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WHAT CONTRIBUTION CAN CHINA MAKE TO INCLUSIVE GROWTH IN SSA?

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ABSTRACT

Despite rapid economic growth the numbers living in absolute poverty in Africa have grown. The absence of inclusive growth can be traced to the structure of globalisation, the advance of financialisation and the trajectory of technological progress. A number of disruptive forces in which China has played a major role offer the possibility of moving from this exclusive growth strategy – terms of trade reversal, shifting markets and new paradigms of innovation. By providing cheap consumer and capital goods, new market opportunities and new more appropriate technologies, China has the capacity to help Africa move to a more sustainable growth path. However, this is not an inevitable outcome, and outcomes will also be contextual. The extent to which Africa is able to take advantage of opportunities opened up by China to move to a new more inclusive growth path will largely be determined by political factors, but these, too, are not independent of China's increasing economic and political footprint, both globally and in its direct relations with Africa.

1. INTRODUCTION

It is only recently that the “impact” of China’s growing economy has been recognised in Africa (hereafter, I will refer to sub-Saharan Africa, SSA). A personal anecdote reflects this belated recognition well. In March 2006 I entered into discussions with the African Economic Research Consortium regarding a programme of research on “The Impact of China on SSA”. The initial response of two of Africa’s most senior economists was that Africa’s problems were more to do with an overweening regional economy (South Africa) than China,¹ and if an Asian economy was an issue, it was India rather than China which came to mind. Five years down the road, and 22 country-studies later (<http://www.aercafrica.org/publications/category.asp>), no serious observer holds the illusion either that China’s “impact” on Africa is inconsequential or that India is playing a larger role on the continent than China.

It is not uncommon for research to lag unfolding events. But the speed and significance of China’s large and growing presence in SSA, coupled with the large indirect “impact” arising from China’s growing global presence represents a particularly marked example of the laggard nature of academic research. This research gap is marked by deficiencies both with regard to the empirics of China’s presence in SSA and in the theorising of the cause, nature and significance of its “impact” on the SSA economy. In this paper I propose to focus on what I observe to be a particularly neglected topic, that is the consequences of China’s growing presence on the distributional outcomes of growth in SSA. I am acutely aware of my disciplinary shortcomings in this discussion. As an economist I will be focusing on patterns of exchange and resource allocation. But the trajectory of growth in general and the distributional nature of growth in particular reflect relations of power. To some extent I will address this by opening the portmanteau categories of “China” and “Africa”, but I will have little to say about broader issues of political economy, regional hegemony or international relations. Other contributions in this workshop will speak more directly to these issues of political economy. As a final related caveat, the work of my colleagues Giles Mohan and Ben Lampert has helped me to understand the folly of addressing these issues as “the impact of China on SSA”. Their work shows that China’s growing role in SSA reflects the agency of African actors as well as those of Chinese actors (Mohan et al, 2011). As in the critique of the dependency literature in the 1970s (Leys, 1994), it is important that this discussion of evolving political economy does not relegate African actors to passive recipients of the predatory actions of others. (Having made this important observation, the ensuing discussion now follows common practice, and lapses into disciplinary reductionism by dropping the inverted commas accompanying “impact”).

The dominant discourse on China’s impact on SSA addresses the consequences of direct bilateral relations between China and individual economies (see for example, the AERC’s 22 country-studies). However, in many cases the major impacts arise not so much from direct relations but

¹ Ironically I am a South African!

from indirect factors. The large footprint of the Chinese economy means that the small-country assumption no longer holds, and its growth trajectory affects the global political economy in numerous ways. These indirect global impacts often have a more profound impact on individual countries than those which arise as a consequence of direct relations with China (Kaplinsky, 2009). This is as true for the impact on distribution as it is for other factors. Consequently before discussing the potential impact of China on inclusive growth in Africa, it is necessary to begin with an understanding of four framing global developments which affect the nature of growth paths in SSA. The first is the distributional character of SSA's recent growth-surge. The second is the disruptive impact of China on the terms of trade and hence on the evolving pattern of economic specialisation in SSA. The third is the accretion of technological capabilities in China and the character of its innovation trajectory. The fourth issue arises as a consequence of the shift in final markets from the north to the south as the global economy enters a period of structural crisis. In each case we address the particular contribution which China makes to these developments.

2. SETTING THE SCENE: FOUR RELEVANT GLOBAL DEVELOPMENTS

Poverty-inducing growth

The data in Table 1 tells a compelling story. The first decade of the twenty-first century witnessed an acceleration of growth in many low and middle income countries. These rates were high by comparison with the last decade of the twentieth century (and even more so in comparison to the lost development decades of the 1980s), and by comparison with global average growth rates in the same periods. Rapid and accelerating growth was most pronounced in China and India, but was also evidenced in middle income countries as a whole, as well as in SSA. At the same time, the numbers living globally below the MDG1 \$1.25pd benchmark fell by 339m between 1998-1999 and 2007-2008. This is often taken to indicate progress in global poverty reduction. Yet, the decline in the poverty number in China (516m) exceeded the global total (339m), which means that outside of China, the number living globally below MDG1 increased by 177m. In SSA, a more than doubling of the annual average growth rate resulted in a 59 percent increase in absolute poverty numbers. In India, the recent "growth miracle" has been associated with a further 42m people living below MDG1. Strikingly, despite rapid economic growth, there was a more than doubling of the number of the absolutely poor in middle income countries and currently, more than 70 percent of those living below MDG1 live in this rapidly growing group of economies.²

² Care should be exercised in interpreting these data on middle income economies, since the list of countries incorporated in the middle income category changed between 1988-1990 and 2007-08.

Table 1: GDP Growth Rates and Numbers Living Below MDG1, 1990-2008

	GDP growth p.a (%)		Living below \$1.25 per day (MDG1) (\$2005PPP)	
	1990-2000	2000-2008	1988-90	2007-2008
World	2.9	3.1	1,668	1,329
China	9.9	10.4	724	208
India	5.5	7.0	414	456
SSA	2.2	4.9	224	355

Source: Poverty numbers from Chen and Ravallion (2008) and Sumner (2010). Growth rates from WDI, accessed October 2011

What these numbers point to is the structural character of the dominant growth model in which, in many countries, a significant proportion of the population is being excluded from the fruits of growth. This impoverished population is made up of two groups. The first are those living in Lewis's traditional sector, eking out a living in subsistence agriculture or in low-paid formal-sector employment. The second are the truly-marginalised, those living without access to land or formal-sector employment. As Davies points out, the global poor increasingly live in sprawling urban slums, where much of the landless population is unemployed (Davies, 2004).³ This bifurcated structure between the haves and the have-nots shows superficial similarities with Lewis' two-sector model. However, his "traditional sector" had means of subsistence (Lewis, 1954). To this we now need to add a rapidly growing "third sector" – that of the wholly excluded, without either access to land or employment.

There are three primary and related factors which explain this structural character of the current dominant global growth trajectory. The first is that it arises as a direct result of deepening globalisation (Kaplinsky, 2005). Globalisation allows high income earners who possess various forms of rent (such as natural resources, skills, entrepreneurship and patents) to valorise these rents over a larger market. At the same time it exposes those with low incomes and without rents to intensified competition. For example in the case of unskilled labour, the global labour pool has doubled in the past two decades, following the entry of China, India and the former Soviet Union into the global economy. China's success in reducing absolute poverty in the context of its rapid outward oriented growth and deepening participation in the global economy is often used to argue that the dominant globalisation growth model is in fact poverty-reducing. However, this focus on the success of China ignores the impact of its growth on other economies. Chinese competitiveness in third-country markets places pricing pressures on the exports of other economies (Kaplinsky and Santos-Paulino, 2006; Fu, Kaplinsky and Zhang, 2009; Wood and Meyer 2011)) and displaces low

³ For the first time in the world's history, more than half of the population lives in cities (UN-Habitat, 2010)

income economy exports from these markets (Kaplinsky, McCormick and Morris, 2010). Its exports also undermine domestically oriented manufacturing in other low income economies.

The second factor explaining the distributional character of this global growth trajectory is the financialisation of the global economy (Lazonik, 2010). This has placed a growing emphasis on high-income yielding arbitrage rather than production, with this arbitrage being a function confined largely to the high-income economies and to the capital cities of a selected few middle income countries. It has led to change in the terms of trade between producers of goods and non-financial services, and those operating in the financial services sector, shifting distributional patterns in favour of the financial sector. It has also led to, and is likely to continue to lead to growing volatility of incomes throughout the global economy. For example, the financial crisis of 2008 temporarily pushed almost 100 million Indonesians into absolute poverty. Outside from the fact that China's savings have essentially funded generalised overconsumption in much of the north and has thus allowed this structurally unsustainable growth-path to endure, China is perhaps more a victim than a perpetrator of the growing financialisation of the global economy.

The third factor which explains why enhanced growth co-exists with, and indeed in some cases causes absolute poverty arises from the dominant trajectory of innovation. Its capital-intensive nature, its scale intensity, its dependence on high-quality networked infrastructure, its reliance on skilled labour and its product portfolio (producing products which meet the needs of the rich) all have the effect of disadvantaging the poor, both as consumers and producers, and of excluding large segments of the population in many countries from productive employment.⁴ Moreover, much contemporary technology is also destructive of the environment, not least in relation to its energy-intensity, and this has disproportionately negative impacts on the global poor. Whilst innovation is only a partial contributor to the persistence of global poverty it is an important one, and one which is largely neglected in the theorisation of innovation (Cozzens and Kaplinsky, 2009). Hitherto, China has played little role as a source of innovation, but as we will see below, this is beginning to change and with potentially significant implications for inclusive growth in low income economies.

⁴ This is not the place to engage in a critique of mainstream economics. However, the assumption in this mainstream literature of a clearing labour-market (which supports the logic of specialisation in comparative advantage) is critical to the win-win outcome of globalisation. Once this assumption of full employment (albeit with frictional unemployment) is removed and it is acknowledged that the global economy may be characterised by a structural reserve army of labour, then the rosy globalisation scenario falls away. The spectre of a large pool of structural unemployment is central to Marx's analysis of the rising "organic composition of capital", that is a systemic trend towards labour-saving technical progress.

Terms of trade reversal⁵

Until the early twenty-first century, and since at least the 1920s, and probably for a century before that, the terms of trade have moved in favour of manufactures and against natural resources. There were two small blips in this long-run trend – in the early 1950s and the early 1970s – but as a general rule the prices of manufactures rose faster (or, in deflationary periods fell more slowly) than those of commodities. There are a cluster for factors explaining this long-run historical trend, but two related explanations stand out. First, the major markets were in high income economies and at high levels of per capita income, the commodities-intensity of growth and the price elasticity of demand for commodities decline. Second, barriers to entry (which define rents and hence incomes) were as a general rule high and increasing in the manufacturing sector and low and static in many of the commodities sectors. As a consequence, the primary form of rent-appropriation during this period of (commodities-manufactures) terms of trade decline was Schumpeterian rather than Ricardian in nature.

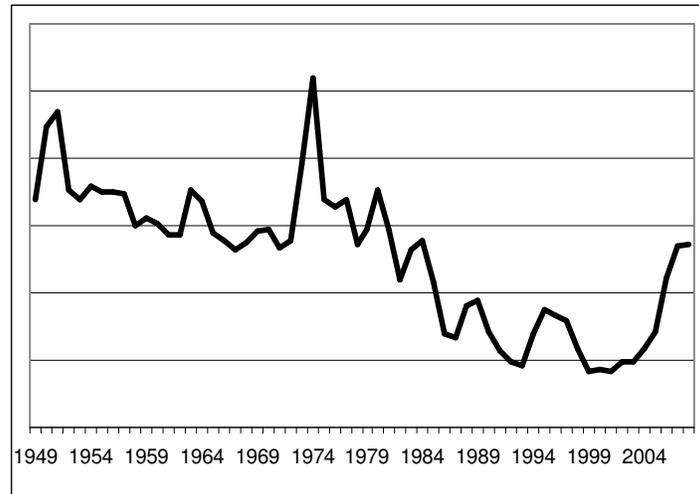
But after the mid 1990s, these primary determinants of demand and supply began to change. The very rapid growth of China – averaging around 10 percent a year for more than three decades - occurred in the context of low per capita incomes, underdeveloped infrastructure and low levels of housing. Growth in all these areas of consumption is commodities intensive, and hence the growth-elasticity of demand for commodities changed as the primary pole of global growth moved from high-income to low- and middle-income economies. Related to this are changes in the elasticity of supply. In the case of manufactures, the rapid advance of global value chains in manufacturing has led to a reduction in the barriers to entry in manufacturing and China in particular has become the manufacturing centre of the world. This has been associated, particularly from the early 1990s until the mid noughties, with falling prices of manufactures in global markets. On the other side of the supply-coin, there are growing constraints to increasing supply in many commodities – in some cases due to the exhaustion of cheap deposits (as in energy), in other cases due to a combination of climate change and falling rates of technological change (as in soft commodities) and in other cases due to the environmental and political difficulties in exploiting new resources (as in the case of mining).

As a consequence of these changes in the dynamics of demand and supply, the last decade has witnessed a period of terms of trade reversal. After 2002 the prices of minerals and energy commodities rose sharply, and this was followed from 2006 by rising prices of soft commodities. At the same time, intense competition in the global market for manufactures meant that we have witnessed a reversal in the terms of trade in favour of commodities (Figure 1). The underlying determinant of demand and supply suggest that this terms of trade reversal will be sustained for some time, notwithstanding the likely temporary downward blip as the global economy dips in and out of financial

⁵ For an extended and empirically based explanation of these trends, see Farooki and Kaplinsky, 2012).

crises.⁶ In both cases, China has played a key role (Farooki and Kaplinsky, 2012).

Figure 1: The commodities-manufactures terms of trade (1949-2008)



Farooki and Kaplinsky, 2012

The global spread of innovative capabilities

Recent decades have seen a substantial increase in the share of global manufacturing value added in low income countries in general, and in China in particular. The global diffusion of manufacturing value added has been associated with a pervasive increase in capabilities in many low-income economies. These capabilities have been built on a number of strands of activity. The first has been the relatively passive processes of learning-by-doing, and the more active processes of “learning by adaptation” and “learning by capacity expansion” (Katz, 1987; Bell, 2007). These firm- and farm-level activities – generally associated with efforts to make maximum use of purchased, and often imported technologies – arise out of incremental changes undertaken in the operation of equipment. They are often also acquired through participation in global value chains (Kaplinsky and Morris, 2001; Gereffi, Humphrey and Sturgeon, 2005). Formally-constituted R&D is another important component of innovation (although often overestimated in importance). By 2000, more than one-fifth of global R&D was located in the developing world (Hollanders and Soete, 2010), an increase of major significance given the estimated share in 1970 of only 2 percent (Singer et al, 1970). An increasing share of this dispersed R&D occurs as a result of outsourcing by global TNCs, particularly to China and India (Bruche, 2009).

The recognition of China’s growing innovation capabilities generally focuses on companies such as Huawei (currently the worlds second largest telecoms company), Haier (the world’s second largest white goods producer) and COSCO (dominant in the global container trade) (Zeng and Williamson,

⁶ Because of the financialisation of commodity markets, their prices are likely to be more volatile than those of manufactures,

2007). But below the radar is a thrust of technological progress of a very different sort. Spurred by demand from low income consumers (see the following section), low labour prices and often poor infrastructure, China is becoming a source of appropriate technology, that is, appropriate for the operating conditions of low income economies. But unlike previous vintages of appropriate technology which were diffused by NGOs and were often inefficient, this new generation of appropriate technologies coming out of China (as well as India, Brazil and other emerging economies) is a result of profit-seeking capitalist entrepreneurship (Kaplinsky, 2010d). There are many examples of these rapidly-diffusing technologies such as the motorbikes in Cameroon which sell at one-third of the Japanese competition and which have enabled youth to enter the economy as taxi-drivers and logistics providers, and the light-plus-phone-solar-charger in Kenya which retails for \$39.

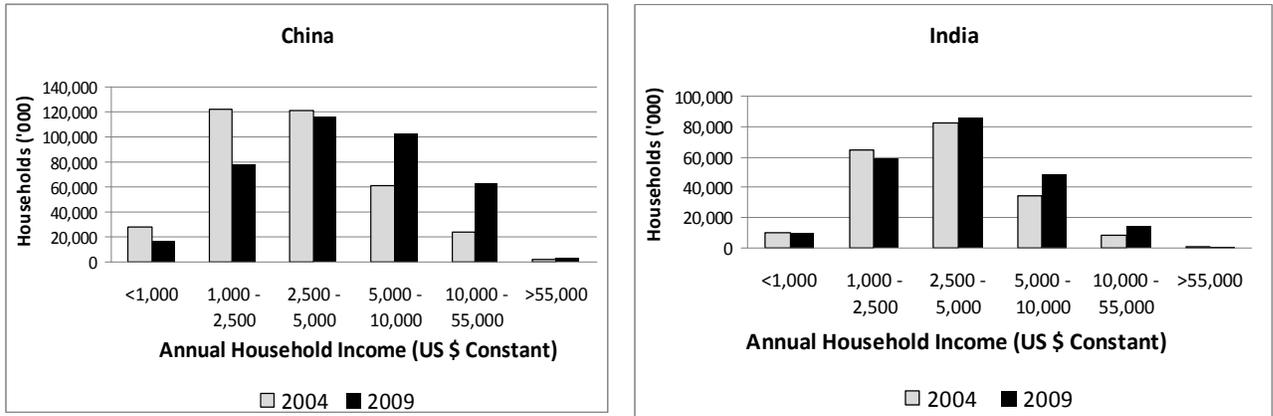
Shifting markets

Despite the revival of economic growth in the USA and other northern economies after the financial crisis of 2008, most of the high income markets continue to experience two structural deficits. The first is with regard to debt, where despite a narrowing of deficits in the private sector, sovereign debt remains high and continues to grow. The second, less widely recognised but equally germane to our discussion, is the level and persistence of balance of payments deficits. The structural rebalancing required to meet both of these deficits will necessarily lead to a decline in demand in high income markets, whether resulting from orderly or disorderly process of adjustment (Kaplinsky and Farooki, 2011). Increasingly, and with some irony, observers refer to the likelihood of a “lost decade” in the US and parts of Europe, mirroring the experience of Latin America and Africa in the 1980s and of Japan in the 1990s. By contrast, China, India, Brazil and other emerging economies seem unlikely to suffer from the same growth trauma, and growth in these low income economies is likely to remain high and robust, at least by comparison with the northern economies. The Africa-Asia-Central Europe head of Unilever estimated in 2010 for example that, by 2020, nearly 80 percent of incremental consumption growth will come from emerging economies.

These growing low income economy markets are distinctive. On the one hand, they reflect a rapid growth in demand by an urban middle class which is not very different from most consumer markets in the north, searching for globally-branded, differentiated and high-quality positional goods. For example, in 2010 the most rapidly-growing market for Mercedes Benz and Rolls Royce cars was in China. But on the other hand, there is an expanding and very large market of poor consumers. In particular, in China there is a clustering of households with total household incomes of less than \$5,000 in 2009. In 2009 they comprised 56 percent of all households in China.⁷ Critically, incomes in this category of income recipients is growing rapidly.

⁷ Similar patterns can be observed in India, another very large Asian Driver economy. There 71 percent of households had a total income of less than \$5,000 in 2009. According to McKinsey calculations, the number of Indian households with an annual income between \$7,000 and \$10,000 will catapult from 14m to 200m between 2010 and 2015 (Financial Times, 5th January 2011).

Figure 2: Number of households, by disposable income, China and India, 2004 and 2009



Source: Compiled from <http://www.portal.euromonitor.com> accessed July 2010

It is the driving of consumption by low income households which is inducing the new stream of below-the-radar appropriate technology discussed above. As McKinsey advises its clients, these innovations will be distinctively different from those produced for high income global consumers, somewhere between the positional goods of high income consumers and the basic functions and low acquisition cost goods of the very low income defined by Prahalad (2005) as those at the “bottom of the pyramid”. It is this “bottom of the pyramid” market which has begun to draw the attention of many of the world’s largest TNCs, particularly those selling final consumer goods such as Unilever, Proctor and Gamble and Nestles. Low income consumers may prefer “high quality” branded goods, but they lack the incomes required to both acquire and then consume these more expensive goods. In these circumstances they will make do with what they can afford, rather than what they would prefer to consume.

A further important reflection of the changing geography of global consumption has been the shift of final market in many sectors from high income countries to low income countries. This has had important implications for the role of standards in global value chains. Products destined for high income consumers and countries have tended to involve the extensive use of both product and process standards. By comparison, products destined for low income markets have been relatively devoid of standards (Kaplinsky, Terheggen and Tijaja, 2011), removing some of the barriers to entry for small scale producers. However, insofar as these standards have protected the environment and the exploitation of vulnerable labour, there has been some trade-off between the various consequences of production processes and products which affect poor producers and consumers.

3. CHINA AND INCLUSIVE GROWTH IN SSA

Gathering together the threads of the discussion in Section 2 above, outside of China we observe a widespread tendency for rapid growth to exclude a significant segment of the population from employment and other sources of income, particularly in SSA. Related to this, and unlike some countries in Latin America with social democrat governments redistributing income through increases in the social wage (Cornia, 2011), SSA has witnessed a marked rise in income inequality during these decades of deepening globalisation and rapid growth. Much of the explanation of this sorry distributional story arises as a consequence of China's rapidly growing global economic footprint.⁸ Its prowess in manufacturing forecloses the opportunities for labour-intensive manufactured exports for most SSA economies, and creates enormous pressures for domestically-oriented industry. China's abundance of cheap, experienced and skilled labour makes it (and the surrounding east-Asian production system) the favoured site for outsourcing in global value chains, again foreclosing the hopes of many that African labour will come to play a key role in global production networks in the foreseeable future. Moreover, whilst terms of trade reversal provides substantial resource rents for many SSA economies, many resource-sectors are not just highly capital-intensive (particularly oil and mining), but are susceptible to kleptocracy, hence embedding organised and anarchic corruption which not only undermines the legitimacy of governance but also promote civil wars. Insofar as the hard and energy commodity sectors employ labour, this is often disproportionately weighted in favour of expatriate skills and highly skilled locals, again excluding the poor from the fruits of production.

It might be thought from this that China's impact on growth in SSA is inherently exclusive in distributional terms, both as a direct consequence of bilateral links (for example, through the destruction of domestically-oriented industry by imports from China) and indirectly (for example, by foreclosing participation in third-country markets and as a result of capital-intensive resource investments). Indeed, as a generalisation, this negative perspective on the impact of China on SSA suffuses much of the literature which tends to focus on China-as-threat rather than China-as-opportunity. It is also a particularly northern-sourced view, since China's impact on SSA is often seen through more favourable lens in Africa itself. Either way – whether seen as China-as-threat or China-as-opportunity - much of the discussion is crude and un-nuanced. In an attempt to deepen our understanding of these issues, I now address four factors where I believe there are signs that China's growing presence in SSA may simultaneously also be promoting of less unequalising and less impoverishing outcomes

Consumer welfare and cheap wage goods

The impact of cheap Chinese imports in lowering the cost of living is well-observed in northern economies, where it is widely recognised that falling prices of clothing, footwear and electronic goods were a major contributor to

⁸ Of course, as we observed in the previous discussion, China-related factors are not the only source of sustained impoverishment in low income countries or of the current emerging global economic crisis.

subdued inflationary pressures after 1995, and particularly during the first decade of the noughties. A similar story can be told for many SSA economies, although the level of empirics to substantiate these observations is thin. One study undertaken in South Africa does however provide compelling evidence of the benefits to consumers in general, and to poor wage-earners in particular of cheap imports from China (Morris and Einhorn, 2008). It charts the dramatic growth of Chinese clothing imports into South Africa, growing from \$223m in 2000 to \$1,123m in 2006. China's share of clothing imports (excluding those from Hong Kong) rose from 16.5 percent in 1995 to 78.8 percent in 2005. As Morris and Einhorn observe, "[l]arge-scale imports of clothing from China had become the order of the day" (ibid: 363). Assessing the impact of these imports on different types of consumers, they observe a disproportionate decline in the prices of products purchased by low-income and middle-income consumers – high-income consumers were more design- and quality-, and less price-conscious. Using baby clothes as an indicator of a standardised low-income consumption basket (a choice informed by the retail industry's knowledge of purchasing patterns) they record a more than fourfold increase in imports from China between 2002 and 2005. During the same period, as Table 2 shows, they record a substantial and sustained fall in unit clothing prices. These benefits arising from access to cheap imports are not confined to the consumption-welfare impact on the poor. They also have a growth-impact on other sectors since falling prices of wage goods reduce the costs of reproduction of the labour force and moderate wage pressures in other sectors.

Sales price percentage change for retailers targeting the lower and middle income market (%)

Product Category	Summer 2003	Winter 2004	Summer 2004	Winter 2005	Summer 2005
Infants	7.09	-2.16	-10.12	-16.41	-10.94
Girls	9.82	-0.02	0.52	-9.86	-10.35
Boys	10.60	6.27	0.12	-7.52	-8.78

Source: Morris and Einhorn, 2008

Of course, growing imports and falling import prices are not a story of unambiguous welfare gain, since they occur at the cost of labour previously employed in domestic industry who are displaced from the market. There are however very different estimates of the numbers of displaced workers. The South African trades unions claim a loss of almost 65,000 jobs in the clothing and textile sector between 2003 and 2006, but Morris and Edwards conclude that this is an overestimate, masking the informalisation of much employment, since in their recorded sample, the number of clothing workers employed in the formal sector declined by 26 percent (26,269 workers) between December 2004 and December 2007, but the number of firms only fell by 11 percent in the same period (Edwards and Morris, 2007)..

New markets

The rapidly-growing onset of structural crisis in the north will undoubtedly also spill over into the southern economies in general, including to China where the recent growth trajectory has been heavily reliant on exports to the north. Nevertheless, there is widespread agreement that whilst there might be a

slowdown in the Chinese economy, its rate of growth will remain positive and high, and will almost certainly involve an expansion of domestic demand and an increase in imports. But what types of imports will be involved?

Insofar as China has been a major exporter of manufactures, the imports feeding with its export trajectory have often been of a high-tech nature, and although Chinese technological capabilities are growing rapidly, much of its manufacturing sector merely assembles imported components. For example, the export value of an iPhone assembled in China is \$178.96. but the value actually added in China was only \$6.50 (Xing and Dutert, 2010). This pattern of trade composition – high tech component imports to feed high-tech assembled products - reflects the nature of the final market into which Chinese producers where consumption is driven by high per capita incomes. With regard to the domestic market, on the one hand, there is a rapid growth in demand by an urban middle class which is not very different from most consumer markets in the north, searching for globally-branded, differentiated and high-quality positional goods. For example, in 2010 the most rapidly-growing market for Mercedes Benz and Rolls Royce cars was in China. But on the other hand, there is a rapidly-expanding and very large market of poor consumers. In particular, as we saw above, there is a clustering of households with total household incomes of less than \$5,000 in 2009, comprised 56 percent of all households in China in 2009 (Figure 3).

The rapid growth of the Chinese domestic market will provide opportunities for SSA exporters, almost certainly greater opportunities than an equivalent growth in high income markets. But there are distinctive characteristics to the growth of demand in low income economies such as China. First, as we observed above (and as documented in Farooki and Kaplinsky, 2012), consumption growth in low income markets is particularly resource intensive, forcing SSA economies into resource-dependence. Without countervailing policies (see below), this resource dependence is unlikely to have significant spillovers to the poor and excluded populations in SSA. Second, the emerging evidence suggests that countries switching their markets from high-wage and environmentally-conscious northern economies to low-wage and less environmentally-aware low income countries experience a fall in the degree of value added to their exports (Kaplinsky, Terheggen and Tijaja, 2011). This is because low income importing countries have similar wage rates and environmental indifference to low income exporting economies, and seek to compete in those parts of the value chain which high income importing economies were happy to see undertaken abroad. And, third, consumers and governments in low income countries are less concerned about process and product standards such as child labour, rights-of-organisation and environmental standards. Insofar as standards have been a barrier to entry for poor producers and illiterate labour in global value chains, this provides more scope for small scale producers and unskilled labour. Fourth, low income consumers are less concerned with product quality, reducing the barriers to entry by relatively unsophisticated African producers.

Making the most commodities⁹

As observed above, there are strong grounds for concluding that despite high volatility, the relative price of commodities will remain high for some years to come, and this arises in large part from the rapid growth of the Chinese economy. This provides resource exporting SSA economies with substantial potential resource rents. But as the resource curse literature points out, it is the way in which these rents are utilised which provides the potential for more inclusive growth paths. Here it is helpful to turn to one of the pioneers of development studies, Albert Hirschman. Hirschman, reflecting on spillovers from the resource sector in the post-war decades identified three different types of linkages (Hirschman, 1981). The first are fiscal linkages, in which a share of resource rents are appropriated and diverted to the development of non-resource sectors of the economy. The second are consumption linkages in which incomes earned in the extraction and processing of linkages increase the demand for the output of domestic industry. The third type are production linkages, feeding inputs into the resource sector (backward linkages) and processing the output of the resource sector (forward linkages).¹⁰

Applying this threefold distinction to the issue of inclusive growth, it is clear that governance and policy have an important role to play in distributional outcomes. Hitherto the political economy of much of the resource sector in SSA has been such that it has acted to strengthen exclusion rather than to promote the upgrading of poor producers and the inclusion of the marginalised from the productive sector. But this is not the only possible outcome arising from the expanded resource rents generated by a sustained commodities price boom. It is possible to conceive of policies which provide for the development of linkages which favour poor producers, both in those sectors unrelated to commodities (fiscal and consumption linkages) and to those feeding directly into and out of the resource sector (Kaplinsky, 2011b). In particular, in the case of productive linkages, disproportionate policy attention has been given to forward linkages benefiting the output of the resource sector, and there are unexploited opportunities available for the expansion of backward linkages (Morris, Kaplinsky and Kaplan, 2011c). In many cases, backward linkages are more labour intensive in nature (for example, catering, security, plastic pipes, machinery repair) than forward linkages (for example an aluminium smelter or petroleum refinery). However, as in the case of SSA's past growth-trajectory, the development of linkages *per se* will not necessarily be promoting of a more inclusive growth path. This requires the adoption of a range of complementary policies, which in turn reflect wider issues of political economy (which in turn are not unrelated to the politics of resource extraction). These issues of political economy are similarly also affected by the particular approach adopted by China's tolerance of repressive regimes, although it would be wise to recognise the likely dynamism of China's links with SSA governments and elites. For example, when more Chinese workers are kidnapped or killed in African war zones, and when it is Chinese rather than northern firms whose assets are appropriated

⁹ The discussion in this section draws heavily from a recently completed collaborative research project undertaken by researchers in nine SSA economies – Morris, Kaplinsky and Kaplan, 2011a, 2011b, and 2011c)

¹⁰ These three sets of linkages are elaborated in Kaplinsky, 2011b.

(or misappropriated), it may well be the case that China's position of "non-interference" will change in the future.

Entrepreneurship

Whatever the ideology of policy – growth strategies, pro-poor growth strategies, green strategies, etc – the real driver of growth is likely to be naked capitalist greed,¹¹ aided to varying degrees by a capital-friendly state. But capitalism has a variety of faces – the question is whether the forms it takes in particular environments is promoting or destroying of inclusivity. Leaving aside for the moment the extent to which a developmental state may use resource rents to promote fiscal linkages in other sectors which serve the needs of the poor and which incorporate the poor in value chains (as is argued to be the case in some Latin American economies – Cornia, 2011), the critical issue is therefore the nature of entrepreneurship in the productive sector as a whole. Here, as a general rule, small scale and distributed capital is more likely to be promoting of inclusive growth than large scale and centralised capital. This does not mean that small scale entrepreneurs are in some sense more benevolent than their large scale counterparts – to the contrary, they tend to pay lower wages and adopt less labour-friendly labour processes. But in general their production systems are more labour-intensive, they are more dispersed regionally, they are more tolerant of poor infrastructure and they tend to produce products for poorer consumers.

China's presence in SSA links to the dynamism of small scale entrepreneurship in two major ways. First, the capital goods and business systems emerging from China's "below-the-radar" innovation system are particularly appropriate for small scale SSA entrepreneurs (Kaplinsky, 2011d). Beyond the cheap clothing documented above are a stream of (undocumented) capital goods which casual empiricism suggests are diffusing increasingly rapidly throughout SSA. The examples of cheap motorcycles and solar chargers have been mentioned above, but these are merely the tip of an iceberg which includes cheap (and easily repairable) tractors and other types of farm mechanisation equipment, packaging machinery, woodworking machinery, metalworking machinery and capital goods used in a wide variety of industries. These reduce the barriers to entry for small scale and distributed producers.

Second, a weakly-recorded phenomenon but of considerable importance, is the rapid growth of a stream of informal Chinese "migrants" throughout the SSA economy. There are wildly different estimates of the numbers involved (ranging from 250,000 to well over one million) but fetishising numbers misses the point. Visits to rural areas or petty commodity and informal sector districts in almost every African country shows a rapidly growing presence of people of Chinese origin. My colleague Ben Lampert, who has worked for some years in West Africa, relates that whilst walking around predominantly low-income areas of Lagos, the obligatory salutation of 'oyinbo' [pronounced oyeebo] (=white man) have on recent visits come to be increasingly

¹¹ The quest for "Schumpeterian rents" is currently the friendly face of this greed, elevated to virtue in previous centuries by Adam Smith

interspersed with calls of ‘Chinco’ or ‘Mr Wang’ (=Chinese man). These “migrants” are a vibrant source of SME growth which has two potential spinoffs in promoting more inclusive growth – they provide employment to local labour, and they are important entrepreneurial role models. This latter phenomenon is particularly distinctive from the entrepreneurship associated with northern citizens, since whereas Chinese migrants often live and work in low income housing areas and in conditions similar to the indigenous population with whom they mingle (Mohan et. al.; 2011). European, North American, Middle Eastern and North Asian citizens tend to be based in high-cost protected ghettos.

On the other hand, not all Chinese entrepreneurship displays these characteristics. Indeed, the pervasive received wisdom of Chinese enterprises in Africa is of large SOEs importing virtually all of their inputs from China and employing low-skilled, low-paid Chinese prison labour who live in barbed-wire compounds. There may be elements of truth in this story. For example, it is the case that the import content of many large scale SOE firms operating in infrastructure projects in countries such as Angola is high (Corkin, 2011). It is also the case that many of these large construction firms, and some of the Chinese mining firms such as those operating in Zambia’s copper sector, do employ large numbers of Chinese workers. Moreover, It is also often the case that by comparison with their northern counterparts they invest less heavily in supply chain development (although in Zambia they perform better than the Indian-owned mine – Fessehaie, 2011). But there is also a great deal of myth surrounding the character of large Chinese firms. I have not seen any documented cases of prison labour being employed in Chinese firms operations in SSA. In other cases, the employment of foreign nationals is not at the cost of indigenes, but due to a shortage of labour. The imported labour is of Asian origin, but to locals (and indeed northern journalists!), all Asian are classified as Chinese. Thus Mohan records that Chinese construction firms in Ghana employ Pakistani drivers, but these are spoken of as being Chinese (personal communication). In Gambia, timber firms of Malaysian origin are widely regarded as Chinese firms (Terheggen, 2010). Nevertheless it is also the case that Chinese firms in many of SSA’s resource sectors either do not source as much from local suppliers as do their northern counterparts, or when they do (as in Sudan’s oilfields) they bring their Chinese suppliers with them. It is likely that the seven Special Economic Zones (SEZs) currently under construction in Egypt, Ethiopia, Mauritius, Nigeria (two), Uganda and Zambia will be largely populated by Chinese owned firms (Morris, Kaplinsky and Kaplan, 2011b).

4. CUI BONO?

We are thus left with a complex picture. The distributional outcomes of growth are a combination of political and economic forces. In turn, the economic character of growth reflects a combination of technical factors (for example, scale, complexity and the factor-intensities of technology) and social and political factors. In these circumstances it is foolhardy to generalise about the impact of China’s presence in SSA in terms of its inclusivity and exclusivity.

The outcomes will always be contextual, and moreover inherently dynamic as a consequence of both developments endogenous to a host-country in SSA and to exogenous factors in China and elsewhere in the global economy.¹²

Nevertheless, despite this need for a nuanced contextual analysis, we can point to a series of underlying influencing factors which arise from the character of China's political economy and the speed of deepening global presence and which affect the inclusivity of growth paths in SSA. First, there is undoubtedly an important enhancement to the welfare of low income consumers arising out of the flooding into SSA of cheap consumer goods. Although this is often at the cost of domestic enterprises (as in the case of Ethiopia's shoe industry (Egziabher, 2006) or South Africa's more developed clothing sector (Edwards and Morris, 2007), in general the costs are felt by traditional northern exporters of these goods to SSA or of suppliers based in other low income economies (including South Africa which has been a growing exporter of manufactures into the region).

Second, China's thirst for natural resources has led to a historically-significant shift in the commodities-manufactures terms of trade. This indirect impact has important implications for the inclusivity of growth paths in Africa. In the hard and energy commodities sectors, which tend to be very capital intensive and open to kleptocracy, the overall impact is likely to be to reduce inclusivity unless the resource boom is managed by an efficient and redistributive state. In Latin American countries such as Brazil, resource rents have been used to increase the social wage, and in both Botswana and Namibia, the introduction of pensions has similarly been funded by resource rents. The same cannot be said for Gabon and most other SSA countries however. In the case of soft commodities, the likely long-term increase in food prices (Farooki and Kaplinsky, 2012) may provide the potential for rising farm incomes although in many respects rising commodity prices increasing costs and hence may lead to static and even perhaps falling incomes for farmers, including for low-income small and medium sized farmers.

Third, the growth of China's domestic market, made up largely of low- and middle-income consumers, will create a demand for imported products, many of which can in principle be sourced from SSA. Hitherto, outside of the commodities sector, there is virtually no evidence that African producers have been able to take advantage of these opportunities, despite the introduction of trade preferences for African producers on 454 products (to be increased to almost 5,000 products by 2013). It may transpire that, as in the case of round-tripping "FDI" from Hong Kong to China, it will be Chinese firms operating in SSA who take advantage of these trade preferences rather than SSA owned firms. Moreover, as we have seen, insofar as SSA commodity producers have exported into China, this has involved a weakening of labour and environmental standards, with complex distributional implications (including the pattern of distribution over time, as is particularly the case with

¹² For example, as Gu (2009@) observes, the presence of many Chinese registered SMEs in SSA arises in large part from intense competition in the Chinese market.

environmental externalities where short-term employment gains are accompanied by long-term social costs).

Fourth, and this is a case of a relatively unambiguous boost to growth-inclusivity in SSA, new technologies are emerging from China which provide the potential for a growth path making use of profit-generating appropriate technologies. These will increase employment and provide the potential for smaller scale and distributed production.

Fifth, the evolution of SSA growth-paths is a function their political character. Class is an important part of this story, and as Mohan et al show (op. cit, 2011), in many respects class interests between Chinese and Nigerian workers and the Chinese and Nigerian managerial elite are becoming more important as a determinant of social interaction than ethnicity. Here we can point to two countervailing tendencies. On the one hand China's growing presence in SSA provides a boost to petty-bourgeois capital, arising in part by the technologies made available to promote indigenous SMEs and by the growing presence of Chinese-owned and operated small scale firms and farms. On the other hand, and particularly in the hard and energy commodities sectors and in the large scale infrastructure and building sectors, China's presence reinforces the power of big capital and parasitic state-origin rentiers both in SSA itself and in China. The central lesson which we draw from this is that the questions of inclusivity and distribution are more complex than they seem. It depends on the "who" in both China and SSA, the context, the sector and the time. Thus, seeing the issue as one of "China-as-threat" or "China-as-opportunity" is neither adequately nuanced nor analytically helpful.

But why should we expect anything else...?

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