THE IMPACT OF EMERGING COUNTRIES ON SUB-SAHARAN AFRICAN ECONOMIES: FACTORS OF LONG-TERM GROWTH?

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ABSTRACT

Sub-Saharan African economies have exhibited positive growth rates since the mid-2000s, and the contribution of emerging countries to this growth is the matter of heated debates. The paper shows the complexity of causalities, which depend on: i) channels (trade, investment); ii) the emerging country (China having by far the strongest impact); and iii) African countries’ market structures. On the one hand, this growth relies on structural imbalances: it is generated by distorted export structures that are based on commodities, and falls if international prices decline, which necessarily occurs due to the inherent volatility of prices - high prices are moreover driven by factors that may not last, i.e. the growth of emerging countries; this growth also increases the specialisation of African economies in commodities. On the other hand, emerging countries have positive impacts via their investments, notably in infrastructure, which foster industrialisation. Likewise, developed countries’ aid, due to policy conditionality and its detrimental effects, induces greater asymmetries than does the aid of emerging countries.

INTRODUCTION

After the ‘lost decades’ of the 1980s and the 1990s, Sub-Saharan African economies have exhibited positive growth rates in the 2000s. This has led observers to conclude that, thanks to emerging countries – China, India, Brazil -, stagnation is now a thing of the past. The paper shows the complexity of causalities: these depend on: i) channels (trade, investment); ii) the emerging country (China having by far the strongest impact); and iii) African countries’ market structures. On the one hand, this growth relies on structural asymmetries. It is generated by distorted export structures that are based on commodities. This growth falls if international prices decline, which necessarily occurs due to the inherent volatility of prices. High prices are moreover driven by the growth of emerging countries: the growth of African economies depends on factors that are external to them and will decelerate if demand in emerging countries decelerates. This growth increases the specialisation of African economies in commodities, while emerging countries consolidate their comparative advantage in manufacturing and threaten nascent African industrial sectors. As industrialisation is a key determinant of long-term growth, emerging countries may, in the long-term, erode their short-term positive impact on African economies.

On the other hand, emerging countries have positive impacts via their investments, especially in infrastructure, which foster industrialisation and the spill over effects of investments in commodity sectors. In addition, developed countries’ aid, due to its conditionality on the reform of core policies and competences of African governments, and its detrimental effects, induces far greater asymmetries than does the aid of emerging countries.

The paper is structured as follows. Firstly, it underscores the structural asymmetries that characterise Sub-Saharan African export structures, i.e. their dependence on primary commodities and a growth that is driven by exports, and therefore factors that are external to African domestic policies. Secondly, it explores whether emerging countries, notably China, amplify these structural asymmetries. Likewise examined are their positive (via demand and high prices) and negative impacts (incentives to keep the specialisation in commodities), emerging countries here following patterns that were initiated by developed countries. Thirdly, it shows that foreign direct investment also has positive and negative effects and that the asymmetries it conveys are similar across emerging and developed countries. Fourthly, it argues that the strongest asymmetry may be found in the aid device and in developed countries’ conditional assistance.

A GROWTH DRIVEN BY STRUCTURAL ASYMMETRIES: THE IMPORTANCE OF PRIMARY COMMODITIES IN EXPORTS

1 This paper was presented at the III Congress of the Italian Universities Network for Development Cooperation (CUCS), Panel 7.4: Global Economy and Development Cooperation in Emerging Countries and New Markets, Turin, 19-21 September 2013. Elements were presented at the 5th European Conference on African Studies (ECAS), Lisbon, 27-29 June 2013.
An asymmetric integration in the global economy: commodity-based exports

Sub-Saharan African (SSA) economies have enjoyed high growth since the early-2000s, with output growing by 5.1% in 2012 [IMF, 2013]. Most development finance institutions thus argue that the region may be on the verge of structural transformation (fig.1).

Fig. 1 - Sub-Saharan Africa: GDP growth and GDP per capita growth, 1960-2011.


Underlying causalities and processes, however, are more complex. SSA growth performances must be put in a longer-term perspective, and the broad picture is that of a divergence vis-à-vis other regions (fig. 2).

Fig. 2 - GDP per capita, Sub-Saharan Africa vs. the world, 1960–2011.


Above all, SSA is characterised by a distorted export structure based on the dependence on primary commodities. It is this distorted structure that has been the main driver of growth in the 2000s, because of the dramatic increase in commodity prices since the early-2000s, both fuels and non-fuels prices.

Commodity dependence generates vulnerabilities because commodity prices are inherently volatile [Nissanke and Kuleshov, 2013; Sindzingre, 2012]. Price volatility has a negative impact on growth rates for countries whose exports and fiscal balances often depend only on one or two commodities, not only because prices may decline, but also because volatility per se is detrimental to long-term growth: commodity-dependent countries are exposed to repeated price shocks, and their domestic policies have little effect on their growth rates, which depend on the fluctuations of prices - determined by external forces - on the growth and demand of other countries (e.g., the US, EU countries, China) and on the vagaries of the latter’s domestic policies (fig.3).

Fig. 3 - Sub-Saharan Africa: growth rate (right scale) and commodity prices (annual price index, 2005=100, real 2005 dollars, left scale), 1960-2012.

In addition, China’s demand has become a central driver of high prices in a significant number of commodities (Akyüz, 2012). High commodity prices represent a positive gain for SSA exporters of these commodities: an enhanced fiscal space and hence more space for investment, which is a key cause of long-term growth. China’s demand is especially strong for metals; it is the first energy consumer in the world, and its energy consumption is projected to triple by 2025 from its 2008 level [IMF, 2011a].

The sustained demand for SSA commodities by large emerging countries represents a diversification of partners, which may attenuate the asymmetry in global trade that is associated with commodity-based exports. All SSA countries export a lower share of their products to their ‘traditional’ partners (the US and the EU countries) than in 1990, and a greater share to emerging countries, in particular China (fig. 4).

**Fig. 4 - Sub-Saharan Africa: total exports and percentage of exports by partner.**

![Sub-Saharan Africa: total exports and percentage of exports by partner](http://unctadstat.unctad.org)

Source: [http://unctadstat.unctad.org](http://unctadstat.unctad.org), author’s calculations.

**The vulnerabilities induced by this distorted export structure**

In 10 SSA countries, commodities exports represent more 75% of total exports [World Bank, 2012]. This distorted structure induces the dependence of fiscal revenues on commodities with volatile prices. In oil-rich countries government revenues from natural resources represented 60% of total government revenues in 2011 [World Bank, 2012]. This obviously makes fiscal earnings highly vulnerable to any external shock.

This distorted export structure also affects SSA trade over the long-term. In particular, it explains the diminution of the share of SSA in global exports, due to the increase of the trade of other countries, which trade goods with more value-added, despite the increase of SSA exports in absolute value (fig. 5).

**Fig. 5 - Sub-Saharan Africa’s exports: percentage of world exports (right axis) and value (left axis), 1948-2011.**

![Sub-Saharan Africa’s exports: percentage of world exports (right axis) and value (left axis), 1948-2011](http://unctadstat.unctad.org)


The long-term forces that undermine SSA external trade generate more divergence than convergence (fig. 6).

**Fig. 6 - Share of exports in world exports by region, 1948-2011 (percent).**

![Share of exports in world exports by region, 1948-2011 (percent)](http://unctadstat.unctad.org)

STRUCTURAL ASYMMETRIES AMPLIFIED BY EMERGING COUNTRIES? POSITIVE AND NEGATIVE IMPACTS

Emerging countries have positive impacts on SSA economies via higher demand for products exported by SSA and high prices for some primary commodities that are exported by SSA, and they have negative impacts via the incentives, which their demand for commodities generates towards the strengthening of SSA countries’ commodity-based structures.

Global trade’s asymmetries: no ‘exceptionalism’ for emerging countries

Regarding trade and investment, emerging countries, including China, do not exhibit any ‘exceptionalism’. Since the end of the 20th century there has been an increasing trend towards internationalisation of production – the global value chains and production networks [Baldwin, 2011]. These processes constitute the features of international trade and affect all countries - be they developed, emerging and developing.

Equally, SSA structural asymmetries are generated by causes that characterise all its partner countries: SSA is dependent on forces that are external to its domestic policies, notably international commodities prices, and on external shocks, i.e. on prices, or on the growth of countries which trade and invest in SSA. Moreover, in a globalised world where all countries are put in competition for attracting investors, the asymmetries created by the obligation to devise attractive trade and investment policies affect all developing countries vis-à-vis all countries, developed and emerging ones.

In addition, if since the early-2000s, due to their spectacular growth and the stagnation of euro zone countries, emerging countries have been driving SSA trade, too much may be assigned them. China’s growth may decelerate, which may have important impacts on the growth and exports of SSA and on the demand that China will have towards SSA products as inputs to its own growth – the growth of India and Brazil may also decelerate in the 2010s.

China trade relationships with Sub-Saharan Africa

SSA economies have diversified their trade and investment linkages in the direction of emerging countries, which reduces their vulnerability. SSA exports to emerging countries, however, are characterised by spectacular asymmetries: SSA exports mostly commodities, in particular fuels (fig. 7).

![Sub-Saharan Africa exports to China by key product groups, 1995-2011.](http://unctadstat.unctad.org)

China’s exports to SSA are very different from its exports to developed countries, which is the second dimension of the asymmetry of trade between SSA and China. China exports low-end manufactured products, which threaten SSA manufacturing sectors and strengthen the specialisation in the export of commodities [Kaplinsky and Morris, 2008]. If China’s growth rates continue, however, its demand for SSA products may be also directed towards low-end manufactured products no longer made in China due to increasing local factor costs, which may be a first step towards industrialisation, diversification and therefore long-term growth.

Other emerging countries exhibit even deeper asymmetries: SSA exports to Brazil are almost only made of fuels (fig. 8).
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Fig. 8 - Sub-Saharan Africa exports to Brazil by key product groups, 1995-2011.

Exports of SSA to India are similarly mostly made of fuels (fig. 9).

As industrialisation is a key determinant of long-term growth, emerging countries may, in the long-term, erode their short-term positive impact on SSA economies.

Do developed countries do better? The similarity of emerging and developed countries trade structures

Since the colonial period Western countries’ trade patterns still broadly follow the model of the ‘small colonial open economy’ - exporting commodities, importing manufactured products (fig. 10).

Fig. 10 - Sub-Saharan Africa exports to G8 countries by key product groups, 1995-2011.
FOREIGN DIRECT INVESTMENT: COMPLEX EFFECTS, SIMILAR ASYMMETRIES

China’s investment in Sub-Saharan Africa

Emerging countries, and China in particular, constitute important drivers of foreign direct investment (FDI) in SSA. Chinese FDI to SSA as a share of total FDI to the region climbed from less than 1% in 2003 to 16% by 2008 (IMF, 2011). China’s FDI in SSA does not represent an important part of total Chinese outward investment, but for SSA it represents a rising share of its total inward FDI. This is a dimension of asymmetry between the two regions.

A great share of FDI is made by China multinationals, often backed by the state, and directed towards the resource sectors (oil, mines). It often consists in a contractual package that ‘exchange’ commodities for investment financing by Chinese firms, generally in infrastructure – the so-called ‘Angola model’ [Corkin, 2011]. These deals imply a risk of lock-in SSA structure in the exporting of commodities. The FDI of other emerging countries, Brazil and India, is more limited and more diversified. Likewise, developed countries’ investors invest in the resource sector: for example, in Angola, the United States is by far the leading investor in the oil sector [GAO, 2013].

Emerging countries as promoters of structural change for Sub-Saharan African economies?

Emerging countries, however, have the potential of reducing these asymmetries. They mean more players and more capital inflows towards SSA. Also, the growth of emerging countries implies increasing wages and costs in these countries, hence windows of opportunities for SSA countries, where FDI can outsource activities of the low-end segments of production networks.

Moreover, emerging countries invest in SSA industrial sectors, e.g., manufacturing, construction, finance, agriculture, services, which is an opportunity for structural change since industrialisation is a key determinant of long-term growth [Rodrik, 2009]. Chinese manufacturers increasingly invest in SSA in order to benefit from preferential trade tariffs and lower labour costs [Dinh et al., 2012]. China established several Special Economic Zones in SSA with the aim of promoting manufacturing. An increasing number of private medium and small enterprises from China operate in SSA in the sectors of manufacturing, infrastructure, agriculture and services [Shen, 2013; Gu, 2009]. In addition, emerging countries invest in infrastructure, and the enhancing of infrastructure by investors from China and other emerging countries is undoubtedly beneficial for SSA countries’ growth [Calderon and Serven, 2010].

AN IMPORTANT DIFFERENCE: CONDITIONALITY IN DEVELOPMENT COOPERATION

A key cause of asymmetry: Sub-Saharan African countries’ dependence on foreign aid

Some SSA countries are excessively dependent on aid, e.g., for budgets, investment, maintenance, infrastructure, health, education. Net Official Development Assistance (ODA) to SSA represented $20 per capita in 2000 or 4.1% of Gross National Income (GNI); $54 per capita and 4.3% of GNI in 2010. In 2000, ODA represented 23.1% of gross capital formation, and 18.8% in 2010. In 2000, ODA represented 11% of imports of goods, services and income; in 2010, 9.9% [World Bank World Development Indicators, 2012]. Despite important variations within SSA, besides the small-island economies of Oceania, SSA is the region of the world that is the most dependent on aid, and much above the average of low-income and middle-income countries (fig. 11).

Aid dependence induce well-known negative effects, e.g. Dutch disease, negative effects of volatility - as aid is very volatile (Bulir and Hamann, 2008) -, and the undermining of institutions, in particular tax institutions [Moss et al., 2006].

China’s specific mode of development cooperation: a trade-aid-investment-nexus

China’s aid is not easy to compute: loans are difficult to distinguish from export credits, and Chinese statistics do
not use the OECD Development Assistance Committee criteria. China’s financial resources provided for aid fall into three types: grants (aid gratis), interest-free loans and concessional loans [Chinese Government, 2011]. The first two types come from China’s state finances, while concessional loans are provided by the Exim Bank. This demonstrates the close links between trade, investment and aid. Chinese aid to Africa is much less important than Exim Bank export credits, despite a clear increase [Brautigam, 2009; Mlachila and Takebe, 2011].

In contrast with developed countries’ donors, Chinese financing is largely focused on infrastructure investments; part of export credits and other financing for infrastructure investments are linked to extraction of natural resources through ‘infrastructure for natural resources’ deals. China’s aid also differs from ‘traditional’ donors by its close ties with the state banks and state enterprises, often involved in the implementation of China’s foreign policy vis-à-vis SSA [Christensen, 2010]. In addition, Chinese aid has not suffered from volatility in amounts, paradigms and fads that have characterised Western aid [Brautigam, 2009].

A key point is that this mode of development cooperation made of a nexus of aid, trade and investment does not include conditionalities on particular policies - economic or political. This is a major difference with western aid, multilateral or bilateral. Whether it is made of loans or grants, the development assistance of OECD-DAC countries, of international financial institutions or of a major donor such as the European Commission is conditional to economic reform that affect the entirety of a country’s macro- and microeconomic policies (as in the IMF and World Bank programmes) - and often, to political reforms.

In contrast, China’s aid is more a development cooperation driven by diplomatic and political economy relationships, which go back to the period of independence of SSA countries in the late 1950s-early 1960s and Cold War context, and its motives are broader than strictly economic ones, as they explicitly include the support of Chinese firms [Brautigam, 2009]. China’s conditions therefore relates to contractual issues, and not to a government entire macroeconomic policy. China’s claims non-interference with recipient countries domestic affairs and its cooperation therefore deals with all regimes, be they illiberal democracies or even ‘pariah’ regimes [Alden, 2007]. Chinese aid is therefore often criticised for supporting dictatorships and corrupt regimes.

Developed countries aid as based on conditionality: the most detrimental asymmetry?

Many dimensions of developed countries’ ODA, however, convey aspects that do not compare positively with China, particularly the fact that developed countries’ financial assistance is conditional on recipient countries’ domestic reforms. The latter may be very intrusive and prescribe drastic changes in recipient countries economic and political equilibria. Given their asymmetric position – the ‘donor’-‘recipient’ relationship - aid-dependent low-income countries have little possibility to refuse these reforms.

There is no doubt that the absence of conditionality on financing may induce many problems, e.g., the support of certain types of political regimes, opaque deals, corruption and the like. Developed countries’ conditional aid – multilateral or bilateral - , also includes these problems, in addition to other negative effects that are inherent to conditionality itself, i.e. committing aid ex ante and making aid conditional on reform. They have long been demonstrated since the first programmes of stabilisation and structural adjustment prescribed from the 1980s onwards to SSA governments by the international financial institutions – the IMF and the World Bank. Loans were conditional on government policy and institutional reforms in the borrower country, aid here being a lever to encourage policy reform. As SSA countries’ performance did not improve, the IFIs reacted in augmenting their conditionalities in the 1990s. The latter became increasingly structural and extended to non-economic issues, e.g., ‘governance’.

The effectiveness of conditionality is obviously mediated by the recipient government’s willingness to accept the conditions. Conditionalities, however, by definition express the existence of tensions, imply a limitation of sovereignty and trigger resistance. Conditionality inherently induces policy reversals (stemming from the ‘exchange of reform for financing’, the ‘buying of reform’). It paves the way of the ‘aid game’. The persistent failure of conditional IMF stabilisation programmes has led, on the donors’ side, to a repetition of lending since the 1980s onwards, and on the recipients side, to the continuation of dependence on donor lending. Another reaction of IFIs has been to add ‘selectivity’ to conditionality, where donors lend to governments that already have good policies and institutions: conditionalities appear to be effective mostly in countries that reform.

Conditionality indeed demonstrates the inherent divergence of interests and asymmetry between the aid-providing IFI and an aid-receiving government, including domestic interest groups. These divergences between donors and recipients, which are intrinsic to the mechanisms of conditionality, entail negative effects. Donors may impose conditions on unwilling recipients, while recipients may be willing but unable to implement conditions. Aid is typically affected by the ‘Samaritan dilemma’. For example, if the recipient government knows that donors condition their aid on a reduction of poverty, it has little incentives to exert high effort toward this objective, as in doing so it will receive less aid in the future; and the ‘Samaritan’s dilemma’ is aggravated by moral hazard: the donor can never know if a poor outcome is the result of low effort (‘bad policies’) or ‘bad luck’ [Svensson, 2005]. Conditional aid indeed inherently exhibits important coordination failures (including information problems on other donors’ aid).

On their side, donors did not enforce the conditions, due to their own institutional incentives to lend. The device of conditionality has therefore contributed to the erosion of the credibility of the IMF vis-à-vis borrowing countries.

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2 See Brautigam’s very informative and relevant blog: http://www.chinaafricarealstory.com.
Imagining cultures of cooperation: Universities networking to face the new development challenges
Proceedings of the III CUCS Congress

[Marchesi and Sabani, 2007]. In being non-conditional, China’s aid avoids these pitfalls.

In addition, aid – be it conditional or not – is a dimension of the foreign policy of developed economies [Alesina and Dollar, 2000]. Aid delivered by developed countries’ donors has also allowed for the maintenance in power of autocratic or corrupt regimes [Easterly and Williamson, 2011], which use aid as a rent and for redistribution to clienteles and manipulate donors’ conditions as instruments for their own domestic politics, or a strategy using donors as ‘scapegoats’ [Vreeland, 1999]. All this is an obvious cause of aid failures.

CONCLUSION

This paper has examined the structural asymmetries that characterise SSA export structures. It has shown that emerging countries, and particularly China, follow the patterns that have been initiated by developed countries, and that emerging countries’ trade and foreign direct investment have complex effects, positive and negative [Sindzingre, 2013]. The paper has also shown firstly that more than trade or investment, aid relationships convey the greatest differences between developed and emerging countries, notably China. Secondly, despite the recurrent critiques of unconditional aid in the literature, it has revealed that that developed countries’ aid may be among the strongest determinants of asymmetry between Sub-Saharan Africa and other countries, because of the mechanism of conditional financing.

ACRONYMS

FDI  Foreign Direct Investment
GNI  Gross National Income
ODA  Official Development Assistance
SSA  Sub-Saharan Africa

REFERENCES