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The Impact of China-Africa Trade Relations: The Case of Cameroon

Xiao Xinsheng, Deputy General Manager of the Management Departments in Chad and Cameroon of CGC Overseas Construction Co., Ltd., and Ndanga Ndinga Badel, Minister of the Department of Industry, Mining and Technological Development of Cameroon, sign a Cooperation Framework Agreement on construction of a chemical fertilizer plant in Cameroon

By Sunday A. Khan, Francis M. Baye and Godwill K. Tange

Statement of the Problem

China's developing into a significant global-economic actor, is fundamentally changing the basic pattern of the world economy and politics. This is attributable to its huge population (about 1.3 billion) and spectacular economic growth (averaging close to 10% in the past two decades). The broad-based nature of its industrial development has generated a sustained and high demand for many different types of raw materials that are having a marked effect on international commodity prices. To secure a steady supply of these raw materials, China is establishing itself as an increasingly influential player across sub-Saharan Africa by way of a more Africa-oriented foreign policy.

The growth of China's trade with Africa mimics its trade in the world, though starting from a low level. According to Weizhong (2008), trade between China and Africa stood at US$935 million in 1990, and then increased to US$10.6 billion in 2000 and US$55.5 billion in 2006.

Apart from the rising volume of trade between China and Africa, the composition of the trade is also a matter of concern. Africa exports mainly minerals and raw materials to China, and imports essentially manufactured products. The perpetuation of this trade pattern raises questions about Africa's industrialization prospects and development as a whole. A related question is how Africa can change this trade pattern and access the Chinese market with manufactured and non-traditional exports.

After independence, Cameroon pursued a policy of import-substitution through the promotion of the competitiveness of local industries and the processing of local raw materials, with the hope of fostering the growth and development of the country. The State consequently set up huge agro-industrial complexes and also encouraged and supported the creation of small- and medium-sized enterprises owned by locals in a strategy that had been described as the domestication of enterprises by political entrepreneurs. With the structural adjustment programme in 1988, the import substitution policy was abandoned and the trade regime was subsequently liberalized. The State withdrew from direct participation in economic activities, like creating and running enterprises. Most of its loss-making semi-state enterprises were liquidated or privatized. Its role is now limited essentially to creating an appropriate environment for private sector investment – both local and foreign. Tariffs have been reduced, quantitative restrictions are limited and most of the exemptions accorded manufacturing firms have almost all been abandoned. Nowadays therefore, Cameroon does not have any official policy to protect local industries against cheap Chinese imports. Both countries are members of the WTO, which works against trade protection and Cameroon is constrained by it sub-regional obligations from negotiating unilateral trade deals with China. It will be interesting therefore to know how Cameroon will deal with the influx of cheap imports from China and the threat to its industrialization effort.

Under these circumstances and considering the relative comparative advantages of both countries, would it not be futile at this stage of Cameroon's development to nurse the ambition of competing vigorously with China to gain market shares in manufactured goods either domestically, sub-regionally or in China? Would it not be more feasible if Cameroon were to modernize its agriculture in order to substantially scale down imports of primary commodities like cereals from Asia (generally) and compete with other countries to gain market shares in China, whose industries are very thirsty for raw materials? As argued later, the process of reaping the benefits and checking losses emanating from trade relations with China may as well lie in the modernization of Cameroon's agriculture.

Khan and Baye (2008) carried out a scoping study on the economic relations between China and Cameroon, focusing not only on trade, but also on aid and investment channels. As concerns trade relations with China, they observed a rapid increase in the volume of trade over the past few years, largely due to a surge in imports from China, as exports to China decline. Exports to China are highly concentrated in primary products (essentially cotton and wood in various forms), while imports are largely diversified manufactured products comprising machinery, electrical equipment, garments, textiles, light industry products, metals, etc. Khan and Baye (2008) did not provide an adequate impact assessment, as the level of interaction with relevant stakeholders was shallow and unsystematic.

In this context, this policy brief examines key features of trade with China and assesses its impact on the Cameroonian economy. Specifically, it: analyzes Cameroon's trade structure and evolution, with specific focus on China's contribution; identifies and analyzes sources and extent of gains and losses of the domestic key stakeholders confronting Chinese goods; and suggests policy responses that could maximize the benefits and address challenges arising from trade relations with China.

Method of Analysis

The framework followed in the paper identifies the various channels of impact of exports to China and imports from China on specific stakeholders in Cameroon. It enables the sorting out of opportunities from threats, and identifies winners and losers from increased trade between Cameroon and China. Different stakeholders may be affected differently, and it is possible for a stakeholder to be both a gainer and a loser. Gainer or loser groups can either be consumers, workers, local firms or the government. The complementary effects are associated to low-priced consumer goods, potential for government revenue from royalties, export taxes and import duties, and potential for jobs to farmers and the export sector. Competitive pressures related to displacement of potential or existing local producers and cheap imports that threaten wages and jobs, thus engendering the likelihood of locking Cameroon in the production of primary commodities.

To implement this framework, appeal is made to a range of methods to assess the impact of China-Cameroon trade through the various channels. This enables us identify the key trade (export and import) stakeholders, and assess their perceptions of gains or losses and the sources of such gains and losses. In particular, with regards to macro and sector specific trade impacts, use is made of trend analysis of exports and imports, and their rankings and balances, as well as welfare implications of major commodities exported to China in terms of benefits or losses to producers, the government and local communities.

In the case of consumers of made-in-China goods, a well-structured questionnaire-based survey was conducted to tease out the various impacts both positive and negative on capital city dwellers. The goal here was to elicit information concerning the welfare impact on consumers of goods imported from China and their perceptions of the long-term demand for made-in-China goods if domestic incomes were to change. The survey on consumers was conducted in Yaoundé in August 2009 by six enumerators - each covering one of the six sub-divisions that make up the Capital City Area. Of an estimated population of two million inhabitants, 600 consumers were targeted – 100 from each sub-division. At the end, 562 consumers were administered the questionnaire, which was a well-structured instrument with closed-ended questions, some requiring 'yes' or 'no' and others eliciting tendencies under given conditions. The questionnaire captured a range of variables, in particular, the socioeconomic characteristics of respondents, notably gender, age groups, income/expenditure ranges, level of education and sector of employment. Knowledge of Chinese goods – identification and consumption of goods from China – and sensitivity as to the origin of goods during purchase were also assessed. Perceptions on the price, quality and the evolution of likeness for made-in-China goods compared to goods from elsewhere were captured in the questionnaire. The effect of a hypothetical ban of Chinese goods on consumers' welfare was also addressed.

In-depth case studies were used to assess the complementary impacts on economic agents of Chinese imports used as input in the production process by local producers. To assess the complementary impact on firms using cheap Chinese goods in their production process, the results of a survey conducted in 2007 on motorcycle taxis in the town of Yaoundé by Sama (2007) were used. The objective of the study was not to evaluate the impact of trade with China, but to assess the impact of motorcycle taxis (commonly called Okada or Ben-skin) on the inhabitants of Yaoundé. The use of motorcycles for taxi started timidly in 1991 in Cameroon. Its emergence was precipitated by a number of conditions: the political upheavals of the 1990s (operation ghost-towns which limited vehicle circulation); the poor state of secondary roads in cities; the collapse of the public urban transport company (SOTUC), and the high unemployment rate.

In terms of competitive pressures, we assessed the impact of Chinese imports on local producers who are directly facing competition from Chinese goods, i.e. they are producing and marketing similar goods as those imported from China. In this regard, we examined the evolution of Cameroon's exports to the Central African sub-region (a traditional market for Cameroon's manufactured exports). However, in order to be sure this loss of market share is attributable to Chinese imports, and not to some supply constraints, we identified one firm which is reported to be suffering from Chinese imports for an in-depth case study. The firm is PILCAM, funded in 1972 and specializes in the production and sale of electrical batteries in Cameroon, the Central African sub-region and beyond. There is equally a variety of made-in-China batteries on the Cameroonian market. We conducted a series of interviews with officials of PILCAM in Douala, the commercial capital of Cameroon.

Key Findings

An assessment of the impact of trade with China has revealed both winning and losing stakeholders in Cameroon. In what follows, we summarize findings on trade performance, on consumers of made-in-China goods, on firms using cheap Chinese goods, and on firms facing competition from China.

On trade performance with China

Trade with China has increased considerably over the past few years. This has however been due to a surge in imports from China, as exports are declining. Cameroon has been running a large trade deficit with China; the fifth largest after Nigeria, France, Japan and Germany. Imports from China are providing cheap and diverse consumption and capital goods, though issues of quality abound. Exports to China are limited to a few primary products, essentially cotton and wood products. Imports on the other hand are made up of a large variety of essentially manufactured goods. This raises the risk of undermining the industrial sector and locking Cameroon in primary activities.

The European Union remains Cameroon's major trading partner, supplying on average about 45% of its imports and buying about 67% of its exports. However, China's share of the Cameroonian market has been increasing rapidly in the last few years at the expense of European countries, especially France and Germany. China's share of imports increased from 2.7 to 5% between 2001 and 2005, while that of France declined from 24.1% to 17.7 % during the same period. China then moved from the seventh to become Cameroon's third import source. Exports to China have, however, been evolving in the opposite direction, consequently aggravating the trade deficit between the two countries.

On the impact of Chinese imported goods on consumers

As concerns the welfare impact on consumers, many Cameroonians are sensitive to the origin of goods they consume and a large proportion of them consume Chinese goods, though acknowledging that they are of lower quality compared to Cameroonian or European/US goods. Many city dwellers (60% of respondents) agree that they will lose if Chinese goods cease to exist in Cameroon. Therefore, Chinese goods are having a positive impact on consumers, especially those at the lower strata in the distribution of income.

Up to 409 (73%) consumers are sensitive as to the origin of the goods they purchase – 258 (47%) of males and 150 (71%) of females. An overwhelming majority of those interviewed – 502 (89%) consume Chinese goods – 316 (91%) of males and 184 (87%) of females. Of the few who indicated that they do not consume made-in-China goods, the main reason given across genders was poor quality. A large majority of respondents (535 consumers or 95%) believe that Chinese goods are generally cheaper than made-in-Cameroon goods. About 496 (88%) think that made-in-Cameroon goods are at least of medium quality, about 530 (94%) of respondents believe that made-in-China goods are generally of medium to low quality. These quality perceptions are shared by an equal proportion of males and females. We found from the study that if incomes were to double, up to about 240 (43%) consumers out of the 562 would actually downsize their demand for Chinese goods.

Younger persons are more sensitive to the origin of goods than older ones. In the same manner, younger persons are more likely to be consumers of made-in-China goods than older persons. Those at the lower strata of income distribution consume made-in-China goods more than those at the upper strata. More educated respondents were more apt at identifying Chinese goods than the less educated. In the same way, sensitivity to the origin of goods increases with the level of education. Informal sector workers tend to have a higher propensity to identify Chinese goods than formal sector workers. The tendency of paying attention to the origin of goods is not dissimilar by sector of employment of consumers. However, more informal sector workers consume made-in-China goods than those working in the formal sector. Younger consumers and those at the lower end of income distribution are more likely to suffer losses in welfare from a hypothetical government ban on Chinese goods than older and less poor consumers.

The implication of results of the consumer survey is that of those interviewed, younger persons were also those who were more educated, employed mainly in the informal sector, found in the lower strata of income distribution and consume the low priced and poor quality made-in-China goods more than other group of households. As indicated, if incomes were to rise substantially, this group of consumers may still maintain or even increase their demand for Chinese goods, while betteroff households scale down their demand. Chinese goods may, therefore, be perceived differently by the poor and non-poor. The less well-off appear to regard made-in-China goods as normal goods, whereas the non-poor may be regarding them as inferior or Giffen goods.

On firms using cheap Chinese goods as inputs

Chinese imported motorcycles are substantially complementing the production of taxi services in all towns in Cameroon. This has led to an increase in the supply of taxi services, creation of many jobs, reduced poverty levels, and increased government revenue; though there are concerns related to criminality and environmental issues.

The first to benefit from this activity are motorcycle drivers who have found a job. Their daily revenue averages about US$9.4 and after giving the contractual US$5.2 to the bike owner, they are left with US$4.2. Part of this is spent for minor repairs and the remainder is their remuneration. The bike drivers saved on average more than US$62.6 a month. Among those also benefiting from this activity are the bike owners/proprietors. Of the 700 bike drivers surveyed, about 20% were owners and the rest were employed. Though focus was on bike drivers, the 30 bike repairers interviewed earned daily income that ranges between US$4.2 and US$10.4. The government and municipal authorities are also benefiting through licenses and taxes paid for the motorcycle taxi business. Many crimes have been associated to or assisted by motorcycle taxi drivers. Thieves on motorcycles frequently snatch and escape especially with ladies' handbags. Motorcycle related accidents leading to serious injuries and deaths are frequently reported.

These negative impacts related to insecurity, crime and pollution are important, but are largely overwhelmed by the benefits these Chinese imported motorcycles are having in the country. They have created many jobs in Cameroon and provided those involved and their families, a source of income which in many cases exceeds the minimum wage. It has also eased circulation especially in the outskirts of towns and the remote areas inaccessible by vehicles and served only by footpaths. Apart from motorcycle repairs, other activities like motorcycle washing and local engine oil and fuel selling points have emerged to serve especially motorcycle taxis. The motorcycle taxi business, although also operating in rural areas, has engendered an influx of young men from rural areas to the main urban centres to take up jobs as bike drivers.

Cameroon imports motorcycles from China, Europe and Japan, but all the bikes used for taxi are from China. Bikes from elsewhere are too expensive to be used for the motorcycle taxi business. Most Chinese motorcycles are a third (or less) cheaper than bikes from Japan. However, despite the price competitiveness of made-in-China bikes relative to Japanese bikes, they are spare-part intensive as well. Although it could be argued that the spare parts intensity of Chinese bikes is simply because they are over-used as taxis, it was acknowledged by motor bike repairers that components of Chinese bikes are general cheaper and less durable compared with made-in-Japan bikes.

The demand for made-in-China bikes in Cameroon is derived from the collapse of the urban public transportation services in the 1990s as government was implementing expenditure-reducing measures as required within the SAP. To scale down imports of Chinese bikes used as taxis, there is an urgent need to enhance the recent efforts at reinstating subsidized urban transport systems in the main cities and even extending them to secondary cities.

On firms facing competition from Chinese imported goods

Our case study indicates that the battery factory is under immense competitive pressure with turnover plummeting. The likelihood is that other firms producing goods similar to those imported from China are facing a similar situation. In particular, we consider PILCAM – a firm producing and marketing electrical batteries like China.

If we could draw any inference from the PILCAM case study, then the manufacturing sector in Cameroon is losing out from the competition with Chinese imports. Even though there are also European batteries on the market, their loss of market share was entirely blamed on Chinese batteries. They were quick to indicate the price and quality differences between their batteries and those of China. As an example, a pack of four size AA batteries made by PILCAM (Hellesens) costs 67 cents, whereas those imported from China (Royal) sell at just 22 cents. Firms in Cameroon like PILCAM are not only losing market shares at home, but also in their backyard. The population at large may also be feeling the effects as these firms would likely scale down the workforce or wage structure.

How has PILCAM been surviving or what is their coping strategy? They outlined a number of measures they have taken to remain in business despite the Chinese onslaught: 1) product diversification by producing low cost batteries (certainly low quality batteries too); 2) reducing their profit margin so that customers buy at reduced prices; 3) communicate on the superior quality of most of their products; and 4) withdrawal of expired batteries at no cost to the wholesalers/retailer.

What does PILCAM expect from the government in order to improve its competitive position? They listed a number of wishes: 1) more rigorous control of imported goods by custom officials and stringent checks on smuggled goods by the Ministry of Trade; 2) sensitization of the population by government on the quality of goods consumed in the country; and 3) rigorous taxation of products imported from China and elsewhere.

Policy Implications

China has become an important player in the global economy and is impacting almost every country in the world. Cameroon has maintained steady diplomatic ties with China since 1971, after severing links with Taiwan. Economic interactions are evolving rapidly, and providing Cameroon with alternative sources of finance and prospects for diversifying its market outlets. These interactions are engendering both winners and losers among the relevant stakeholders in Cameroon. The implication is for authorities to device means of enhancing the gains while addressing the losses, rather than relying on the rhetoric of win-win partnership and reciprocal benefits frequently stated publicly by the Chinese leadership.

The limited scope of this study does not permit us to provide the net impact of trade with China. The many stakeholders are affected differently and to varying degrees, making it impossible to make an overall assessment on the country as a whole. Consumers benefit from cheap consumables, local firms using cheap Chinese imports as inputs also gain, export firms create jobs, but those facing competition from made-in-China products are losing out. The government is gaining from tariff revenue, export royalties, which contribute positively to its fiscal balance, as well as its current account balance. On the other hand, the government is losing as firms produce less, lay off workers, implying less income and business tax revenues, and a large educated jobless population constitutes a political risk to the government. The proliferation of the motorcycle is also having a toll on insecurity, crime, rural exodus and environmental pollution.

There is need for Cameroon to sort out ways of increasing and diversifying exports to China, especially for commodities like banana, coffee, cocoa, etc. Processed cotton could also be included in the list because it would benefit from duty-free access, though this requires very cost-effective processing methods. This is because raw cotton is highly protected in the Chinese market. To release some of the competitive pressures on the local industry, measures need to be taken to effectively downsize the fraudulent entry of Chinese goods into the country so that they could compete fairly with local firms. The government could also protect some strategic sectors by dialoguing with China to voluntarily restrict some of its exports. Cameroon may not negotiate any unilateral trade arrangements with China given her obligations as a member of the CEMAC sub-region.

The slowdown in the growth rate of the GDP, dwindling oil production and eroding market shares of Cameroonian exports imply that the economy is underperforming than envisioned in the 2003 poverty reduction strategy paper (PRSP). These outcomes are preoccupying the Cameroonian authorities, especially in this age of increasing competition and globalisation, as well as the emergence of China in the global economic architecture. In order to regain the path of sustainable growth in the order projected in the PRSP and enhanced competitiveness after an economic crisis and slow recovery, it is necessary for the government to play a more pro-active role in fine-tuning its trade relations and seeking more market outlets.

Under this circumstances and considering the relative comparative advantages of both countries, it would seem futile at this stage of Cameroon's development to nurse the ambition of competing vigorously with China to gain market shares in manufactured goods either domestically, sub-regionally or in China. It would, however, be more feasible if Cameroon were to modernize its agriculture in order to substantially scale down imports of primary commodities like cereals from Asia generally and compete with other countries to gain market shares in China, whose industries are very thirsty for (want of) raw materials. With the completion of the HIPC initiative in 2006 and the growing demand for raw materials by China, Cameroon has another golden opportunity to transform its agriculture and rural areas, which are forerunners to modernization, an opportunity that was first missed during the peak of oil production in Cameroon (early 1980s). In this regard, the process of reaping the benefits and checking losses emanating from trade relations with China may as well lie in the modernization of Cameroon's agriculture.

This implies that concentrating in the production of non-oil primary products is not necessarily welfare constraining. Efficient production of these commodities can indeed spur growth and (the) eventual development of the industrial sector. This study recognizes that rationalization of the process of reaping benefits and checking losses emanating from trade relations with China lies with modernising agriculture. Although the attainment of the HIPC completion is far from being a panacea, it situates the Cameroonian economy in this era of growing Chinese economy at cross-roads, especially as all sectors suffered from economic crisis and austerity measures. It is, however, fairly well-known that helping all sectors to grow at the same time is costly and thus impracticable for a country like Cameroon because of budgetary constraints. Since sectors are generally linked with each other, increases in demand (both intermediate and final) in some sectors can benefit other sectors as well. Hence, to stimulate output growth and take advantage of the growing Chinese market, it could be sufficient for the government to push or support an "optimal mix" of strategically selected agricultural sub-sectors, which in turn will help other sectors to grow.

As indicated by Nissanke and Thorbecke (2005), no country in the world with agricultural potentials appears to have developed or modernized its economy sustainably without structurally transforming its agriculture to reach the takeoff point, as the way ahead. We believe that Cameroon now has an opportunity to transform its agriculture and take advantage of Chinese growth through trade. To transform the agricultural sector in this context, there is a need to specify sub-sectors that will receive a continuing gross flow of resources – sizable pieces of land for large-scale production, inputs, research and credit – combined with appropriate institutions and incentive packages to increase this sector's productivity and potential to subsequently generate a net surplus. Short-circuiting this structural transformation process for industrial promotion has typically led to failure and disappointment, thus, not a viable route for Cameroon to follow in order to maximize net benefits offered by China-Cameroon trade relations.

A strategic approach to exploit the benefits and dampen the losses with China-Cameroon trade relations requires a more long-term vision of upgrading Cameroon's comparative advantages towards higher value activities by climbing the technology ladder step by step (mass production of agricultural products, transformation of industry, and up to high tech goods) through learning and adoption of best practices, while relying on her most abundant factors in each development phase. This vision could be galvanized by strategically using fiscal policies and dismantling administrative bottlenecks that act as a drag on private initiatives.

As shown above, Cameroon's export performance with China is rather disappointing, as the indication is that Cameroon is not yet reaping much from the huge demand for raw materials by China. However, it also represents opportunities for increasing exports to China. First, by increasing wood and cotton exports, and then exploring the possibility of diversifying exports of other raw materials produced in Cameroon like cocoa, coffee, banana, etc, and for which the enormous potentials widely remain untapped because of lack of agricultural intensification. In 2005, Cameroon was not exporting some of the commodities on high demand like crude oil, non-petroleum minerals and metals to China. An invitation for China to invest in mineral exploration might be the required move in this direction.

Since China-Cameroon relations are reflected in aid, investment and trade, it would be more beneficial for Cameroon to approach the entire process as a package – negotiated, implemented, monitored and evaluated by designated focal points in Cameroon. There is scope for joint-ventures in a number of sectors including agriculture with Chinese firms. This implies enabling the policy environments to enhance the enormous potential for uptake of Chinese agricultural and other technologies.

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The Executive Director
African Economic Research Consortium
Middle East Bank Towers, 3rd Floor
Milimani Road
Tel: (254-20) 273-4150 (pilot line) / 273-4157 / 273-4163
Fax: (254-20) 273-4173
Email: exec.dir@aercafrica.org
Website: www.aercafrica.org

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