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ASIA-AFRICA TRADE TIES: IS AFRICA DIVING INTO A DEBT TRAP?

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ABSTRACT

This paper reviews the Asia-Africa trade ties by examining the history and trends of the commercial transactions between the two continents. The study noted that the early 2000s portrayed moribund international trading relationships between Africa and Asia while mid-2010s have shown increasing commercial interests in Africa by the Asian counterparts. The study relied on secondary data from global databanks with information on international trade. The current trade wars between China and the U.S were noted to be a contributing factor in the increasing commercial interests of China in Africa; especially regarding its ever-increasing demand for energy and raw materials. The paper highlights challenges, opportunities for establishing mutually beneficial trade ties, as well as possible suggestions on best practices to deter Africa from diving into a debt trap. The study provides a springboard upon which further research and debates on Asia-Africa trade ties can be conducted to inform policy formulation and implementation in Africa.

Keywords: *Asia-Africa, international trade, debt trap, policy formulation and implementation*.

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"There are two ways to conquer and enslave a country," American statesman John Adams (U.S. president from 1797 to 1801) famously said. "One is by the sword. The other is by debt."

Introduction

Africa and Asian trade ties have blossomed over the past few years courtesy of the burgeoning middle class and economic growth in Asia and Africa respectively (Broadman, 2007). The trend in the strong ties between Africa and Asia has been sparked by the continually integrated global marketplace. The evolution in the trade ties between Africa and Asia is likely to be sustainable and would have diverse economic, policy, and developmental implications to millions of Africans. China, for instance, has turned to Africa for resources such as energy and other raw materials needed to sustain its industrialization. Despite China's diverse business pursuits in infrastructure, telecommunications, agriculture, and manufacturing sectors, it has received criticism from some Western and African civil society groups for its controversial business practices, disregard for corporate governance, and failure to uphold human rights (Albert, 2017).

In spite of the negative views about Asian business practices, some African countries appear to be content with China's policy. During the 2015 Asian African Summit in Jakarta, Indonesia, Joko Widodo and Xi Jinping reiterated the need to build new international economic order that is open to new economic powers by encouraging cooperation between Asian and African nations (Dominguez & Lastchan, 2015). The economic and investment ties between Africa and Asia have been greatly transformed by China's ascendancy to become the world's second largest economy. This tremendous growth of Chinese economy through industrialization has prompted the need for resources and energy and Africa has been a great partner.

Although there exist development disparities between Asia and Africa, particularly based on the sizes of their economic muscles, these gaps are expected to be bridged with time. Africa is considered the exporter of raw materials while Asia as the 'factory of the world' thus portraying the comparative advantage of each region. Gathii (2011) notes that China and India, two of the largest Asian economies, are at the centre of the race for Asia-Africa trade and investment ties alongside the United Kingdom and United States as the main Western competitors. This paper provides a review of trade ties between Africa and Asia, emerging challenges, and recommends suggestions for fostering mutually beneficial links between the two continents.

Theoretical Review

2.1 Theory of Comparative Advantage

The theory of comparative advantage was proposed by David Ricardo in 1817. The theory was an improvement on Adam Smith's theory of absolute advantage. Ricardo proposed that even if a country has an complete cost advantage in the production of both commodities, a reason for mutual trade could exist. The theory affirms that a nation ought to specialize in and export the good where its absolute disadvantage is the least or where its absolute advantage is the greatest (Carbaugh, 2016). The overarching principle under the Ricardian model is that cross-border trade results from international variations labour productivity. The conventional premise of this theory is that nations usually export products in in which they have a comparatively higher labor productivity.

Comparative advantage is a principle that offers fundamental insights that economists have offered to explain the trends in international trade. According to Cukrowski and Fischer (2000), this model contributes to international economics theory by showing that differences in technology (with other factors held constant) result in trade. Changes in technology influence efficiency and hence the costs of production. The Ricardian model also suggests that free trade cannot diminish the welfare of any of the involved parties. The relevance of this theory is based on its limitations; it applies to a two-nations-two goods-and-one factor (labor) model yet it is apparent that countries trade with multiple other nations and their comparative advantage is not dependent on labor productivity alone. Aspects such as technological advancement, transport costs, cultural diversity collectively influence international trade links.

2.2 Theory of Mercantilism

This theory was greatly used by ancient economist between 1600s and 1700s where international trade was considered as a zero-sum game. Some politicians such as Jean-Baptiste Colbert were great believers in this theory which suggests that the wealth of a country (measured in terms of gold and silver at that time) was fixed and that a nation that exported more and imported less would have positive inflows leading to the nation being richer. On the contrary, a nation that experiences trade deficit would have its gold and silver flow out ultimately become poorer. This meant nations were protective of their resources and advocated for “bullionism”.

Mercantilism theory laid the basis for other subsequent theories and policies such as protectionism. During the 2008-9 financial crisis, some politicians advocated for protectionism and recently Donald Trump set tariffs on Chinese imports as a “protective trading strategy” in the Sino-American trade wars. The trade wars between huge global economic players such as China and the U.S form the relevance of this theory as Africa has bilateral trade ties with these economies. Mercantilism is critiqued to have considered the development of trade and industry, mainly in the physiocratic context, in which land development (natural resources) was the most productive and advantageous form of economic activity (Herlitz, 1964).

2.3 The Product Lifecycle Theory

This theory was initially proposed in the 1960s by Raymond Vernon and Seev Hirsch and it was aimed at explaining changes in the patterns of international trade over time (Peng & Meyer, 2016). Vernon categorized the world into three groups; lead innovation nation (according to him, USA); other developed nations; and developing nations. The author also noted that a product has three lifecycle stages; new, maturing, and standardized. In the initial stage, production of the commodity that commands a price premium will concentrate in the U.S, then it exports to developed nations. In the second maturing stage, demand and capacity to produce grows in other developed nations. Finally, when the new product is standardized, demand and ability to produce grows in developing countries.

The relevance of the product life cycle theory is pegged on the role of technological advancements in altering trading patterns of commodities among nations (Peng & Meyer, 2016). At the introduction stage of the product life cycle, the innovators establish technological breakthrough and exports to other developing nations (for instance, U.S exporting to Australia and/or Japan). Later as the product matures and finally becomes standardized, production in developing nations becomes more feasible as they have factor endowments of resources in terms of cheap raw materials and labor (Carbaugh, 2016). The limitations of this theory arise from its assumption that the U.S will always be the lead innovator and that the stage-by-stage production takes several years apart (which is definitely incorrect).

2.4 Empirical Literature Review

Drummond and Liu (2015) investigated the spill over effects of the rising exposure of Africa to China through trade. The authors noted that the rising trading links with China have not only enabled African countries to diversity their export spectrum across countries away from developed economies but also made sub-Saharan Africa (SSA) countries susceptible to spill overs from China. The authors found out that a 1% change in China's domestic investment growth is associated with 0.6% change in SSA countries' export growth. The effect is even larger for resource-rich countries, especially energy exporters.

Vadra (2017) notes that there has been a growing interest of Asian countries, especially China and India in the African content, especially in search of raw materials, energy and other commodity exports. China and India have seen tremendous growth in their economies prompting the existence of oligopolistic rivalry for the African market by the two Asian economic giants. The demand for the African resources by these economies has resulted in increased commodity prices and expanded the economies of some African countries' economies whose exports are enmeshed in the natural resources. China, though came later than India, has more outward foreign direct investments in Africa than India. China and India are battling out on economic supremacy, with Africa as its battleground.

There has been a misconception that Africa-Asia trade refers to the trading and investment relationships between Africa and China. There are other Asian countries such as India and Japan whose international trading relationships with Africa date tens of years. For instance, by 2015, India's goods trade with Africa had amounted to over $59 billion and there are projections to increase the value to over $100 billion by 2020. Similarly, Japan has had long commercial, diplomatic, and aid relationships with Africa for a long time (and pledged a $30 billion investment in Africa by 2020). China's One Belt, One Road initiative is expected to develop trade and investment between the two continents meaning that smaller economies such as Myanmar and Singapore could be integrated in trade with the African continent.

Besada and O'Bright (2016) posit that the Sino-African trade ties are maturing based on the huge investments in the continent. China's Africa investment policy whose "no strings attached" has received criticism from the postcolonial counterparts who think that China is not concerned with the African's wellbeing but only for economic interests. China is known for non-involvement in political and governance issues of African countries unlike the strict and patronizing U.K and U.S counterparts. There is a need, however, for clear-cut policy framework developed by African countries to guide in their relationship with Asian countries so that sustainable international trading ties between the two continents can be established.

Dudzinski (2014) stated that China's commercial practices, although have promoted stabilization of commodity prices and increased exports by the African countries, there is a downside. The high demand for primary resources by China resulted in reduced demand for manufactured goods from Africa. The huge demand for raw materials and energy means that Africa becomes a victim of deindustrialization and competition from cheap manufactured goods from China.

2.5 History of African-Asian Trade Ties

Cheeseman, Whitfield, and Death (2017) argue that political independence created expectations for self-sufficient economies in Africa, more opportunities for entrepreneurs, and the general welfare of the populace through public investments in health, education, and infrastructure. These expectations were supported by the development economics after the World War II where nations focused on industrialization through national planning to foster domestic production and discourage reliance on foreign imports. In fact, between 1960 and 1980, manufacturing in Africa grew by almost 7%. This progress was stagnated by emergence of black market, smuggling, and government negligence in prioritizing mechanization of the farming processes. These trends result in reduced exports and turned to foreign loans to finance imported equipment and technology. African governments were gradually facing budget deficits and economic distress leading to their turn to International Monetary Fund (IMF). However, the structural adjustment programs by IMF resulted in deindustrialization, falling private and public investments, and ultimately reliance on foreign aid to finance budget deficits.

However, in the mid-2000s, the pendulum swung to the East. China's quick industrialization drove up commodity prices for raw materials and energy/fuel and offered the African market an option for trade, foreign direct investment, and official aid other than the dominant West (U.S and U.K). When China's export driven industrialization slowed down in the mid-2010s, some African countries such as Angola, Ghana, and Mozambique sought bailout from the IMF. Although African economies are more robust now than they were three decades ago, their extensive advancements in telecommunications and banking services are not sufficient to sustain desirable economic progress. African countries that adopted structural transformations in form of developing new export markets and increasing production for the local markets have withstood global economic downturns (Cheeseman, Whitfield & Death, 2017).

2.6 Trends in Africa and Asia Trade Ties

Romei (2015) noted that SinoAfrican relations entail diverse areas including finance, health, education and trade. Over the early 2010s, trade, finance, and investment relations between China and Africa indicated signs of weakening. The imports from Africa between 2011 and 2015 fell sharply with 2015 alone accounting for 32% drop in imports by China from Africa as portrayed below;

Angola, South Africa, Equatorial Guinea, Central Republic of Congo, and Zambia were the most affected as they were the main trading partners, accounting for more than 70% of all Chinese imports from Africa. However, China's exports to Africa continue to grow;

China's investments and lending for infrastructural development also took a nose dive between 2011 and 2015. Some analysts posit that the contraction in the Chinese imports from Africa was a recalibration of Chinese investments in Africa's infrastructure. China's main interests are in oil and gas resources.

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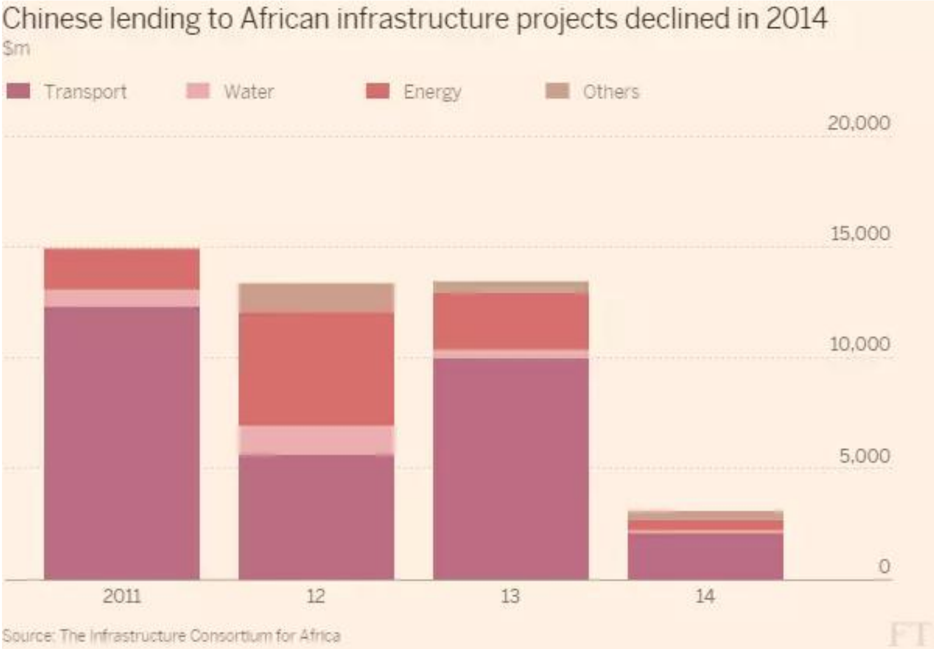
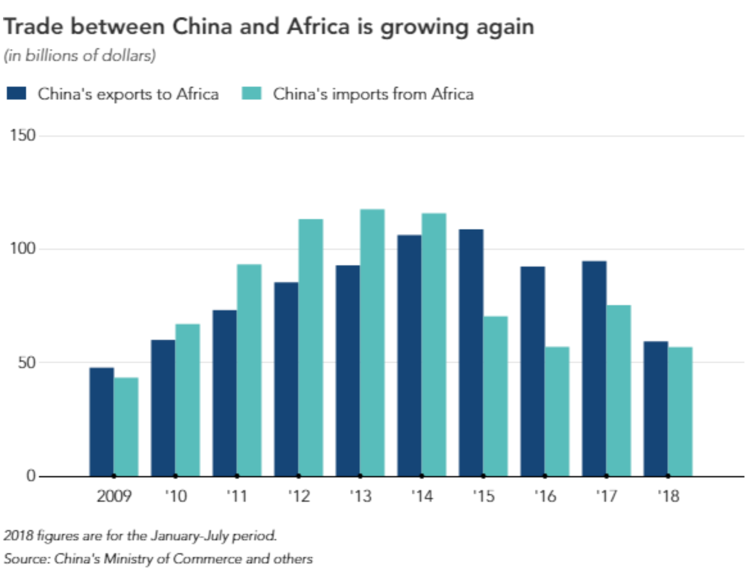


However, in a new twist, China's imports have substantially grown between 2015 and 2018 as a result of the trade wars between U.S and China as well as sanctions on the Iranian crude oil (Tabeta, Nagai, & Tobita, 2018). The push for revamping trade ties between China and Africa was hinged on China's efforts to promote free trade and oppose protectionism by the U.S.



The growing imports of manufactured goods from China to Africa does not appear desirable among some African leaders and this has prompted China to set up firms in Africa to create jobs for locals. However, some Africans consider China a great trade partner that does not withhold support due to concerns over democracy and human rights, as it is the case with most Western countries (Chellaney, 2018). There have been concerns that China is using debt to take control over strategic assets in Africa; this has happened in other parts such as Sri Lanka where the Chinese took ownership of the Hambantota Port under the 99year lease valued at $1.12 billion.

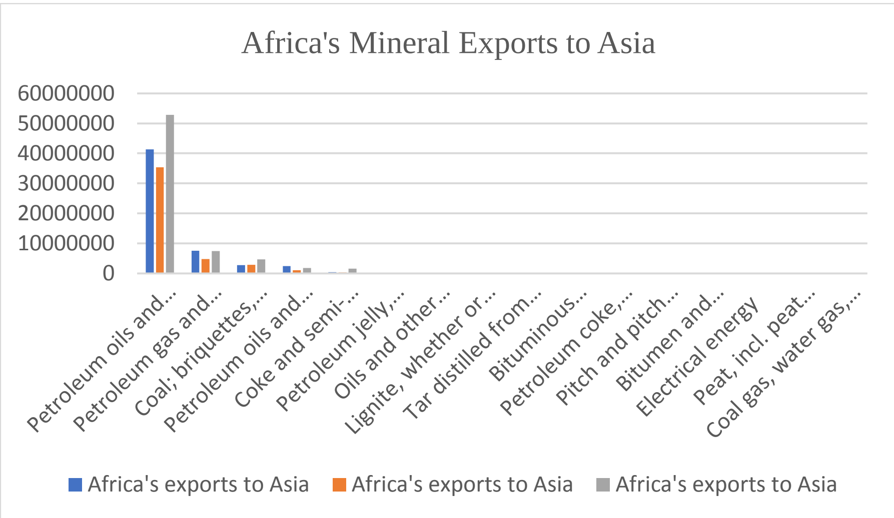
3 Data And Methods

This paper adopted a descriptive research design in which data was collected from existing databases on economic interactions among countries globally. The World Trade Organization (WTO), World Bank (WB), Thomson Reuters, the Infrastructure Consortium of Africa (ICA), and United Nations Conference on Trade and Development (UNCTAD). Data was analysed using Excel, SPSS (ver.24) and presented in charts, tables, and graphs.

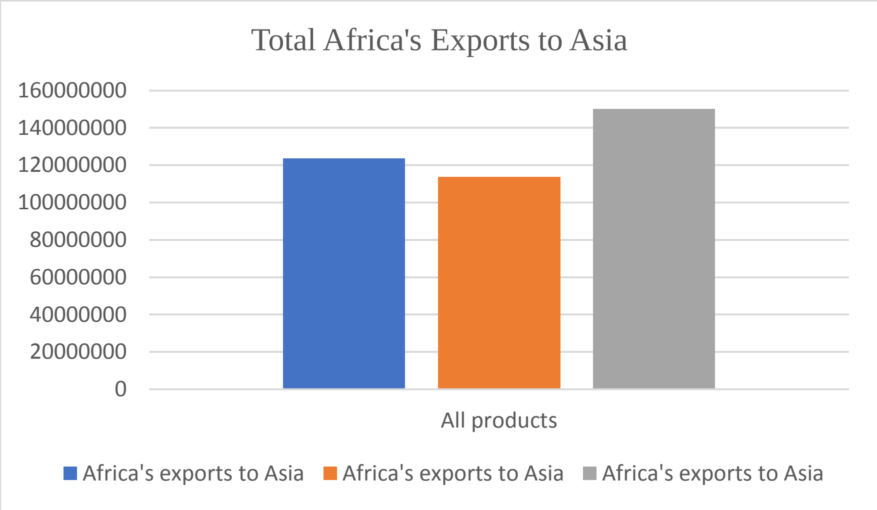
4 Results And Findings

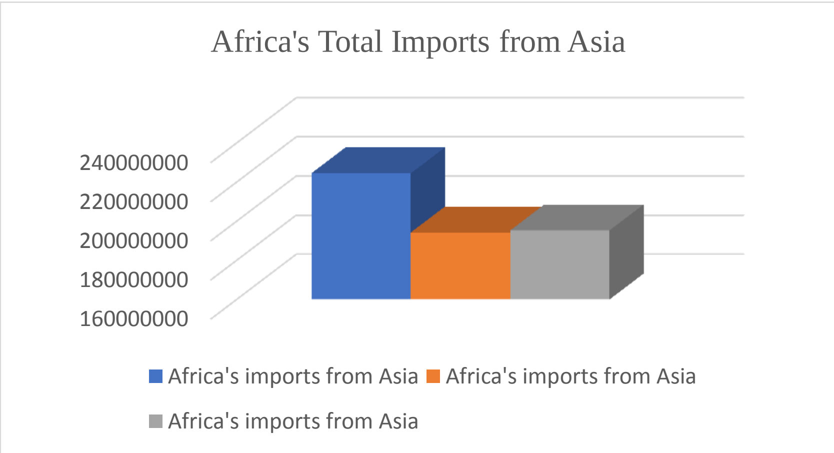
China and India are the main Asian economies fighting to have a piece of the African economic resources through establishing trade ties. However, Japan too, has strong ties with African countries and with the development of transport infrastructure linking Asia and Africa, other smaller countries such as Myanmar and Singapore are expected to establish stronger economic ties with Africa. The Association of Southeast Asian Nations (ASEAN) economies' emphasis on free trade and integration of global economies will result to both challenges and opportunities for the trading partners that need to be nipped in the bud or capitalized on respectively.

Africa is the source of raw materials such as energy and mineral resources; in fact, one third of China's energy resources, according to UNCTAD (2014), come from SSA. The energy sources form a vital trade link between Asia and Africa, especially based on the fact that China's demand for energy has been expanding twice more than the global average over the past decade (Omuroyi, 2015). Early 2000s saw a decline of Asia and Africa trade ties but this trend was rejuvenated in the mid-2010s and has been increasing ever since. The change in the trajectory of commercial transactions between the two continents has been partly been fuelled by the China and U.S trade wars and reforms in governance by some African countries.



Source: International Trade Centre.





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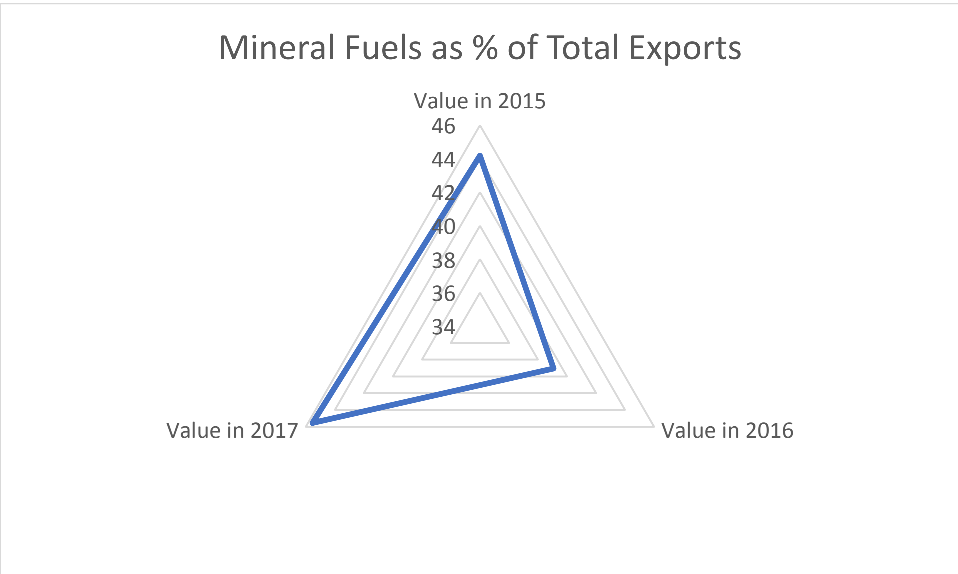

Source: International Trade Centre.

Challenges And Opportunities Relating To Africa-Asia Trade Ties

Taylor (2011) noted that while China has an Africa policy regarding trade and investments, African countries and the AU in particular, does not have a China policy. The non-existent Sino-African trade policies regarding Asian investments in Africa weakens the bargaining power of Africa in its engagements with China or Asia as a whole. Absence of a clear-cut policy on the commercial relations between Africa and Asia means that predatory African elites unconcerned about enhancing development following Asia's renewed interest in Africa by focusing on their selfish needs.

Africa's population is generally composed of young people and this is an indication that there is a continually growing labour force and market for commodities. The continued urbanization is associated with human development, improved living standards, and rising demand for products. Asia has an opportunity to invest in Africa's youths to develop their innovative, technical and entrepreneurial skills. African leaders, ought to front these suggestions to Asian investors so that the majority of the unemployed youths can find job opportunities.

China's disregard for best business practices is a challenge; in its quest to exploit resources, they plunder the resources without concern for the environment, importation of unskilled Chinese labor who are culturally ignorant and unwilling to integrate (Hurst, 2010). The historical ties that Africa and Asia have form a strong basis upon which trade ties can bolster and this requires a paradigm shift from the donor-funded programs to trade partnerships that focus on industrialization and collaboration in entrepreneurship, telecommunications, and financial sectors.

Differences in economic growth between economies could be explained by the interactions between China and India, while China focused on industrialization, India focused on the service sector. The result was China becoming the second largest economy in the world; being the largest import market and heavily reliant on exports for its GDP. The economic policies in this case cannot be overlooked; China has an export oriented economic policy while India focuses on serving the needs of its domestic market. The differences in these policies have meant that China attracts higher inward FDI than India making it (China) economically integrated with countries in Africa and Latin America. Africa too, needs to reassess its economic structures and policies to ensure it is industrialized and has appropriate policies that would attract FDI from developed economies.

5 Conclusion And Recommendations

The burgeoning middle class in Africa and Asia has been cited as one of the main reasons for the blossoming commercial ties between the two continents. China's growing middle class requires immense energy and raw materials for production of materials needed for production of commodities to meet their varying needs. Asia is considered as the factory for the world while Africa as the source of raw materials for the world; capitalizing on these strengths these continents can spur economic growth and expansion for each other. In early 2000s, trade between these two partners weakened but in mid 2010s, trading activities improved.

Heavy investments in infrastructure, research and development, and support from adjustable policies that would make Africa an equal partner to the Asian counterparts is inevitable. China and India are the main Asian economies whose interests in Africa have been profound. While China focuses on partnerships with state owned enterprises, India has mostly been engaging partnerships with private agencies. The trade wars between China and the U.S cannot be overlooked as the trade tariffs imposed by the U.S on Chinese products have partially acted as a catalyst for spurring continued Asian countries' interests in the African resources.

There are opportunities for Africa to unite as a single trading bloc and improve its bargaining power in light of its commercial interactions with Asia and the rest of the world. Policies for such commercial engagements ought to be developed and more emphasis placed on structural developments; industrialization and immense investments in infrastructure. The growing youthful population of the African continent can be used as leverage to support stronger trade ties between Africa and Asia. Training, research and development, as well as development of innovative, entrepreneurial and technical capabilities will bolster commercially profitable relationships between Africa and Asia.

Asia trading practices have been criticized as using debt to tie down African countries, lack of concern for human rights, disregard of environmental statuses in their quest for raw materials and minerals, and blatant ignorance of Africa's cultural practices and failure to integrate. For businesses to thrive, there is a need for both parties to improve their social and cultural relations too. Predatory African elites, especially government officials ought to be tamed by instituting policies that enhance transparency and accountability in usage of the funds meant for development projects. Internal governance mechanisms in government institutions ought to be improved coupled with efficiently working judicial systems so that perpetrators of economic crimes and corruption can be convicted and assets recovered from them to support developmental projects.

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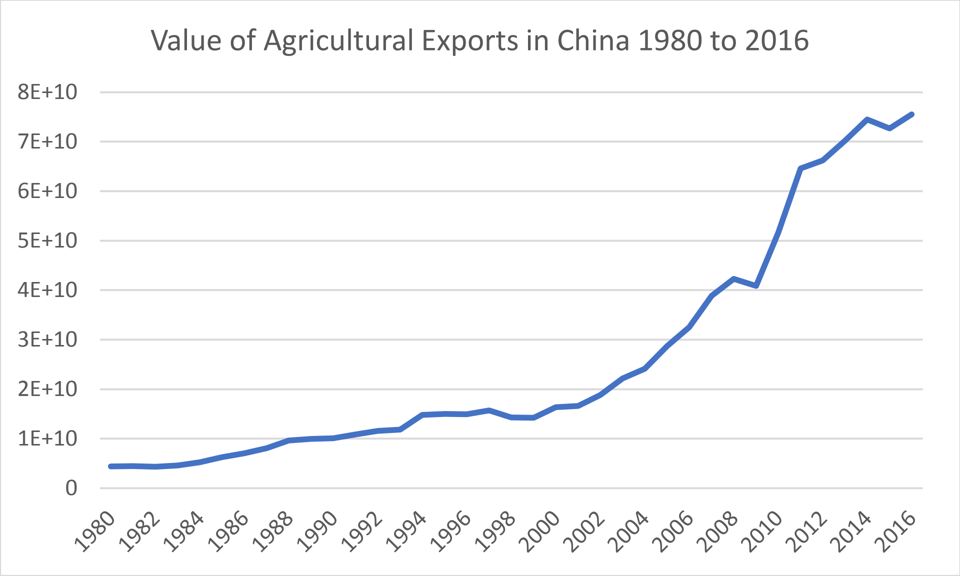
Appendices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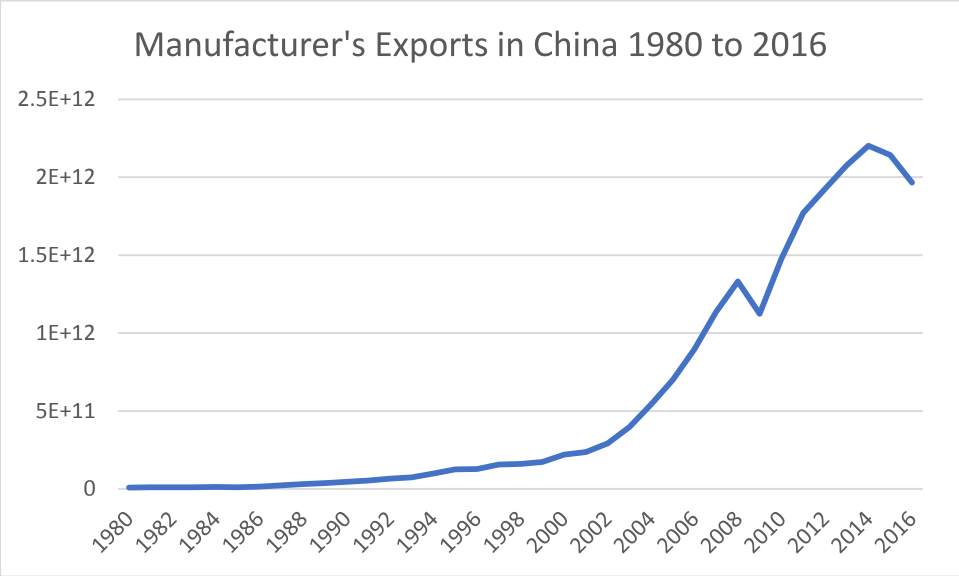
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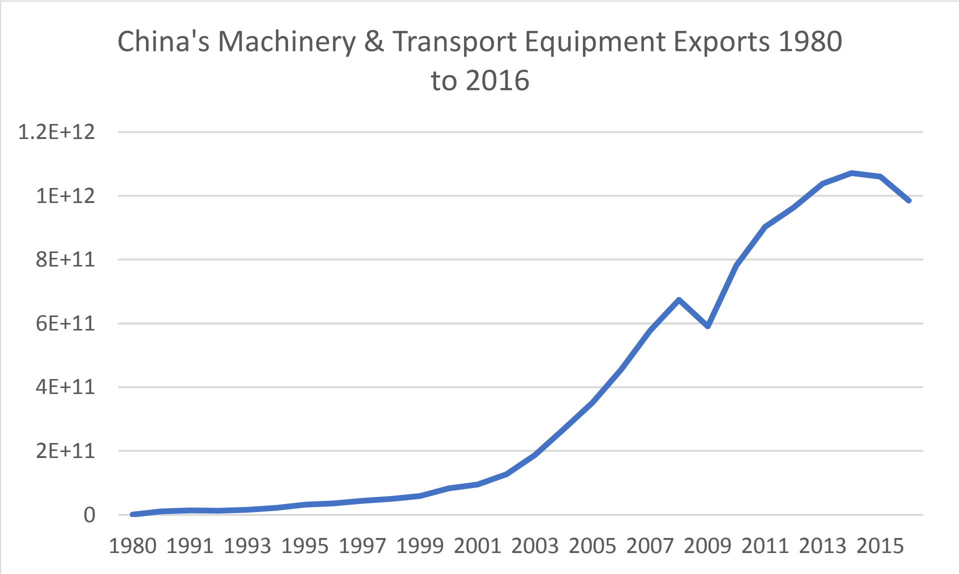
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