India's Trade Engagements With Africa: A Comparison With China

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Introduction

Over the last decade, India and China have established themselves as an increasingly influential players across Africa. Subsequently, many recent studies have examined the impact on sub-Saharan Africa (SSA) of Chinese and Indian ascendance with the goal of formulating strategies for poor countries to maximize the benefits and minimize the costs of engagement (Evans et al. 2006; Goldstein 2006; Kaplinsky et al. 2006; Broadman 2007). However, India's engagement with Africa has been analysed in quite limited way and almost negligible at policy level. After the recent first India-Africa Forum Summit in April 2008, a lot of enthusiasm has been shown by the government towards reaching out to Africa. My concern here what the level of engagements is so far, how much we can do and where we stand in comparison to China's engagement with Africa. Thus, this paper uses the opportunity to explore this issue through the lens of economic and political relations in last decade and to analyse the differences between 'Sino-Africa' and 'Indo-Africa' trade relations.

India and China have similar comparative advantage over Africa, but there are noteworthy differences in their relations with Africa- in terms of policy approaches, trade structure, and regional preferences. China's contribution to global output is almost treble to that of India hence Indian engagement with Africa has smaller implications when compared to Chinese (Mwega 2006). The process of economic evolution in India and its growth rate has been different from China which had led to some of these differences. Moreover, although Indian connection to Africa has been far stronger to Chinese in the past; China has pursued more globally oriented foreign policies pertaining to export-import structures and its growth and composition. The argument being that the foreign policy of a country is coloured by the concept of economic diplomacy in today's world. Especially when the trade and FDI expansion are linked to the aid flows. This paper critically reviews the growth and composition of exports and imports structure of Sino-Africa and Indo-Africa engagements in an empirical and descriptive way. What sectors and commodities are being preferred over what and which region is gaining or losing in terms of trade; and their respective reasons are focused here.

'Indo-Africa' and 'Sino-Africa' Engagements in Perspectives

Nature and Scope of Engagement

India's trade with Africa was estimated at $16.3 billion during April-January 2006-07 with exports rising 53 % to $ 6.6 billion while imports during the period almost doubled to $ 9.7 billion (Sidhharth 2007). Trade between China and Africa in 2006 totaled more than $ 50 billion, with Chinese companies importing oil from Angola and Sudan, timber from Central Africa, and copper from Zambia (Zafar 2007). SSA is comparatively disadvantaged in manufacturing industries, espe-

cially in labour-intensive manufacturing when compared to India and to a larger extent to China. Rapid economic growth in India and China is bidding up its demand for land-based primary products, in which Africa has a comparative advantage. India's and China's imports predominantly comprise primary commodities, mainly oil and metal products, to a large extent driven by their industrial expansions. Moreover, the labour supply combined with skill training raise the industrial productivity and India and China have benefited enormously by this while Africa has not (Mwega 2006).

Growth in China has been sustained at a high level, averaging 9.7 % over the last two decades. Growth in India has been lower, averaging 5.8 %. Measured by PPP GDP, China has grown 21-fold in the last 25 years, while India has only grown 8-fold during the same period (Mwega 2006). This clearly has

Indian economy's trade with Africa was estimated at USD16.3 billion with exports rising 53 percent impact on their engagements with Africa.

India's Import from Africa

Broadman (2007) points out that during 1990-2004, India's import from Africa has risen at an annual average growth rate of 14 %. Between 1997 and 2005, it got doubled. It was predominantly mineral fuel/lubricants (55.1 %) in 1997 but by 2005, the commodities in SITC[1] 9, which includes Gold, became very prominent as it accounted for two-fifth of total imports. However, it is notable that during 1997-2005, the import volume for commodities in SITC 9 got more than twelve-fold increase; machinery and transport equipment sector has had a seven-fold increase, while the import volume of mineral fuel/lubricants reduced to its one-fifth. It is evident that India's import composition has changed dramatically over the last decade. Growing economy and ever-enlarging gold-consuming class has dictated the import structure. South Africa, the largest gold producer, accounted for 68 % of India's total import from Africa in 2004 (Broadman 2007).

China's Import from Africa

The growth rate of China's import from SSA was 20 % annually between 1990-2004 and it rose to 48 % annually between 1999 and 2004 (Broadman 2007). China's imports from Africa are predominantly primary products, oil and metal products driven by its need to secure natural resources. Mineral fuels and lubricants accounted for 24.9 % of total exports in 1996, rising to 70.9 % in 2005. Mineral and crude materials' (SITC 2) combined share increased from 75.2 % in 1996 to 86.8 % in 2005 (Table 1). By 2005, China had overtaken the UK as Africa's third most important trading partner (after the US and France) (Tull 2006). China's growing demand for commodity imports has led to an expansion of commodity exports from some African economies. The share of five families of commodities (oil, iron ore, cotton, diamonds and logs) in China's total import from Africa grew from less than 50 % to more than 80 % between 1995 and 2005 (Figure 1). China imports African manufactured products mostly from South Africa. (Kaplinsky et al. 2006).

India's Export to Africa

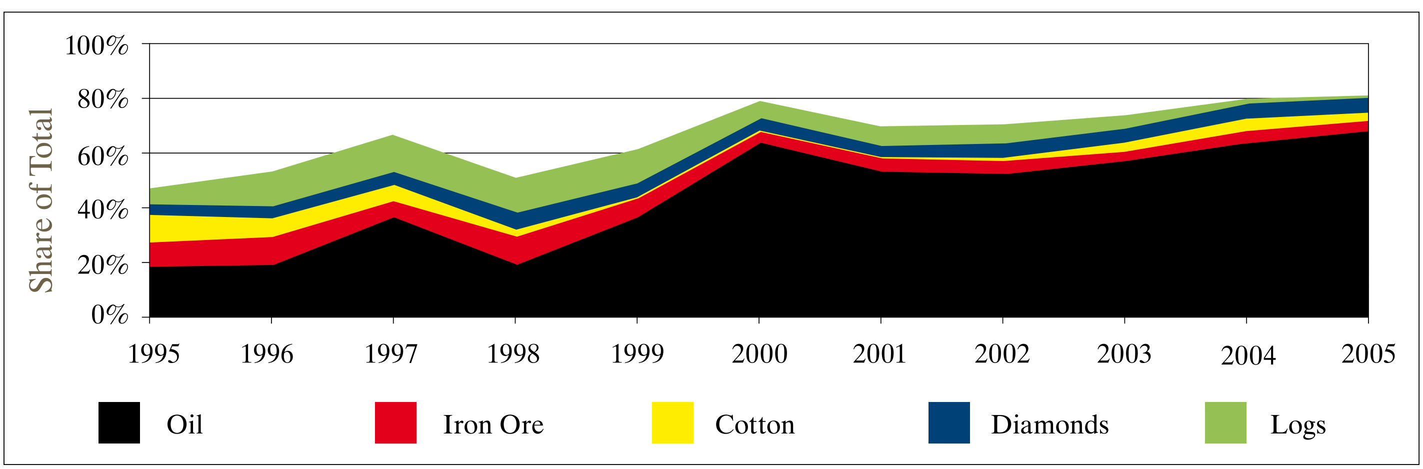
India's export to Africa had 182 % increment from 0.95 billion dollar in 1997 to 2.7 billion dollar in 2005. Manufacturing goods (40 %) is not a predominant sector in 2005 as it was in 1997; it is more diversified into chemical products, machinery/transport equipment, food and livestock etc. Unlike import situation in the same period, every single sector has observed positive growth; however their trade-deficit has kept looming.

China's Export to Africa

There has also been a tremendous increase in China's export to Africa from US $ 895 million in 1996 to US $ 9.42 billion in 2005, a 712 % increase. China offers low–priced imports such as textiles and clothing, electronic devices, machines and so on. Manufactured imports (SITC 5-8) accounted for more than 90 % in 1996 and 2005.

China's export (i.e. manufactured products) to Africa mainly goes to seven countries-Sudan, Ghana, Tanzania, Nigeria,

Figure 1: Composition of Chinese Imports from Africa



Source: Adapted from (Kaplinsky et al. 2006)

Table 1: Sino-Africa and Indo-Africa Trade Pattern

Trading With SSA	Overall Growth (%) (1996/7-2005)	Major Sectors (2005)	Major Trading Partners (2005)
China's Import From SSA	1576	Crude materials, Mineral fuel	Angola, South Africa and Sudan
India's Import from SSA	96	Commodities in SITC 9 (Gold)	South Africa
China's Export to SSA	953	Manufactured goods, Machinery/ transport equipment	Sudan, Ghana and Tanzania
India's Export To SSA	182	Manufactured goods, Machinery/ transport equipment	South Africa
Trade Deficit -China	7080	In case of China, Trade deficit rose from 224 million US $ to 16 Billion US $, while in case of India it rose from 1.13 Billion to 1.41 Billion US $.	
Trade Deficit -India	24		

Source: Adapted from (Kaplinsky et al. 2006; Mwega 2006; Zafar 2007)

Ethiopia, Kenya and Uganda, where it accounts for five to fifteen - of their imports (Kaplinsky et al. 2006). China is likely to continue exporting manufacturing goods, machinery and transport equipment and other manufactured article as in 1996 and 2005, it accounted for 80.9 % and 89.8 % of total exports respectively.

The stylized facts reveal an interesting story about the changing trade patterns of Sino-African and Indo-African engagements. First, there has been a dramatic increase in direct trade between China and Africa outsmarting the direct trade between India and Africa. India's import from Africa only about doubled over 1997-2005 as compared to China's more than ten-fold increase. Second, during the same period, Chinese trade deficits with Africa observed more than seventy fold increase while India's trade deficits has seen a very moderate overall growth of 24 % (Table 1).

India's import from Africa only doubled as compared to China's more than ten-fold increase

Third, China surpasses India in importing mineral fuels and metals from Africa and export cheap consumer and capital goods. Fourth, it should be noted that the Sino-Africa and Indo-Africa trade pattern differ significantly only in its import composition as that gold dominates India's import while oil and metals dominates China's. Finally, China's imports are concentrated among a small number of natural resource economies lacking product diversification in their export structure. More than 75 % of China's trade takes place with four countries—South Africa, Sudan, Angola, and Nigeria. India's trade engagement is even more skewed towards very few countries as South Africa accounts for more than two third of import as well as export.

Process of Economic Evolution in India and China

The stark emerging differences between Sino-Africa and Indo-Africa engagements in last decade have two determinants- economic policy and foreign policy. In 1978, the economic reforms of Deng Xiao-Ping set China on a path of economic liberalisation and accelerated growth (Toye 2007). Reforms in India can be also dated back to the 1980s with a shift in the national government's attitude to favour private sector business, and the abating influence of the state, but the real reforms came up following India's 1991 balance of payments crisis, when India was forced to liberalise its economy. China emulated highly successful East Asian experience by implementation of various reforms including the removal of trade barriers, adoption of competitive exchange rates and the creation of Economic Processing Zones (EPZs). China saw a decline of weighted tariffs from 32.2 % in 1992 to 4.9 % in 2005 while trade weighted import tariffs fell from 27.9 % in 1992 to 13.4 % in 2005 in India (Mwega 2006). Unlike China, most of the SEZs in India are still in their stage of infancy.

In contrast to China, India's development has been characterized by a lower saving rate, limited inflows of FDI and poor infrastructure. This has limited India's ability to compete in the export market for the manufactured goods. In addition, one of the key differences in India's growth process has been the failure of manufacturing industry, and boom in the services sector. While Africa is still not benefiting significantly from booming service sector in India, China is promoting its competitive sectors (manufacturing and construction) very vehemently. Command based authoritarian system of governance in China provided an incremental edge to its non-disruptive reforms than to democratic system of governance and decentralised planning mechanism in India (Deshpande et al. 2002). Africa responded more favourably to China's economic evolution process and its rapid growth pushed by rapid industrialization than to India's economic process which faced emergence of the service sector as a driving force of economic growth.

> Africa responded more favourably to China's economic evolution process than to Indian progress

Foreign Policies and Politics of Trade of India and China

The formal links between China and SSA go back to the Bandung Conference in 1955. Until the mid-1990s, link was directed by aid towards Liberation Movements and to further the desire to politically isolate Taiwan. But since the mid 90s, aid appears to be increasingly directed towards broader strategic objectives, and in particular towards the development of linkages with the resource-rich SSA economies (Kaplinsky et al. 2006). Tull (2006) argues that since 1990s China has pursued a more active foreign policy, extending especially to closer ties with the non-Western, especially African states -given their numerical strength. Besides this, China fears for its ascendancy as a global political power in the context of US hegemony (Zafar 2007). In 1998, a White Paper of the Chinese Ministry of Defence proclaimed energy security as an integral part of China's overall security resulting in stepped-up efforts to expand its oil imports and to diversify its oil suppliers, increased oil imports from Africa, and augmentation of its African suppliers. China's global economic, foreign and security policies have become clearly inter–twinned. (Mwega 2006).

Aid and FDI are being packaged with the trade deals by China to bind strategic allies more closely and to secure supplies of materials for their ever-expanding economy.

Chinese FDI in Africa grew from $ 20 million in 1998 to $ 6 billion in 2005 and it is largely related to resource extraction and low-cost infrastructure construction involving Chinese labour. Chinese aid to Africa has increased from $ 107 million in 1998 to $ 2.7 billion in 2004 (Toye 2007). Moreover, China has also cancelled bilateral debts for 31 African countries totalling $ 1.27 billion in 2004. In 2006, Chinese government passed a policy to encourage and support investment in Africa, including provision of preferential loans and buyer credits (PRC 2006). China has therefore become a major player in the field of infrastructure and construction activities (ranging from stadiums in West Africa to Presidential Palaces in Kinshasa) and small scale entrepreneurial investments. Many of these projects are not commercial and are financed by 'tied aid' (Kaplinsky et al. 2006). Chinese enterprises currently number more than 700, operate in 50 countries and employ close to 80,000 Chinese workers (Zafar 2007).

China-Africa Co-operation Forum was established in 2000 to bolster the trade and economic relations between them. By 2005, China had bilateral trade and investment agreements with 75 % of African countries and it has embassies in all African countries, except six, that have established diplomatic relations with Taiwan (Mwega 2006). The third meeting of forum –'China-Africa Summit' was held in early November 2006 in Beijing and involved 48 African presidents and heads of government. China's distinctive approach involves a combination of aggressive diplomacy and the cultivation of friendly ties with a no-strings attached financial and technical assistance package. China's pledge of non interference in countries' internal affairs and lack of lending conditions on governance or fiscal management have elicited positive reactions from several governments (Zafar 2007). Moreover, there are various other mutually advantageous interactions such as promotion of democracy is not an objective of China's foreign policy (Tull 2006).

By 2005, China had bilateral trade and investment agreements with 75% of African economies

India has a long history of trade and investment with modern-day Africa, particularly in East Africa, where there are significant expatriate Indian communities. The current scale and pace of India's trade and investment flows with Africa is unprecedented even though it constitutes a very small part in comparison to China and the world economy. Even today, tariff levels of India on African products are higher than China. After long dormant of 45 years (since Jawaharlal Nehru's last visit), higher level delegates including Prime Minister of India made a visit to two countries -South Africa and Nigeria in mid 2007 for bilateral engagements and negotiations (Dutta-Ray 2007). Unlike China, India has not pursued any aggressive policy to engage with Africa for its energy security even though India too needs oil, uranium and raw materials. India is still trying to enter into infrastructure development like road, railways construction and telecom in Africa.

Currently India does not have any policy like China's Africa Policy to promote and engage vehemently and strategically with Africa. The Trade & Economic Relations Committee (TERC) of India is discussing ways to increase India's trade engagement with African countries and decided to club Africa with the progress on India-US economic dialogue. Even though India enjoys the advantage of a large expatriate business community throughout Africa, especially in South Africa, Kenya and Tanzania; and it can offer Africans a mix of growth economics and political freedoms, due to lack of targeted policy it has lagged behind the Sino-African engagements (Dutta-Ray 2007). It can be concluded that there is a gap between China's and India's foreign and strategic policies, which clearly explains the differences in Sino-China and Indo-Africa engagements.

Conclusion

There are noteworthy differences between India's and China's relations with Africa. Sino-Africa engagement outsmarts Indo-Africa engagements in terms of trade growth and trade deficits. During 1997-2005, India's import from Africa only about doubled as compared to China's more than ten-fold increase; and Chinese trade deficits with Sub-Saharan Africa observed more than seventy fold increase while India's trade deficits has seen a very moderate overall growth of 24 %. The Sino-Africa and Indo-Africa trade pattern differ significantly in its import composition as gold dominates India's import while oil and metals dominate China's. India's trade engagement is highly skewed in term of regional linkages in Africa. On economic side, the differences in China's and India's processes of economic evolution in last decade mirrored in their trade engagements. First, India liberalized its economy after a gap of decade in comparison to china. Second, the gap between India and China's growth rate in last two decades impacted their trade orientation and resource needs. Third, the growth has been led by different sectors in both countries. China's emerging manufacturing sector and its need of primary commodity and oil boosted Sino-Africa trade while India's booming sectors (services, IT) did not cater to African needs. Fourth, Indian SEZs are in their stage of infancy in comparison to China's EPZs/SEZs.

On political side, China has pursued more globally oriented foreign policy than India even though India's has enjoyed stronger linkage with Africa in past. China proclaimed energy security as an integral part of China's overall security and looked towards better tie-up with Africa for the same and India lagged behind here. Unlike India, China offers African countries a series of package deals with trade comprising FDI and aid. As a result, Chinese FDI and aid is growing at high rate in comparison to India, consequently boosting better trade engagements. India also lacks in terms of integrated and aggressive policy like China's Africa policy which also explains the differences in their trade engagement with Africa. Thus, it can be concluded that the gap between China's and India's trade engagements is explained by their differences in their economic processes and political policies. IER

Endnote

[1] SITC is acronym for 'Standard International Trade Classification', used in UNCTAD Database.

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(The views expressed in the write-up are personal and do not reflect the official policy or position of the organisation.)