CHINA'S IMPACT ON AFRICAN EMPLOYMENT:
WHAT DO WE KNOW AND WHERE ARE THE GAPS?

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THE SYMPOSIUM

Six of the 10 fastest growing economies in the world in the last decade are in Africa, yet most Africans are very poor. The huge shifts taking place in the Chinese economy suggest that there may be new opportunities for Africa in trade and investment relations with China. But little is known about the forms and effects of Chinese economic engagement in African countries; studies are disparate and unconnected.

The objective of this conference jointly convened by the Development Policy Research Unit at the University of Cape Town and the Institute for Emerging Market Studies at Hong Kong University of Science and Technology, was to set a coherent research agenda.

BACKGROUND

After the "lost decades" from the mid 1970s to the mid 1990s, Africa is now "rising". Yet poverty is not falling as fast as might have been predicted. Seven out of the 10 most unequal countries in the world are in sub-Saharan Africa.

Sub-Saharan Africa (SSA) is in fact structurally little changed since the 1960's. Agriculture, mining and energy account for over 50% of GDP for 17 SAA countries, between 40 and 50% for another nine and between 30 and 40% for nine others. Only 18 SSA countries have an industrial added value exceeding 10% of GDP and 7 countries reach the threshold of 15%. These results show a deep structural inertia, where only services and construction – driven by urban growth – have developed.

Sub-Saharan Africa is a region of urbanisation without industrialisation, a very specific situation in the economic history of the world.

There will be two billion Africans south of the Sahara by 2050; 330 million new entrants to the labour market by 2025. This is not a theoretical prediction: these people have already been born.

World Bank studies suggest that the growth elasticity of poverty is much lower in Africa than in the rest of the developing world (minus 2 in the developing world as a whole, minus 0.7 for Africa).

This may be because for the region as a whole 60% of the working population, and 80% of the poor, are in agriculture, which is not growing fast. In other words, growth in Africa is not taking place where the poor people are.

At the same time, manufacturing, which needs skilled labour, a reliable power supply, good transport and logistics, is in relative decline as a contributor to GDP (though Ethiopia and Nigeria are exceptions).

Some have suggested that the services sector could provide the "elevator" out of poverty but what exactly is this sector – which covers activities ranging from those of the child selling charcoal by the side of the road, to the *Nollywood* phenomenon – and how do people get onto the "elevator"?

China already has a profound influence in Africa; as China has moved from being the target to the supplier of foreign direct investment, and a leader in technology, China has become the region's largest trading partner ($210 billion in 2011 compared to $85 billion in US trade with sub-Saharan Africa) – though trade is asymmetrical and most exports from sub-Saharan Africa to China are still raw materials. Chinese firms employ many Africans, invest in infrastructure, roads and power, and open up policy space for African governments. What do we know about this and what still needs to be discovered?

THE SHIFTS IN CHINA

- There has been a dramatic decline in rural poverty in China, especially in the East. Poverty is now concentrated in the West and in the mountains and typically affects ethnic minorities, larger households, children and the elderly, those engaged in agriculture, the less educated, and those with lower and unstable incomes. Most of the poor are in temporary and transient poverty (62% have been in poverty for one year).

  Poverty reduction programmes have been effective (though official poverty lines are probably an under-estimate) but the main contributor to poverty reduction has been rapid economic growth, rather than government policy.

  The twin challenge (in China as in Africa?) is to make growth more inclusive and poverty alleviation policies more efficient.

  Meanwhile, the recalibration of the Chinese economy has huge implications for Africa. The sheer size of the Chinese economy means the implications of the shift are enormous. The investment boom is being replaced with a consumption boom.

- With real wages rising fast (up more than 10% a year since 2003-2004 and almost tripling in a decade), the era of cheap labour is over in China.

  A study of relative wage costs in Africa and China suggests that China is losing competitiveness in world markets because wages are rising faster than productivity and the currency is appreciating. However, relative unit labour costs (taking into account real wages, productivity and exchange rates) in most African countries are still very high, and the business environment is poor, with frequent power cuts and other problems.

  In this context it is worth noting that exchange rate analyses suggest that many African countries (including 16 francophone countries) have their currencies pegged to the euro while the renminbi is pegged to the dollar, so African countries suffer exchange rate effects out of their control.

- Growth in the Chinese economy is slowing down to 7% and China faces excess production capacity, for instance in steel and cement, and a shortage of labour. Increasingly the response to this is to move production out of China, for instance to Bangladesh and other countries, but with real wages appreciating in some of these countries too, Africa may become an increasingly attractive prospect.

  Cement prices in Africa are six times those of China, but total African production is only 4% of Chinese production.

  The delocalisation of Chinese production could offer opportunities for African industrialisation. Small export processing zones can be created which start fast, offer infrastructure to small companies and a way around bureaucracy, as well as the advantages of clusters (the example of Bagamoyo in Tanzania). Chinese industrialisation started that way.

  At the same time, though, lower Chinese growth rates will decrease global demand for oil, minerals and other natural resources from Africa, reducing export prices for these commodities.

THE CHINESE PRESENCE IN AFRICA:

MYTHS vs DATA

Myth 1: China is involved in land grabs

A report by the African Development Bank noted: "China leading land grab in Africa". But though data is scarce and often very contradictory, the Land Matrix (2014) suggests that China, though a growing presence, is still a small player in African agriculture, not even in the top 50 in terms of land investment . China would be ranked 6th in number of deals and 15th in area, way behind the UK, India, the US and even South Africa.

There are several models of Chinese cooperation and investment, which vary in their effects:

* agricultural demonstration centres set up by the Chinese state which have a minimal effect on labour;

* public-private partnerships which grow and diversity rapidly and respond not only to Chinese but also to local and regional markets; here local employment is significant and there is often no Chinese foreman or manager;

* smaller private initiatives, for instance in poultry or pork which employ local labour but in numbers which are hard to quantify.

In other words, a nuanced and evolving picture, characterised by very limited leverage for African countries.

If media reports of Chinese agricultural investments in Africa since 2000 were correct there would be just under 6 million hectares but research by the International Food Policy Research Institute found that some of these so-called investments were mistakes in the data, some were in fact modest aid projects, some were older investments, some were construction contracts wrongly classified, some involved the acquisition of existing plantations and some were mere expressions of interest without

follow up. Documenting actual land transfers suggests that the true number of hectares transferred to Chinese companies or joint ventures since 2000 has been fewer than 200 000.

So there is interest but it is not as intense as has been supposed, and the goal is not Chinese food security.

In addition, agricultural investments are difficult to implement and often fail, notably because of a lack of institutional support.

Myth 2: most Chinese investment is organised on a state-to-state basis

Myth 3: most Chinese investment is extractive

Myth 4: most Chinese firms bring their own labour

Researchers at the conference emphasised the unreliability of investment data, both Chinese data on foreign direct investment, which varies widely according to source, and host country data.

However, though most media attention has focused on Chinese investment in mining, data from Chinese sources shows Chinese investment is in fact very diverse, and 45% appears to be from private investors. It is rising fast – from $300million in 2004 to $16 billion in 2012. This is mostly in manufacturing and mostly labour-intensive industries. Data from host countries show many more firms and confirm concentration in labour-intensive manufacturing and in services.

Investments tend to be small, more on the scale of South African or Indian investors, and host countries are positive about job creation, mixed on the competition issue and disappointed about technology transfers.

As one investor put it: “I am here to take advantage of cheap labour, why would I bring Chinese labour?”

A study based on 400 interviews with Chinese investors in 11 countries showed the average workforce was 80% African and suggested that the myth that Chinese firms do not localise workforces may persist because it is deliberately nourished as part of a competition strategy.

Where there are differences between Chinese and other investors these are more about what firms do, about shortages of certain local skills or about high costs than about employment practices.

World Bank studies find that though oil and extractive industries still make up 30% of total Chinese investment in Africa , there has recently been a marked diversification into financial services (19%), construction (16.4%), and manufacturing (15.3%). In other words, as opposed to trade, less than one-third of Chinese FDI goes to the extractive industries in Africa.

A study of a $3.7billion dollar Chinese investment in the DRC showed that for the state-owned enterprise at the centre of the deal getting the construction contract was the priority, not the extraction of cobalt and copper. This priority was partly driven by internal forces in China and the need to survive as one of the top state-owned enterprises.

Studies in Senegal found little difference between investors from China and those from the West; they respond to risk in the same way, all seek stability and security, good infrastructure, low input

costs, an extended market, and cheap labour. Chinese firms are concentrated in labour-intensive sectors (as the studies from South Africa confirm) and tend to be smaller than Western companies.

Other work on clusters in Senegal and Ghana, which mostly import and sell fashion items, suggests that these firms contribute to "social justice" by employing traders who would otherwise not be allowed into activities which are often reserved for kinship networks; that they enable very small scale activity by those with no capital (traders may invest in four pairs of shoes, sell them and return to buy four more). But it is hard to say whether the erosion of social norms about access to trade is good or bad.

Little is known about the indirect employment effects of this trade, the geographical effects or the "learning" effects – African businesses or traders learning a model based on high turnover, low profits and high reinvestment.

THE SOUTH AFRICAN CASE

Some research suggests that Chinese investors compete with African firms in domestic markets but not in third country markets, but research on the direct and indirect impact of Chinese competition in South African and regional markets suggests that Chinese producers do crowd out South Africans in the regional economy.

Chinese imports to South Africa have grown rapidly especially in some categories: in 2010, 46% of footwear consumed in SA was from China and 32% of TVs and other electronic goods.

This growth coincides with the long term decline in the share of manufacturing in SA's GDP, and the drop in employment – between 2001 and 2010 domestic employment in manufacturing dropped 9%.

Research shows that increased imports from China did reduce South African manufacturing output which was 5% lower than it would otherwise have been; that the effect on employment in manufacturing was larger and was concentrated in labour-intensive industries; and that the increase in imports raised the productivity of labour. The study also found that Chinese competition crowded out South African exports of manufactured goods, especially to other sub-Saharan African countries.

However, the study focused only on competitive effects. The effects of lower priced imports of consumer and capital goods on the profitability of domestic production and on employment growth were not studied, nor the benefits for employment of the growth in domestic exports as a result of the Chinese-induced commodity price boom and the growth in demand in the region.

In the clothing industry, "Chinese" (some are Taiwanese) factories in South Africa, characterised by low wages, long production runs and very simple and cheap goods, have been seen by unions as sweatshops which undermine minimum wages in the clothing sector. Many have been closed down as a result of not paying legal minimum wages, and thousands of jobs have been lost.

But the "race to the bottom" fear may be unfounded because these factories compete, not with other South African clothing factories, but with Chinese factories, in China or elsewhere. They use very different processes and make very different products from clothing factories in the rest of the sector.

Some have now been turned into co-ops in a bid to get around minimum wage legislation by making the workers into owners. This could be a creative solution, as could the possibility of a government subsidy to close the wage gap.

THE RESEARCH AGENDA

Research avenues suggested included:

*Size, nature and direction of foreign direct investment flows – based on African as well as Chinese sources

* Contribution of FDI to growth through analysis of countries where data exist. Derive FDI growth elasticities, compare Chinese with others

* Size of and trends in Chinese investment especially in manufacturing, impact of manufacturing and infrastructure investment (media has focused on mining)

* Employment effects of Chinese trade; also exclusion effects, social justice effects, geographical effects and learning effects of Chinese model (low profits, high turnover, high reinvestment)

*Africa's manufacturing malaise and the "Dutch disease" from the natural resources boom is a feature of foreign direct investment in extractive industries – but is this restricted to China?

* Is there a typology of different Chinese strategies in Africa: Angola – South Africa – Ethiopia? Can this be identified through country and regional work?

* Is there a China-Africa coupling story? For instance is there a link between the collapse in the Chinese housing market and construction in Africa?

* Individual country studies, maybe through World Bank?

*Compare Chinese with non-Chinese firms in both the private and public sectors, in order to capture the "Chinese effect" – how are these firms different from other firms from both developed (US, Europe) and developing (India, Turkey) countries? Over-sample Chinese but sample others also.

* Study firms in all sectors - manufacturing, services, agriculture and construction

*Examine skills and technology transfer at firm level

*Examine labour relations and workplace environment, use of local and foreign labour, engagement with regulatory environment (governance issues, tendency to corruption), relative wages and production levels

* Effects of Chinese competition: is the SA clothing co-operative model generalisable?

* Competitiveness: Work on productivity at industry level within countries

*Complementary as well as competition effects: for instance, what is the distribution effect of Chinese competition on employment? How do cheaper consumer goods create jobs in informal sector where most Africans are? What are the employment effects of cheaper imports of capital from China? What are the effects of the commodity price boom on regional growth and demand?

* Effects on employment in African of smaller private Chinese initiatives in agriculture

*Institutional research – is the Chinese model of a developmental state suitable? Case studies, for instance in Ethiopia

*More institutional research – how does the Chinese presence impact on regulatory problems and vice versa (the minimum wages problem for instance)? Is there a China-specific set of issues and responses?

*Can African manufacturing be competitive or not? Is Ethiopia special or is the model scaleable?

* If not manufacturing, then what can absorb unemployment? Agriculture? How to trigger agricultural growth like China's in the 1980s?

* Africa has abundant land but a seasonal labour shortage; could mechanisation offer some solutions, perhaps through outsourcing as in China? Farm size need not be a limiting factor since African farms are on average bigger than farms in China (the average farm size in China at 0.5 hectares is one third that of Ghana for instance).

* Why do Chinese investments in agriculture seem to have a longer life than those of other countries? Is it because of state involvement? Examine ownership patterns

* Disaggregate manufacturing and services; more work on services sector - which parts are growing and which are not? Where is there a "services elevator"?

*Counterfactual effects: if not China, could it have been Vietnam?

And finally, delegates emphasised over and over again the poor quality of the data on foreign direct investment and on employment. Both Chinese and host country data were seen as unreliable and the collection of good data was seen as a priority.