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# How to Identify the Trade Impact of China on Small Countries

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## 1 Introduction

China's explosion onto the world trade and trade policy scene is the product of its size, recent dynamic growth and entry into the World Trade Organization (WTO). The first two factors determine the volume of goods *and services* being produced and consumed by China, while the third restricts (but does not eliminate) the arbitrary controls that its trade partners can impose in the cause of "orderly trade".

But for economically small countries, like most in Africa and many in Latin America, it is difficult to pinpoint exactly where the effects will be greatest, except in the case of clothing and textiles (where the explosion has coincided with the removal of decades-old restrictions that had shaped the global pattern of trade; see the contributions by Morris and McCormick *et al.* in this *IDS Bulletin*). This is because "the China effect" is widespread and non-marginal. The first of these means that most countries will be affected on several fronts, both directly and via substitute/ complementary products, and that these effects may be reinforcing or offsetting. The second means that the impact will be felt on world market prices and not be limited to countries that trade directly with China. Neither of the most conventional focusing mechanisms is appropriate to this combination.

This article does not attempt to answer a question such as 'how will Ghana's economy be affected by China?', but it does take the first step in providing an answer and a methodology for identifying where the second step should be taken (which includes assessing whether Ghana or Ethiopia are higher priorities for further research).

In so doing, it also brings to centre stage, one of the enduring controversies over trade policy: is an

increase in imports to be welcomed as enhancing consumer welfare or deplored as hurting domestic production? This is because for most poor countries, the current furore over clothing notwithstanding, the biggest China effect will be on their imports, not their exports. And because of this, sub-Saharan Africa is likely to be affected as much as other developing country regions.

## 2 The methodological quagmire

The broad ways in which China will affect other countries are easy to spot. Countries producing goods highly demanded by China (e.g. some minerals) may see export growth; those exporting products in competition with its output (such as clothing) will see exports fall, while countries importing those goods will gain from lower prices. If the importers also have domestic industries that are in competition in the local market with Chinese exports, there will be distributional effects (between producers and consumers) and possible knock-on effects on the feasibility of the country's industrial policy.

This leads to the rather general conclusion, without the need for any more research, that the outlook for primary commodity exports is brighter than it has been in the past, while that for manufactured exports is much darker. Given the importance of manufactured exports in the successful growth over recent decades of East and South-East Asia, this finding alone should provoke a re-think of development strategies in, for example, sub-Saharan Africa (SSA) (Kaplinsky 2005). But this thought introduces the first of the methodological problems of going beyond such generalities while remaining at a global (or regional) level of analysis.

### 3 The counterfactual

The impact on a given country of lower world prices for manufactures will depend on whether it is currently an exporter of the goods in question or, if not, whether it could reasonably have expected to become an exporter in the medium term. On the traditional view that sees the development of a strong industrial base as a “normal” stage in development, the answer would tend to be affirmative. But the traditional view has been under pressure for some years. Recent evidence illustrates how some manufactures (e.g. plain cotton T-shirts) exhibit the characteristics of bulk commodities, while some primaries (e.g. roses or strawberries) have market features akin to those associated with manufactures. Moreover, value-chain analysis shows a multi-level global pattern of producing “manufactures”; different elements of the “China effect” may impact differentially on these levels and so produce unexpected effects. Take, for example the apparently clear-cut case of China’s impact on world textile and clothing markets. China’s exports are expected to reduce the price of both: but the relative effects may be as important for some developing countries as the absolute effect. If the price of textiles falls more it *might* allow developing countries without a fabric industry to compete in the garment sector by reducing the price of their raw materials.

Even before going beyond the broadest of generalisations, therefore, it is immediately apparent that answering the question about the impact of China on Ghana involves further research both in Ghana and on the dynamics of the value chains with which Ghana is, or might be, involved. And here we encounter a further methodological problem which is the opposite of one of those affecting China. China is so big, its effects are non-marginal and (almost) across-the-board. Ghana is so small that it is completely marginal and any attempt to forecast what might have been in relation to potential future trade is inherently speculative.

To continue with the example of clothing it has been recognised for the past decade that the “window of opportunity” for SSA to establish itself was a narrow one, which was likely to close around 2005 with the end of the Multifibre Arrangement (MFA). For established exporters, like Mauritius, life after the MFA was expected to be tough but, probably, survivable for the upper end of the sector; for recent arrivals like Lesotho it was expected to

be very tough and, quite probably, terminal. And for those like Ghana that had not entered the market it was expected to foreclose options at least in the medium term.

China has made the transition much more brutal than anticipated, but has it altered the medium-term effects? If the Mauritius clothing industry disappears entirely it might be reasonable to attribute that to China, but what if the same occurs in Lesotho, Namibia or, even, South Africa? Reasonable people can differ; some may claim it is a China effect, others that extinction was inevitable (especially in these three cases because of the general equilibrium effects on a manufacturing sector undermined by booming services and primaries trade).

### 4 Identifying priorities

This is a recipe for unending, circular debate. Those wishing to see China as a “problem” and SSA as a “victim” can point to the fall in world prices of manufactures as the vehicle for these malign effects. Others can argue that the world price fall is a gain for SSA not only in relation to its terms of trade but also for demonstrating as futile, wasteful and costly policies to protect no-hope infant industries. Not only will the evidence required to resolve the issue be speculative (and hence open to question) but it will be required across-the-board in relation to every potential import and export. This presents an impossible research task.

Focusing attention on the key products and the “most potentially affected” countries is a necessity if the circular debate is to be brought to any consensus. But this presents its own methodological challenge, since neither of the two obvious methodologies for providing an initial trade analysis is wholly appropriate.

Since the change is non-marginal it will affect world markets generally. Because the impact will not be limited to countries that trade directly with China, the potential population of poor states to analyse is a large one. Only relatively few small states trade substantially with China. Jenkins and Edwards, for example, show that of the 18 developing countries they analyse just four directed over 5 per cent of exports to China in 2002, while only seven (all but two Asian) sourced over 5 per cent of their imports from China (Jenkins and Edwards 2004: Tables 1–3, 10, 12, 14).

Where markets are global, the precise direction of trade may be irrelevant. Only two SSA countries

**Table 1: Trade overlap by country**

Country	No of cases in which China may produce:					
	Trade balance gain*			Trade balance loss†		
Sub-Saharan Africa						
Angola	0	6	6	1	0	1
Benin	0	2	2	0	0	0
Burkina Faso	1	0	1	0	0	0
Cameroon	0	1	1	0	0	0
Chad	0	0	0	0	0	0
Congo Republic	0	2	2	0	0	0
Congo, Democratic Republic of	1	0	1	0	0	0
Ethiopia	1	0	1	0	1	1
Ghana	0	4	4	1	1	2
Guinea	1	1	2	0	0	0
Kenya	0	2	2	1	1	2
Madagascar	0	1	1	0	1	1
Malawi	0	0	0	0	1	1
Mali	0	1	1	0	0	0
Mauritania	1	1	2	0	0	0
Mauritius	0	2	2	0	1	1
Mozambique	0	1	1	0	1	1
Niger	1	1	2	0	0	0
Nigeria	1	6	7	2	1	3
Senegal	0	1	1	0	0	0
South Africa	3	3	6	2	2	4
Sudan	1	4	5	1	0	1
Tanzania	1	2	3	0	0	0
Togo	0	1	1	0	0	0
Uganda	0	1	1	0	0	0
Zambia	1	0	1	0	1	1
Zimbabwe	1	0	1	0	0	0
Latin America						
Argentina	2	3	5	1	3	4
Bolivia	0	2	2	1	0	1
Brazil	4	0	4	2	8	10
Chile	1	5	6	2	0	2
Colombia	1	3	4	2	1	3
Ecuador	1	3	4	1	0	1
Peru	1	1	2	1	1	2
Uruguay	0	0	0	1	1	2
Venezuela	3	3	6	0	2	2

\*Trade balance gain = being an exporter of a good that China imports; being an importer of a good that China exports (figures exclude imports of brown goods). †Trade balance loss = being an importer of a good that China imports; being an exporter of a good that China exports.

in their sample had over 1.5 per cent of their exports directed to China. But they mainly exported minerals into well-developed world markets. Other

SSA states export into the same markets; they are just as likely to be affected as the two that sell direct to China. Nigeria, for example, was not one of the

**Figure 1: Chinese imports of particular significance to Latin America/SSA**

		Product groups						
		<i>Feed</i>	<i>Chemicals</i>	<i>Cobalt</i>	<i>Copper articles</i>	<i>Aluminium oxide</i>	<i>Sulphur</i>	<i>Ferrous metals</i>
<b>Significant players</b>	<b>Exporters</b>	Bolivia	Argentina		Brazil		Brazil	Angola
		Colombia	Chile				South Africa	Chile
		Uruguay	Colombia					Ecuador
			Nigeria					Ghana
		South Africa					Kenya	
							Nigeria	
							Peru	
							Sudan	
<b>Significant players</b>	<b>Importers</b>	Argentina	Brazil	DRC	Chile	Brazil		Argentina
		Brazil	Niger	South Africa	Peru	Guinea		Brazil
		Burkina Faso	Venezuela		South Africa	Venezuela		Colombia
		Ecuador			Zambia			Mauritania
		Ethiopia						South Africa
		Nigeria						Venezuela
		Sudan						Zimbabwe
		Tanzania						

“group of two” because it sells its oil to the US, which is where the appropriate refineries are situated. But this does not mean that it is insulated from the China effect compared with Cameroon which exports oil direct to China. Nor can the analysis be limited just to the products that are imported/exported on to the world market by China. There are substitutes and complementary products that must be taken into account.

One traditional focusing mechanism is to undertake a broad-brush (HS two-digit) trade review to identify overlaps between the world trade of China and that of particular developing countries. Unfortunately, these categories often do not coincide with actual product markets. Sometimes they are too broad: there can be intense competition in one subsection of the 96 HS two-digit chapters which is masked by the “noise” from the remainder of the category. Sometimes they are too narrow: markets involve products that are classified under different headings.

This problem can be overcome when dealing with small developing countries by going to the other end of the spectrum and undertaking the analysis at a high level of disaggregation. The 5705 HS six-digit categories allow a much more precise

link to be made between trade flow data and actual product markets. Even here, though, there are problems. The clothing firm Shibani in Mauritius is in effect producing a different type of product to that of a factory just down the road. The first produces luxury garments using very high-tech equipment and expensive materials, while the latter is more run of the mill. But their outputs are classified under the same six-digit heading.

When China is in the spotlight though, such problems become completely insurmountable. Such is the breadth of its exports and imports that it becomes a mammoth task to try to cover at a high level of disaggregation even the most important.

Consequently, any attempt to answer the question ‘what impact will China have on Ghana?’ risks falling into one of two pits. If it goes for a highly aggregated analysis the results may well go little beyond putting a few numbers on the conventional wisdom that prices for primaries will rise and those for manufactures fall. If, by contrast, the analysis plunges into the details of traded goods, it will take a substantial input of resources to complete the job. And then, having spent significant time and money, the conclusions are likely to be ... rather similar to those from the aggregate

**Figure 2: Chinese exports of particular significance to Latin America/SSA**

		Product groups							
		<i>Leather &amp; articles</i>	<i>Textiles</i>	<i>Clothing</i>	<i>Footwear &amp; products</i>	<i>Aluminium</i>	<i>White goods</i>	<i>Brown goods</i>	<i>Ferrous metals</i>
<b>Exporters</b>	<b>Significant players</b>	Mauritius	Angola	Angola	Angola	Angola	Angola	All	Angola
		South Africa	Argentina	Benin	Argentina	Chile	Argentina		Bolivia
			Benin	Cameroon	Ghana	Colombia	Chile		Chile
			Bolivia	Chile	Nigeria	Nigeria	Ecuador		Colombia
			Chile	Congo	South Africa		Ghana		Ecuador
			Colombia	Ghana	Sudan		Nigeria		Kenya
			Congo	Guinea			Peru		Nigeria
			Ecuador	Mozambique			South Africa		Tanzania
			Ghana	Nigeria			Sudan		
			Kenya	Sudan			Venezuela		
			Madagascar	Tanzania					
			Mali	Togo					
			Mauritania	Uganda					
			Mauritius	Venezuela					
			Niger						
			Nigeria						
			Senegal						
	Sudan								
	Venezuela								
<b>Importers</b>	<b>Significant players</b>	Argentina	Brazil	Brazil	Brazil	Argentina	Brazil	Brazil	Argentina
		Brazil	Zambia	Colombia		Brazil			Brazil
		Ethiopia		Kenya		Cameroon			South Africa
		Nigeria		Madagascar		Ghana			Venezuela
		Uruguay		Malawi		Mozambique			
				Mauritius		South Africa			
				Peru		Venezuela			
		South Africa							

analysis. This is because, in truth, there is so much uncertainty about the way in which product markets will evolve that the impact on small participants such as Ghana must remain a matter of speculation.

## 5 A fresh approach

This article suggests a better way into the problem of assessing the product and country consequences of China's growing presence in global markets. The ultimate goal is to be able to identify more clearly than we can at the present time, which sectors in which countries deserve the highest priority for the more detailed (and therefore resource-intensive) research that will be needed to advise policy-makers on how they should respond to the changing world.

## 6 The methodology

The key to the approach is the selection of groups of HS6 sub-heads that fulfil two criteria: China's export or import growth has been particularly rapid, and they are important products for developing countries. By taking account only of those HS6 sub-heads for which trade growth has been strong and which are relevant to developing countries, the problem of too much "noise" inherent in the aggregate trade analysis is diminished. But by re-aggregating these items into specially created product groups, the exercise avoids simply creating a morass of indigestible information.

The thresholds established for each of these criteria in the article are arbitrary and need to be

**Figure 3: Gains by type and country**

<b>Export gain</b>	<b>High</b>	Argentina Brazil	South Africa Venezuela
	<b>Low</b>	Angola, Benin, Bolivia, Chile, Colombia, Ecuador, Kenya, Mauritius, Nigeria, Sudan, Tanzania	
		<b>Low</b>	<b>High</b>
		<b>Import gain</b>	

**Figure 4: Losses by type and country**

<b>Export loss</b>	<b>High</b>	Argentina	Brazil South Africa Venezuela
	<b>Low</b>	Chile Colombia Nigeria	
		<b>Low</b>	<b>High</b>
		<b>Import loss</b>	

varied to see how the results change. But preliminary though they are, they suggest that the China effect may be felt in areas that have previously been overlooked. The starting point for focusing attention on key Chinese imports were the 397 HS6 products valued at US\$25m or more that had grown 50 per cent faster than the average (in most cases over the five-year period ending in 2003, the latest for which data are available).<sup>1</sup> These were grouped into 37 broad product groups, using the researchers' judgement, and were whittled down to the seven listed in Figure 1. These are the groups in which China's imports represented a high proportion of the world total, and trade was significant for SSA/Latin America (either imports, or exports or both). A similar process applied to China's exports established 17 broad product groups<sup>2</sup> which were also whittled down, to eight (listed in Figure 2). Once identified in this way, the product groups were subject to a detailed analysis to determine SSA/Latin America import trends.<sup>3</sup>

## 7 The results

Figures 1 and 2 summarise, respectively for China's imports and its exports, the broad picture of the products and developing countries that are of particular interest. Table 1 summarises this information by country, splitting the effects into those likely to favour a country's trade balance (increased demand for their exports or lower prices for their imports) and those likely to disfavour it

(increased export competition in third markets, or increased world demand for goods that are imported). While this neatly sidesteps the tricky problem noted above, of whether more, cheaper imports is an economic as well as a trade balance gain (since it cannot sensibly be handled at this level of analysis), the information in the Figures show for each of the countries listed, the product groups for which such strategic analysis would be desirable.

Table 1 provides a framework for assessing the trade impact of China on SSA/Latin American economies. If a country exports a product which China imports or imports a product which China exports (columns 1 and 2 in Table 1), it is seen as being a beneficiary of expanded trade flows. On the contrary, if it exports products which China exports or imports products which China imports (columns 4 and 5 in the Table), it is likely to be a loser. Column 3 adds up the number of sectors where there are gains, and column 6 the number of sectors where there are losses.

Some findings are as one might expect. Brazil faces the widest range of trade-loss products: ten in total. South Africa is well represented in both columns but stands to gain in more product groups than it loses. But there are some results that are not intuitively obvious. Angola, Ghana, Nigeria and Sudan also have a high "gain" incidence. Only two SSA and two Latin American countries have a larger number of product groups in which they may potentially lose than those in which they may gain.

**Table 2: Feed trade**

	Total feed		Of which soya beans	
	Value 2003 (US\$'000)	Average annual change 1999–2003 (%)	Share of 2003 value (%)	Average annual change in value 1999–2003 (%)
<b>China imports</b>	<b>5,785,368</b>	<b>57</b>	<b>94</b>	<b>57</b>
Exports by:				
Argentina	2,115,067	42	100	42
Brazil	4,942,242	31	100	31
Burkina Faso	11,526	7	–	–
Ecuador	16,096	20	90	27
Ethiopia	48,640	27	–	–
Nigeria	21,536	–4	0.03	7
Sudan	81,729	–3	–	–
Tanzania	13,923	3	–	–
Imports by:				
Bolivia	43,120	18	100	18
Colombia	56,363	40	98	41
Uruguay	111,297	30	99	30

Source: Derived from data obtained from UNSD Comtrade database.

## 8 Types of trade effect

### 8.1 Country-specific impacts

Figure 3 assesses the impact of these trade flows on individual economies. It takes all countries with a score of two or more in either of the “gain” columns of Table 1 and plots them in a simple four-cell matrix to indicate whether the gains arise primarily from lower import costs, from greater export revenue, or from both.

Unsurprisingly, all of the SSA states apart from South Africa are in the bottom right cell, indicating that their trade balance gains arise primarily from lower import costs – but so, too, are four of the seven Latin American states. Although there has not yet been any absolute or relative quantification in this article of the scale of these effects, this simple sorting reinforces the expectation that many more countries will be affected by China on the import than on the export front.

Figure 4 performs the same exercise for the two types of trade balance loss: greater competition on world markets with China’s exports, and potentially higher prices for imports that are being sucked into China. The key feature of Figure 4 is the absence of any SSA states other than Nigeria and South Africa. This will partly be a reflection of small

country size, but not entirely since the same broad value thresholds were used when classifying countries in relation to trade balance gains. It is likely also to be a function of the commodity composition of trade. China’s imports are those associated with a rapidly industrialising state; since few SSA states fall into this category they are not competing for world supplies of the same products. China’s exports are of manufactures. About the only manufacture of SSA that is significant across several countries is clothing. As Figure 4 covers only countries with two or more loss products, those states for which clothing is the only substantial manufactured export are overlooked (but see Morris, and McCormick *et al.* in this *IDS Bulletin*).

### 8.2 Product-specific effects

This methodology may also be used to allow a deeper exploration of trade effects through a product and value chains focus. To illustrate this potential, we briefly focus on two product groupings: feeds, which are both important in the SSA/Latin American context and involve complex substitution effects; and metals, where the impacts are simpler. How directly related are Chinese and SSA/Latin American products? How substantial is each country’s trade?

**Table 3: Aluminium and alumina trade**

	Total alumina/aluminium	
	Value 2003 (US\$'000)	Average annual change 1999–2003 (%)
<b>Chinese alumina imports</b>	<b>1,375,761</b>	<b>42</b>
Alumina exports by:		
Brazil	301,550	12
Guinea	110,571	10
Venezuela	120,038	18
<b>China aluminium exports</b>	<b>2,413,824</b>	<b>60</b>
Exports by:		
Argentina	153,068	24
Brazil	876,750	?2
Cameroon	74,967	?7
Ghana	94,867	?5
Mozambique	564,393	1500
South Africa	652,534	?2
Venezuela	526,504	3

Source: Derived from data obtained from UNSD Comtrade database.

### 8.3 Feed

A particularly intriguing “focus product” is animal feed: it is not something that has been widely picked up and it is of potential interest to a different range of developing countries from those for which the more widely reported mineral imports of China would be relevant. The middle pane of Table 2 shows that the exports of feed by SSA states, while tiny in comparison with those of Argentina and Brazil, are not insignificant. An export of US\$49m for Ethiopia, which has increased by 27 per cent a year since 1999, is not trivial.

The “problem” is that the feeds being exported by Africa are not the same as those that form the bulk of China’s imports and are being exported by Argentina and Brazil. A total of 94 per cent of China’s imports of the product group that we have dubbed “feed” are of soya beans. Most of the Latin American exports are also in soya beans, but almost none of the SSA exports. For Africa the main export is sesamum seeds. So large are China’s imports that “only 6 per cent” of its feed imports is a sizeable amount: the increase alone in China’s imports of sesamum seed between 1999 and 2003 was equivalent to over one-quarter of the total 2003 exports of the product by the five SSA states in the table.

This is *prima facie* evidence to justify further research. The next step is to investigate the feed market to determine whether the grains being exported from SSA are, indeed, direct inputs into feed (or indirectly affected by feed because they are substitutes for feed grains) and whether there are knock-on effects from the trend in the dominant grain. Bolivia, Colombia and Uruguay, shown in the bottom pane of Table 2, have significant and rapidly growing imports, primarily of soya beans. Any pressure on world prices could adversely affect the profitability of their meat industries.

### 8.4 Metals

Tables 3 and 4 provide basic data on the role played by various metals in the exports of SSA and Latin American economies. The main purpose of the tables is to determine the absolute importance of each product for the SSA/Latin American countries that trade in them and whether or not exports/imports are sustained (indicated by the average annual change columns).

Exports of alumina by all three countries in Table 3 are significant and sustained. At US\$111m, the export must be considered significant for Guinea. The very rapid annual change in Mozambique aluminium exports probably reflects



**Table 4: Trade in ferrous metals, copper articles and cobalt**

	Ferrous metals		Copper articles		Cobalt	
	Value 2003 (US\$'000)	Average annual change 1999–2003 (%)	Value 2003 (US\$'000)	Average annual change 1999–2003 (%)	Value 2003 (US\$'000)	Average annual change 1999–2003 (%)
Chinese imports	14,622,995	55	3,074,780	43	94,684	65
Exports by:						
Argentina	340,680	17	–	–	–	–
Brazil	4,035,545	11	–	–	–	–
Chile	–	–	4,658,909	8	–	–
Colombia	394,879	22	–	–	–	–
Congo DR	–	–	–	–	54,340	2
Congo Rep.	–	–	–	–	22,811	204
Mauritania	24,258	74	–	–	–	–
Peru	–	–	763,027	5	–	–
South Africa	1,861,415	8	55,852	–22	21,683	11
Venezuela	788,255	24	–	–	–	–
Zambia	–	–	240,378	–1	–	–
Zimbabwe	116,685	4	–	–	–	–

Source: Derived from data obtained from UNSD Comtrade database.

the fact that production seems to have come on stream in 2001. If it is the case that it is a relatively new plant, the implications of the growth in China's exports on to the world market (up 60 per cent a year) probably need to be taken into account when assessing long-term viability. The same applies to investment on stream in the other countries.

Ferrous metals, copper articles and cobalt are covered in Table 4, which serves merely to confirm what might be expected. With the exception of ferrous metals (which need to be split into component parts), the picture seems unambiguously to suggest growing demand from China for minerals of which the countries in the table are significant and sustained exporters. One might query, however, the position of copper in South Africa, given that exports have been declining rapidly.

## 9 Where next?

The purpose of this initial application of a focusing methodology is partly to see whether or not it throws up issues that were not already on the table and partly to point to the highest priorities for the further research that is essential to dig beneath the headline China effects. Although the impact of China as a

source of cheaper imports is not a new finding, the demonstration of its ubiquity is noteworthy. Given the ambivalence of attitudes towards cheaper imports, there is a clear case for further research using Figure 2 as a guide: country-level in the identified states and by value-chain for the product groups. For those countries not already exporting, how likely is it that they could have entered the pre-China value chains in a sustainable and economically advantageous way over the medium term? It is the answer to that question which will determine whether or not the fall in import costs is to be seen primarily as a term of trade gain or a development loss.

There are distinct sectoral differences. For example, the feed sector in Latin America and SSA clearly deserves further attention. This is not a sector that has been widely perceived as being affected by China's growth. It provides a potential opportunity to countries that have relatively weak (and, post-China even weaker) manufacturing sectors but are not endowed with the right minerals. In addition to the products covered in Tables 2–4 there are the cases of leather, footwear, clothing and textiles to consider (as well as the miscellaneous categories

of white and brown goods – too complex to deal with in this introductory article). There is much to be done, not least because some of the existing analyses do not go far enough. The case of clothing, for example, has been well rehearsed, but the most critical policy implications of a possible change in the relative price of textiles has not necessarily been taken on board in a debate that appears to have progressed no further than hand-wringing over the long-anticipated challenge facing developing country clothing exporters. Evidently, many of these may go to the wall; but what policy measures by Organisation for Economic Co-operation and Development (OECD) states would best help the potential survivors (other than *ad hoc* and chaotic quotas on Chinese garments)?

It would be particularly interesting to undertake work on value chains and preference arrangements to determine whether or not the case for amending OECD rules of origin (that, in the main, prohibit the use of non-originating cloth) has been strengthened by the growth of Chinese exports. Far more SSA/Latin American countries are net importers of textiles than are exporters. Indeed, with the exception of Zambia (cotton yarn) only Brazil is a significant net exporter. Attention now needs to be given to the possible competitive advantage resulting from cheaper cloth for Latin American/SSA clothing industries. If these industries are prevented from using the cloth solely by onerous origin rules in their

export markets, then the case that such rules are prejudicing development becomes even stronger.

In the cases of footwear and leather, further analysis is required at the micro-level within the context of value-chain research. Any negative “China effect”, if there is one, is less likely to be on the trade balance than on the division of labour within value chains. Of the countries considered, Brazil is the only significant net exporter of footwear (with Ecuador also having very modest net exports in 2003), although these “net figures” probably mask a certain value of exports from a much wider range of countries (which in all except the two cited are smaller than their imports). Although this would not alter the conclusion that for all countries except Brazil (and to a very minor extent Ecuador) the trade balance effect of China in footwear is positive, one would want to check also the effect on industrial structure in significant producing states. SSA is a significant exporter of leather and the effect of China on its value chains may be important.

Finally, this article has been concerned with the impact of China’s rapid trade growth. Due to its size and rapidity, this has non-marginal effects on many countries and products. But it is not just China, since at current growth rates, India will follow the US and China and become one of the world’s largest economies. Its trade growth, too, is likely to have a non-marginal impact on other countries and on particular sectors.

## Notes

1. Comtrade offers two sources for imports from the world, one of them derived from the importing country’s data and the other from the data supplied on other country exports to China. The two do not coincide. It was decided to use the data on imports reported by China as likely to be the more comprehensive. In the event, however, this may have been a mistake, since when looking at other countries’ trade, the data from the source derived from their trade partners’ export statistics appeared more plausible. We have ended up, therefore, using one of the two sources for China’s imports and the other for developing country imports.

2. Pharmaceuticals, cosmetics, chemicals, plastics, leather and articles, wood and paper, textiles, clothing, footwear, glass, ferrous metals and products, aluminium, engines and pumps, white goods, brown goods, cars and parts, furniture.
3. Brown goods have been excluded from this analysis due to their complexity and the fact that with the exception of Brazil, all SSA/Latin American economies are net importers and therefore would gain ambiguously in relation to consumer welfare (subject, of course, to intra-industry trade patterns that could only be picked up by the more focused studies to which research such as this is a pointer).

## References

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