integration and coordination. These include factors such as landlocked locations, shared infrastructure networks, many small domestic markets and exports centered around a few primary commodities. SADC is vulnerable to exogenous external shocks as most members do not have well-diversified production sectors (such as South Africa), to cushion against international commodity price volatility[xx]. South Africa is the dominant economy in SADC and contributes more than 70

percent to SADC GDP. Between 2000 and 2006, SADC GDP grew by 30 percent. Intra regional trade is the highest among African RECs at 15 percent of total trade in 2007. TradeMap data quoted by the AUC shows that in 2010, SADC's trade with the rest of Africa was 12.9 percent of total SADC trade and intra SADC trade came to 9 percent of total SADC trade.[xxi]

Tanzania and Swaziland also share memberships with the EAC and COMESA, respectively. Angola and the DRC share membership of ECCAS and COMESA.

vi. Southern African Customs Union (SACU)

The Southern African Customs Union (SACU) was formed in 1910 and is the oldest customs union in the world. This customs union was formed between the Union of South Africa and the High Commission Territories of Bechuanaland, Basutoland and Swaziland. The agreement was renewed in 1970 between the same countries; at this time known as South Africa, Botswana, Lesotho and Swaziland. Namibia gained its independence from South Africa in 1990, but immediately joined the union. The SACU agreement was strenghtened in 2002. The main difference in the new SACU agreement is that South Africa, who was up to this point dominating external trade relations, now share this responsibility more equitably with other union members through a Council of Ministers. The BLNS countries (Botswana, Lesotho, Namibia and Swaziland) also naturally forming part of the SACU region, had to accept SACU tariff policy.

As with other trade blocs and RECs, SACU set out to achieve the free flow of goods and services between members. The common external tariff is shared among members according to a formula based on share in SACU GDP and development needs[xxii]. Between 2000 and 2006, SACU GDP grew by 91 percent. South Africa is the largest member and produces around 90 percent of SACU GDP. In 2007, intra regional trade was 3 percent of total SACU trade[xxiii]. The biggest challenge faced by SACU is that of inequality in the development of its members.

Decision making and policy coordination within SACU is complicated by overlapping REC memberships of Swaziland. Swaziland is also a member of the Common Market for East and Southern Africa (COMESA).

vii. Economic and Monetary Community of Central Africa (CEMAC)

This central African Economic and Monetary Community was established in 1992. Its main aim is the formation of a trading bloc and an integrated community that would enjoy a large common market with goods flowing freely and where rapid economic expansion would lead to efficiency in production. All of these members would share the CFA Franc as a common currency, linked to the euro. CEMAC introduced quota restrictions in 1994 and at the same time a schedule of tariff reductions. CEMAC countries have a common external tariff for all goods imported from outside CEMAC. The institutions of CEMAC consist of the following institutions: a Network of Parliamentarians of Central Africa (REPAC) and a Council for Peace and Security in Central Africa (COPAX) - this includes the Defence and Security Commission (CDC), Multinational Force of Central Africa (FOMAC) and the Early Warning Mechanism of Central Africa (MARAC). During 2003, the EU signed an agreement with ECCAS and CEMAC, conditional on their merger as one organisation. At the date of writing this chapter, this merger was not concluded. The aim of the CEMAC community is the stablishment of a Central African common market[xxiv]. CEMAC's GDP expanded by 97 percent in the period 2000 to 2006. The dominant economy in the community is Cameroon, which contributes around 50 percent to CEMAC GDP. In 2005, intra regional trade as a share of total trade was 2 percent. All CEMAC countries are also members of ECCAS. In 2010, intra community trade was 0.8 percent and inter Africa trade 6.1 percent of CEMAC GDP, according to Trademap data published by the AUC[xxv].

In summary, the historical trend during the period 2002-2010 shows a positive trend of intra-REC exports every year. UNECA[xxvi] and the AUC[xxvii] suggest that Africa is under-trading with itself and could potentially realize more trade, given geographic proximity, cultural affinity and the size of the economies.

We now turn briefly to the issue of non-tariff trade barriers, often referred to as technical barriers to trade (TBT). According to the Organisation for Economic Co-operation and

Development (OECD),[xxviii] there is growing consensus among theoretical, empirical and policy analysts, including in the WTO, that acknowledges that technical regulations, standards and procedures meant to pomote conformity could have positive and negative effects on competition and international trade. On the positive side it may ensure consumer safety, lead to increased transparency of product information and compatibility of products and serve other purposes. However, surveys and discussions in the WTO and other trade policy forums also indicate that the requirements often raise costs, which are of greater concern to exporters and governments than any other non-tariff measure. Defensive trade strategies have lead to increasing use of technical regulations as instruments of trade policy in unilateral, regional, and global trade contexts. These non-tariff barriers (NTBs) are particully worrying to developing countries, which often find the additional cost of compliance pohibitive. One of the most important challenges facing the WTO, according to Kessie,[xxix] is to facilitate the effective participation and fuller integration of all developing countries, especially the least-developed ones in Africa, into a multilateral trading system that is often perceived as unfair.

According to the WTO, TBTs make up most of the Non Tariff Trade Barriers (NTTBs). This is supported by the composition of WTO member NTTBs notifications by category as follows: antidumping countervailing duties (5 percent), import approval (7 percent), Rules of Origin (8 percent), Customs Procedures (17 percent) and TBTs (36 percent)[xxx]. There is a steady rise in TBT notifications with more than 6 869 during the period 1995-2005, with an incline in Eastern Europe, Asia, Central and South America. Global trends show that the major types of TBTs are, in advanced countries, about excessive requirements, discriminative applications and complex systems whilst in the case of developing countries TBTs evolve around nonconformity, ambiguous certification procedures and time-consuming and costly testing procedures[xxxi].

In a recent study undertaken by the OECD,[xxxii] a thorough investigation into TBTs among the different RECs in Africa, the following main findings were noted:

- Infrastructure to administer TBTs is generally weak and uncoordinated, mainly as a result of a complete lack of capacity.

- Because of the high level of poverty, insistence on high standards cannot be afforded and cannot be insisted upon.
- The compliance cost with technical regulations is often high and not justified given the regional demand for low priced, low quality products.
- WTO capacity to deal effectively with conformity among members are not adequate, and
- Existing RTAs (especially in Africa) need to be restructured to include TBT arrangements that are harmonised by economic region.

China has adopted measures to increase the alignment of its national standards with international norms. It has notified the WTO of a number of sanitary and phytosanitary (SPS) measures and TBTs. The challenge that both China and Africa have to live up to in the spirit of FOCAC, is to utilise the resource capacity pledged unilaterally by China, to ensure that Africa's RECs build the necessary capacity to deal effectively with the administration of TBTs. Multilateral agreements should also include all matters relating to TBTs in conformity with WTO rules.

In the section that follows, the authors deal with the expected gains and losses by China and Africa. Projections of future trade patterns between China and Africa may be based on a number of possible determinants. Among these determinants would be existing supply and demand patterns in China and Africa, current and planned Chinese investment in Africa, and future development and resource needs by China and Africa. The usual limitations apply to a study of this nature, mainly as a result of to many unknowns. For this reason, the current scenario analysis is mainly based on tariff changes and the possible impact thereof on trade.

C. EXPECTED GAINS AND LOSSES BY CHINA AND AFRICA IN TRADE

i. Model and data: The Global Trade Analysis Project (GTAP)

In order to estimate the expected gains and losses by China and Africa, in the case of preferential treatment of LDCs, the authors utilise the Global Trade Analysis Project (GTAP) model, which is coordinated by the Centre for Global Trade Analysis at Purdue University. The GTAP model is the pre-eminent modelling framework for the analysis of trade and environmental issues across countries[xxxiii]. Nearly all analyses of Free Trade Agreements by governments and individual academics have utilised aspects of the GTAP model and/or database.

GTAP is a multi-region CGE model designed for comparative-static analysis of trade policy issues. All GTAP datasets are defined in terms of three primary sets: the set of countries and regions, the set of sectors and produced commodities, and the set of primary factors[xxxiv]. The aggregation of the model used in this chapter are shown in Table 1, and distinguishes four regions, namely Least-developed countries (LDCs), the Rest of Africa, China and the Rest of the World. The 57 GTAP sectors have been aggregated into 10 sectors shown in Table A1 in the Appendix. In addition to the 10 sectors, there are three other agents in each region: a capital creator, a representative household and the government.

Table 1: Regional aggregation

Least-developed countries (LDCs)	Rest of North Africa, Senegal, Rest of western Africa, Central Africa, South Central Africa, Ethiopia, Madagascar, Mozambique, Tanzania, Uganda, Zambia, Rest of Eastern Africa
Rest of Africa	Egypt, Morocco, Tunisia, Nigeria, Malawi, Mauritius, Zimbabwe, Botswana, South Africa, Rest of SACU
China	China

As described by Hertel and Martin,[xxxv] the GTAP model features explicit modelling of international transport margins, a global bank designed to mediate between world savings and investment, and a consumer demand system designed to capture differential price and income responsiveness across countries. Macroeconomic data is used in GTAP to update the regional input-output tables to a common base year - 2004 for the GTAP 7 database used in this paper. All the coefficients in the regional input-output models, initially in national

currency units, are scaled-up to external GDP data in 2004 US dollars. Thereafter, private consumption, gross capital formation and government consumption are used to update the values of these aggregates in the regional input-output tables as earlier proposed by Hertel[xxxvi].

The GTAP database comprises of input/output data for each region, bilateral trade data derived from United Nations trade statistics and support and protection data derived from a number of sources. The simulations reported in this study are based on a preliminary release of Version 7 of the database. Documentation for the Version 6 data set is given by Dimaranan[xxxvii]. The Version 7 database contains estimates of production costs, final demand values, bilateral trade values and various tax levels for 2005.

Simulation design

The version described in the previous section is used to simulate a zero import tariff rate from LCDs to China. The shock is imposed by targeting a zero tariff rate across all industries on imports from LCDs to China and solving the model with the Gragg 2-4-6 steps extrapolation.

Results

The results of the simulation are shown in Table 2. A removal of tariff restrictions from LDCs to China will have a relatively small impact, not only on the Chinese economy, but also on the economies of LDCs, the Rest of Africa and the Rest of the World. As expected, LDCs experience a small positive effect on real GDP, mainly as a result of a higher level of international trade as well as increased real investment. Although the terms of trade of LDCs improve, the increase in imports will exceed the increase in exports. Since the economy is stimulated, wages of skilled and unskilled workers are expected to increase by 0.01 percent and 0.02 percent respectively. This stimulation will lead to higher real private and public consumption. The LDC industries that are set to gain the most from the preferential treatment are the “Livestock and Meat industry” (0.04 percent), “Processed Food industry” (0.04 percent), “Heavy manufacturing industry” (0.04 percent) and the “Utilities and Construction industry” (0.04 percent). The 0.08 percent increase in real investment is also expected to be skewed towards these industries.

Table 2: Simulation results

	LDC	Rest of Africa	China	RoW
Real GDP	0.0043	0.0001	0.0001	0.0000
Real private consumption	0.0209	0.0001	-0.0012	-0.0002
Real public consumption	0.0207	0.0004	-0.0049	0.0001
Real investment	0.0761	-0.0021	0.0076	-0.0014
Real import volume	0.0868	-0.0015	0.0239	-0.0015
Real export volume	0.0094	-0.0003	0.0162	0.0000
Terms of Trade	0.0411	-0.0001	-0.0030	-0.0005
Unskilled employment	0.0245	-0.0005	0.0060	-0.005
Skilled employment	0.0137	-0.0008	0.0072	-0.0005
Industry production				
2. GrainsCrops	-0.0040	0.0030	-0.0066	0.0015
3. MeatLstk	0.0359	0.0001	-0.0025	-0.0002
4. Extraction	-0.0073	0.0036	-0.0154	0.0038
5. ProcFood	0.0378	0.0014	-0.0074	-0.0003
6. TextWapp	0.0038	-0.0022	-0.0013	0.0002
7. LightMnfc	0.0011	-0.0006	-0.0002	-0.0001
8. HeavyMnfc	0.0377	-0.0014	0.0102	-0.0012
9. Util_cons	0.0442	-0.0011	0.0066	-0.0008
10. TransComm	-0.0032	-0.0005	0.0006	0.0000
11. OthServices	-0.0134	-0.0001	-0.0020	0.0001

It should be noted that the gains by LDCs in Africa will mainly be at the expense of the Rest of Africa countries, although this cost is estimated to be marginal. This cost will be a result of trade diversion from the Rest of Africa to LDCs, but only if the LDCs have the ability and infrastructure to increase production. From the results in Table 1, trade diversion can be expected in the "Textile and Clothing industry", "Light Manufacturing industry", "Heavy Manufacturing industry" as well as the "Utility and construction industry". Due to the relative sizes of LDC economies and the Chinese economy, the impact on the Chinese economy will be insignificant, with the greatest impact being a 0.02 percent increase in total Chinese imports from LDCs in Africa.

D. International Political Critique of Trade Cooperation between China and Africa

The views held by commentators from around the world are inspired mainly by propagandistic and rarely by factual information. Some observers and commentators however, may have some very valid viewpoints around China's engagement with Africa. In this section, only a few positive and negative critisisms, as they pertain to trade between China and Africa, are briefly considered. Alongside the more factual dicussions in the early part of this chapter, it is then very possible to form a normative opinion of the total impact that China's engagement with Africa holds for both parties.

According to Blignaut,[xxxviii] China's trade with Africa has more than quadrupled over the five years ending 2005, approaching the US$ 60 billion mark. The Herald Tribune,[xxxix] notes that China is offering Africa something new; a straightforward business relationship between equals based on mutual interest and noninterference in the internal affairs of its allies[xl].

Le Monde Diplomatique states very eloquantly: " The 674 Chinese state companies involved in Africa have invested not only in booming sectors such as mining, fishing, precious metals and telecommunications, but also in others that the West has neglected, even abandoned, as less profitable[xli]. As a result, Zambia's Chambezi copper mines are being worked again and supposedly exhausted oil reserves in Gabon are being explored. In 2004 Chinese investments represented more than $ 900m of the $ 15bn of foreign direct investment (FDI) in Africa. Of thousands of projects under way, 500 are being exclusively directed by the

China Road and Bridge Corporation, a state enterprise, helping to place 43 Chinese companies among the 225 global leaders in the area[xlii]".

China-Africa engagement has however not been without challenges. There has also been concerns of unequal commercial exchange and exploitation. According to Goldstein et. al[xliii]., China is driving Africa back in its commodity trap due to the fact that Chinese imports and investments are mainly based in a particular branch. According to Sun, et. al[xliv]., China is critisised for not being transparent in its business dealings and for externalising social and ecological costs to Africa.

According to Blignaut,[xlv] a legacy that is likely to blow over to Africa is China's dubious human rights and environmetal legacy. Blignaut points to China's close association with Zimbabwean president Robert Mugabe as an example of China's indifference to human rights abuses.

As far as the environment is concerned, Pan Yue (as quoted by Blignaut), vice-minister of China's state Environmental Protection Administration, "China's economy is dominated by resource-hungry and inefficient polluters, such as coal and mineral mines, textile and paper mills, iron and steel makers, and petrochemical factories… . Moreover, the country recently witnessed a spate of environmental accidents". In this regard, Pan Yue concludes by saying that China is dangerously near a crisis point in regard to its own environment. "The country's enormous environmental debt will have to be paid, one way or another"[xlvi].

According to Blignaut,[xlvii] China's large and worrisome ecological footprint is further illustrated by the Global Footprint Network's estimate that China is consuming 14 percent of the world's ecological resources and that it is overshooting its own biological carrying capacity by 100 percent. To cover this ecological shortfall, China alligned itself favourably with Africa in the quest to import Africa's resources while leaving behind deep and long-lasting ecological – and perhaps other – scars.

E. Summary and Conclusions

The chapter started out with a summary of the agreement reached between China and Africa under the FOCAC. From the agreement itself, it is clear that China is by far the most powerful and economically developed partner in this agreement. This is evidenced by the unilateral offer made to Africa in terms of zero tariff treatment to all LDCs, as well as direct measures of support and investment by China.

Insofar as world trade and the WTO is concerned, China has been extremely pro-active in getting in line with a myriad of WTO rules and regulations. These include alignment of its external tariff structure to MFN status and often beyond that, reducing quantitative measures, bringing state corporations in line with private corporations, bringing in line its sanitary and phytosanitiry requirements, and also giving attention to its TBTs.

However, the question may be asked how Africa could possibly gain from all of this. It should be noted that Africa's traditional export markets are well developed in relation to Africa's supply of exports. Also, it should be remembered that Africa competes with many other nations of the world for China's imports. In order to make some sense from all of this, it was necessary to briefly take a look at the various integration initiatives in Africa, as it is with these RECs that further bilateral and multilateral trade agreements and EPAs are being negotiated as we speak.

It was found that from an African export perspective, SADC is by far the strongest REC and stands to gain the most from bilateral relations with China. SADC has recently also signed up to COMESA, which means that East Africa together with all SADC countries are most geared to gain from future access to China's vast market. However, gains would only be real and sustainable if SADC and COMESA improve their own degree of beneficiation and grow their own production capacity. If they do not do so, all the market access would be like pushing on a string for Africa.

On the China export side, Africa as a whole also has a natural inclination to import from China, as it is China that provides most of the poor in Africa with cheap consumer goods, something that no other country is able to do at present. Also, the more sophisticated and advanced countries in Africa may benefit from competitively priced machinery and

equipment from China, thus diverting some of their import demand to China. Since the inception of FOCAC, Africa has managed to diversify its exports to China, in line with what was promised in the first FOCAC agreement.

In regard to TBTs, China has shown that it is detemined to ensure that resources do not leave their borders. In this respect they are making use of a punitive export tax to prevent firms from exporting certain scarce resources. China has also exhibited the capacity to comply with TBTs to protect its own consumers and for other national reasons. Africa on the other hand (as is evidend from a recent OECD study quoted in this chapter), is far from ready to comply with TBTs. The main reason is that Africa lacks the knowledge and technical expertise, institutional frameworks and infrastructure to comply with TBTs. It is thus likely that Africa as a whole (with the exception perhaps of some COMESA and SADC countries), will continue to import products without subjecting them to the required safety and quality standards, whereas it will also not be able to exploit export opportunities of products that are most heavily compromised by TBTs.

In regard to trade, the analysis found that very little is to be gained by either China or Africa, if based on tariff concessions. Tariff relief in itself is thus not a significant deteminant of trade between China and Africa. Instead, trade seems to be detemined by normal market conditions; mostly cost considerations. Africa's export of energy-related resources and steel and minerals, mostly unbeneficiated, is mostly driven by demand considerations in China. The successful export of these resources seems to be detemined by China itself. The reason is that China would in return to securing long run supplies of these resources, invest large amounts of money in mining and exploration as well as transport infrastructure. The scale seems to be tipped squarely in favour of China, both regarding exports from China (where China is obviously in control of costs) and exports from Africa (again, China takes control over the production, infrastucture and transport costs). China has kept its commitment to assisting Africa to increase its manufacturing capacity and diversify its exports to include more than just mineral exports to China and therefore tipping the scale a little back in favour of Africa.

In the last part of this chapter, attention is focused on the critique over China's engagement in Africa. The main criticisms are that China is way too powerful and therefore has the upperhand in what is seen as an unbalanced power relationship with Africa. Unless Africa get its act together, China would, certainly through quiet diplomacy, dictate the terms of its engagement with the respective RECs. What is most disconcerting, is that the benefits of, and gains from trade, would in most instances have to be weighed against the negative impact on future generations of the ecological and environmental footprint left by China.

All-in-all, the developmental gains and (hopefully) technological and cultural transfers, that Africa is to receive from this engagement, may be the necessary condition for Africa to develop its full potential. It may even become the sufficient condition for sustainable African development. However, if not guarded by duly instructed and enforced checks and balances, the developmental gains by Africa would pale into insignificance against the ecological and environmental legacy of this engagement. China could expect healthy returns to its investment in Africa by securing supplies of much needed resources. Indeed, if China plays its cards right and engages Africa in sustainable development of its economy and people, it also stands to gain in the long run by creating a vibrant consumer market in Africa for its manufactured and consumer goods. It would however not be sustainable unless African countries create more wealth on a sustainable basis by increasing their manufacturing capability.

During the follow-up rounds of the FOCAC ministerial meetings, it would be vital to measure the progress made in regard to trade and investment and to take corrective action where required. China may be critisised for colonising Africa, but it should not be forgotten that no other country has ever invested in Africa on such a scale as China did, without all the pre-conditions set by developed countries.

Appendix A1

Identifier	Sectors in Region
Grains and crops	Paddy rice Wheat Cereal grains nec Vegetables, fruit, nuts Oil seeds Sugar cane, sugar beet Processed rice
Livestock and meat products	Cattle, sheep, goats, horses Animal products nec Raw milk Wool, silk-worm cocoons Meat: cattle, sheep, goats, horse Meat products nec
Mining and extraction	Forestry and fishing Coal Oil and gas Mineral nc
Processed food	Vegetable oils and fats Dairy products Sugar Food products nec Beverages and tobacco products
Textiles and clothing	Textiles

	Wearing apparel
Light Manufacturing	Leather products Wood products Paper products, publishing Metal products Motor vehicles and parts Transport equipment nec Manufactures nec
Heavy Manufacturing	Petroleum, coal products Chemical, rubber, plasticprods Mineral products nec Ferrous metals Metals nec Electronic equipment Machinery and equipment nec
Utilities and construction	Gas manufacture, distribution Water Construction Electricity
Transport and communication	Trade Transport nec Sea transport Air transport Communication
Other services	Financial services nec Insurance Business services nec Recreation and other services Public Admin, defence, health, education Dwellings

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