

AERC Collaborative project

Theme

**The impact of China's Trade Relations in Africa:
The case of the Republic of Congo
(Final Version Draft)**

By

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Brazzaville, July 2009

ABSTRACT

Trade relations between China and Congo are characterized by an unprecedented dynamism. Congo's exports and imports with China recorded an extraordinary increase of 179.38% and 309% respectively during the 2001-2005 period. The main combined factors that contributed to strengthening the trade relations between these two countries are the fact that Congo, on the one hand is endowed with significant oil and forestry resources and China on the other hand needs these raw materials in order to ensure its economic growth. Strengthening trade relations between the two countries poses a series of issues that should be the objectives of a research analysis. These issues involve the impact of trade on Congo's macroeconomic performance, possible benefits and losses brought about by trade, opportunities and challenges for Congo's economy. In fact, the fundamental issue that trade with China raises is to do with the need to establish a win-win based trade relationship between the two countries.

Losses and profits estimations are founded on the Ricardian theory of comparative advantages which stipulates that a country should import goods from another if the costs are lower so as to acquire a trade profit in from the business. Based on this concept, it should be possible to compare a average (unit) cost of similar products that are traded between several partners in order to enable us to the competitive advantage and the possible profits and losses brought about by such trade. The data used is obtained from the Directorate of Customs and covers the 2006 to 2007 period.

The research results demonstrate timber exports to China provide significant profits to Congo whereas oil exports provide competitive advantages or disadvantages according to the partner client country when comparisons are made between the unit prices of these exports and those destined for China from other countries. Thus, in 2006 and 2007, Congo suffered losses on this product. As far as imports are concerned, Congo made profits by purchasing products from China at low prices compared to similar products from conventional European partners. Trade with China has a negative effect on intra-regional trade since the trend is to buy from China similar products that were previously imported CEMAC countries in view of their lower costs. This trade could also facilitate diversification in the timber industry if China establishes companies that could locally process this product in accordance with the forestry act that requires that most of the timber destined for export be processed locally. The Government of Congo should foster Chinese imports while at the same time ensuring quality control of the imported goods and it should also better negotiate oil selling prices as well as provide incentives for the establishment of Chinese industrial companies in Congo by improving infrastructure, public services and the business climate.

1) INTRODUCTION

- Defining the Issue

China and Congo started enjoying relations way back in 1963. However, since early 2000, the economic relations between these two countries have been characterized by unprecedented dynamism. During the 2001-2005 period exports and imports recorded an extraordinary increase of 179.3% and 309.21% respectively. This trend has allowed analysts to predict that relations between Africa and China would have a major impact and lead to structure disruptions of African economies. Two trends have emerged: the first trend predicts that these relations will have a negative impact in the sense that they will create competition that the African producers will not be able to withstand. The second trend predicts that these relations will enable African countries to consolidate their growth by setting up the necessary infrastructure such as roads, bridges, electric dams, drinking water purification stations, etc.

In sub-Saharan Africa, the Republic of Congo is among the countries that have experienced a rapid expansion of trade relations with China. The two main combined factors that have contributed to strengthening trade relations between the two countries is the fact that on the one hand, Congo is endowed with significant oil and forest resources while China, on the other hand has an immense need for raw materials for her economic growth. (Boungou Bazika 2008).

Strengthening trade relations between the two countries poses a series of issues that should be the objectives of a research analysis. These issues involve the impact of trade on Congo's macroeconomic performance, possible benefits and losses brought about by trade, opportunities and challenges for Congo's economy. In fact, the fundamental issue that trade with China raises is to do with the need to establish a win-win based trade relationship between the two countries.

Rationale

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- Objectives

The overall objective of this research is to assess the impact of the significant growth and trade from China on the Congolese economy.

Specific objectives are as follows:

- To determine China's volume in Congo's exports and imports;
- To categorize Congo's main trading;
- To examine the impact of these transactions on Congo's macroeconomic performance.
- To determine Congo's profits and losses in its trade with China
- To analyse the opportunities and challenges arising from China-Congo trade;
- To examine the implications of the economic policy;
- To suggest measures for establishing win-win relations.

- Report Structure

The report is divided into five parts in addition to the introduction: the historical background relates the main trends, trade policy analysis and macroeconomic performances (Section 2); next follows the literature review which points out the conceptual, empirical and methodological (section 3); the theoretical framework and methodology are presented in section 4; the results and their interpretation in section 5. This empirical analysis involves China's growth volume in external trade and the ranking of its main trading partners, the impact of diversification and regional integration. Section 6 brings out policy implications and challenges to be met to obtain win-win trade relations and finally, the conclusions and recommendations to end the analysis.

2) Historical Background

- Trend Analysis

Trade relations between Congo and China as far as the economic cooperation framework is concerned, began in 1964 with the Masamba's Government Debate. During this period, some economic and social achievements had been reached with a significant impact on Congo's economy, in fact, China had provided aid in the construction of a textile industry by establishing Kinsoundi Factory in Brazzaville as the first ever textile factory in the country in harmony with import-substitution strategic framework. This experience marked the first transformation of an agricultural-based economy to an economy dependent on industrial processing. In the trade sector, China subsidized the establishment of the National Bureau of Commerce (OFNACOM). This Bureau had established shops in the country's main towns, Brazzaville and Pointe-Noire for selling low priced Chinese manufactured products.

In the social sector, China-Congo cooperation was evident from the construction of healthcare facilities and posting Chinese doctors and teachers in high schools and at the university.

As for infrastructure, China contributed to the construction of the football stadium where the first African Athletic Games were held in 1965 and the construction of Parliament building in the 80s. In addition it was involved in the construction of the Moukoulou electricity dam in Bouenza District. This dam made it possible to supply electricity to towns in the south and especially the economic capital, Pointe-Noire and part of Brazzaville (Boungou Bazika J.C. 2008).

Since the beginning of the 2000 decade, trade between the two countries has been much strengthened and basically due to spectacular increase in raw material exports to China. Thus, China has become Congo's main client in oil and rough timber sales.

- Analysis of Trade Policies

Congo's Trade Policy

The Congolese trade policy is largely determined by her membership in the Central African Economic and Monetary Community (CEMAC), a customs and economic union set up in 1994 after the dissolution of the previous Central African Customs and Economic Union (UDEAC). CEMAC is made up of six countries from the sub-region. The customs regime is founded on the external common tariff (ECT) which distinguishes four categories of products whose rate varies from 5% for the products of first necessity, 10% for raw materials 20% for inputs and intermediary products and 30% for current consumption goods. Beyond External Common Tariff, imported products must be subjected to a Value Added Tax of 18%, luxury products and harmful products to health (alcohol and tobacco) are subjected to an exercise duty of 24%. Congo is a member of the World Trade Organization (WTO) and is part of the African, Caribbean and Pacific countries which are currently negotiating Economic Partnership Agreements (EPAs) with the European Union whose objective is to establish free trade zones between the two regions.

Consequently, the Congolese trade policy is based on free trade and as a member of WTO, it intends to encourage the opening of the country to external trade and also to limit the level of protection of the national economy. It is in this context that we should understand the intensification of trade between Congo and China which has also become member of the WTO. Several institutions are stakeholders of this trade policy; we can mention the Ministry of Finance which collects customs fees, the ministry of trade which gives authority to import and the ministry of foreign affairs that signs trade cooperation agreements, the companies involved in the import and export of goods etc. we can observe that there is no agency charged with the promotion

of exports and supporting export companies or those with the capacity to export.

China's Trade Policy

The China's trade policy is founded on four modernizations and the open policy which led the country to opening itself to external trade. Exports of raw materials from African countries are exempted from customs duty or attract very minimal tariffs. Conversely, exports of processed goods are limited by a protection level of the Chinese market through imposition of high customs tariffs.

The objective of this policy is to secure Chinese supply of mineral and energy products and to encourage export of finished products. Thus, the Chinese trade strategy is firstly guided by considerable need of resources for domestic production and consequently the need to become a world economic power. The main institutions that facilitate the Chinese trade policy are; Ministry of trade, Ministry of Foreign Affairs and State banks like the Chinese Development Bank (CDB), Export and Import bank of China (Exim Bank), Chinese Credit and Insurance Company (SINOSURE). The Exim Bank was established in 1994 so as to support the business expansion realized by the Chinese companies. It is under the control of the Government and contrary to similar agencies of the western countries. This institution is more flexible and is in a position to take risks in African countries that are viewed as unstable and risky.

The Chinese Government's "Go Out" strategy that encourages Chinese companies to develop up international level was formalized in the tenth 5 Year Strategic Plan (2001-2006). The main obstacle was lack of funding. In order to face this challenge, the Government developed the activities of its Export Insurance-Credit Agency (China Export Import Bank), established a new International Funding Agency (Sinasure), and developed External Credit activities of the China Development Bank. It is very likely that these Export Credit Agencies will quickly be ranked among the most significant in the world with regard to guaranteed project volume (Pairault 2006).

- Institutional Arrangements

The cooperation between China and Congo has experienced relatively steady development through the reciprocal interest expressed by both countries to enjoy close cooperation. Both countries have closely monitored relations in areas of economic, diplomatic, commercial and scientific cooperation. The numerous reciprocal visits by delegations testify to the significance of these relations.

At the institutional level both countries set up a joint commission in 1984. Since then, the commission has held several meetings and the last meeting, the seventh one, was held in Beijing from 25th - 27th September 2008. The visit of the President of the Republic of Congo in 2007 made it possible to establish a strategic cooperation with China. This led China to set up numerous projects in the field of road, electric and construction infrastructure. As far as trade is

concerned, the involvement of Chinese companies in the timber industry contributed to boosting timber exports to China. Several forestry exploitation licences were granted to Chinese companies such as Sicofor and Taman Industries. With regard to oil, the Société Nationale du Pétrole du Congo (SNPC) is in charge of marketing the crude oil extracted from Congolese territory (30%). Oil bought by China is therefore negotiated by this Company that has the Status of a Public Corporation.

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3) Literature Review

- Conceptual Approaches

One of the conceptual approaches for trade relations between China and Africa underscores the comparative advantage theory.

By adopting a comparative approach, the structure for African countries for exports to China is similar to its exports towards major partners such the USA and European Union. It is on the basis of such a conclusion that some authors like Finger (2007) concluded that the expansion of trade between Africa and China form a complementarity when we refer to the trade structure that is beneficial to each party. Another conclusion highlights the fact that the trade structure for Africa and China expresses the comparative advantages of each party more than China's unilateral interests that targets the exploitation of natural resources of African countries (Wang and Bio-Tchane 2008; Ajakaiye et al 2009).

What determines China's comparative advantage is its abundant labour stock. Thus, it is not just the fact that the population is large but also the fact that labour is cheaper. Literature clearly highlights this aspect by showing that products manufactured in China are high as far as the labour factor is concerned (Pairault T 2005; Dinello and Shaoguang 2009). But the export structure of Chinese products is gradually shifting and exported commodities are becoming increasingly sophisticated. According to some authors, Chinese exports are becoming similar to exports from OECD countries. That is why a larger proportion of sophisticated electronic systems and telecommunication equipments are a major part of products made in China (Yueh 2009; Alvarez and Claro 2009).

- Methodological Approaches

Methodological approaches enable us to measure the impact of imports and exports on the general basis of unit cost estimations in order to compare similar products. The most recent study is the one that was conducted by the Global Development Network (GDN) and that focused on the analysis of China's export growth sources to Chile. This study measures the rate of penetration of Chinese exports to Chile as compared to the rest of the world on the basis of unit cost estimates of traded commodities and their degree of similarity with goods exported by OECD countries (Alvarez and Claro 2009).

- Empirical Analysis

The high rate of growth for China is due to high demand of basic products from Africa. According to Golstein, Pinaud and Chen (2006) based on a study done by Kennan and Stevens (2005), seven categories of Chinese imports, especially primary products, from the African exporters have increased average 1.5 times as compared to Chinese average imports during the 1998-2003 period. This refers to animal feed products from Burkina Faso, Ethiopia, Nigeria, Sudan and Tanzania; cobalt from South Africa and the Democratic Republic of Congo; Copper from Zambia and South Africa; Aluminium from Guinea; Iron metals from Mauritania, South Africa and Zimbabwe; chemical products from Niger.

We can note that the progression of imports of basic products on the global market is lower as compared to imports of the same products by China and India.

An important element linked to trade is price. Literature review shows that the involvement of Asian Giants in the world market affects the price. Two trends can be observed: increase on one side and price volatility on the other.

The prices for the four basic products, crude oil, metallic minerals, timber and precious stones have experienced an increase since 2001. Price related to cotton has had a tremendous decrease in 2004. The price of oil experienced a steady increase of 187% during the 2000-2004 period. Copper price has had the same trend amounting to 53% with strong fluctuations.

Regarding fluctuations, there has been an increase during the period in question that have led to strong price volatility for raw materials exported from African countries. According to Goldstein et al (2005), volatility increased for all products except copper. It is difficult to discern the influence related to various factors in these fluctuations. But, it is possible partly attribute this phenomenon to China and India which are considered as versatile producers and normally export when prices are attractive and stock their products when prices seem to decline.

We can underline two trends in literature that analyze the impact of China on African economies.

The first trend is the one on positive economic relations of China with Africa (Benno Ndulu, 2007; CEA (ECA), 2007; Kaplinsky, 2007). According to these authors, African countries have the opportunity to diversify their trade and source of funding that, for a long time, have been dominated by European Union countries. In addition, funding from China is used in growth-generating sectors such as infrastructure that has for a long time been neglected to the advantage of social sectors. Part of the FDI destined for Africa has increased due to its economic relations with China. These authors recommend that African countries strengthen their economic relations with China optimize on

the new opportunities offered by the emergence of this new actor in the global economy.

The second trend shows that influence can aggravate the dependency of Africa on regressive specialization, which is in turn limited to the role of a raw material provider and therefore undermines the diversification efforts undertaken by certain countries (Goldstein et al, 2006; Van der Walt and Schmidt, 2006; Sauvageot, 2007; Kaplinsky, 2007). Above all, the processing industry like textile in Southern Africa (Lesotho, Kenya, South Africa, etc.) might run the risk of competition with low priced Chinese products. Indeed, there could be an increase in debt whilst part of the debt was cancelled within the initiative framework of the highly indebted poor countries led by the IMF and World Bank (HIPC). Finally, adherence to social law and environment can be compromised by Chinese companies which are too focused on profits and not in the least concerned by the rights and obligations stated in the legal mechanism.

4) Theoretical Framework and Methodology

- Theoretical Framework

Estimations done in this research are founded on the Ricardian theory of comparative advantages which stipulates that a country should import goods from another if the costs are lower so as to acquire a trade profit in from the business. It should thus be possible to compare an average (unit) cost of similar products that are traded between several partners in order to enable us to the competitive advantage and the possible profits and losses brought about by such trade. Let us take textile goods for instance. If the unit of material is cheaper in China compared to France, it would be more advantageous for Congo to import from China. Acting in this more would result in a profit. If on the other hand for some reasons linked to market structure and trade practices, the goods are imported from France, in this case, the type of trade results in a loss for the importing country. The model depicted hereafter specifies the equations used for carrying out the estimations.

The indicators have been estimated for the period starting from 2006 to 2007. For imports and exports, it shall involve calculating profit and loss income related to trade between Congo and China. We have adopted the Ricardian approach of comparative costs so as to estimate the losses emanating from the trade of similar products between Congo and China and other traditional and non-traditional partners. The comparison will be done with the main clients for the exports and main producers for the imports of similar products in order to measure the gains and losses of trade with China. In a situation where China has become the main producer or client for the product, the comparison will be done with the countries which occupy the lower position. This model that we have developed and expressed by the equations 1 to 4 will help, on the basis of the comparison of unit cost, to give an overview of profit and loss

- Methodology

The methodological approach is based on indicators that measure the competitive advantage and profits and losses at a macro and micro economic level. This approach shall be complemented by case studies related to production and export diversification of intra-regional trade.

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Competitive Advantage Profit and Loss Measuring indicator It seems worthwhile to measure the competitive advantage of Congo and China exports in order to better understand the profits or losses experienced in external trade. The competitive advantage is derived from the difference of unit costs on similar products. When for a similar category of commodities, the export or import unit costs are different, the competitive advantage is attributed to the category of goods traded by Congo and for which the unit cost is higher for exports and lower for imports in comparison with the trading price with China.

For Exports

$$AV_X = \frac{\frac{P_{XiCh}}{V_{XiCh}}}{\frac{P_{XiP}}{V_{XiP}}} * 100 \quad (1)$$

Where

P_{xip} : Value of Congo exports of similar product i towards the partner country

V_{xip} : Volume of Congo exports to a partner country of similar product i to a partner country

P_{xich} : Value of Congo exports of a similar product i to China

V_{xich}: Volume of Congo exports of a similar product i to China

If AVX >100%, it means that exports from Congo to China have a competitive advantage with resultant profits; otherwise, they would be less competitive, with resultant losses.

For imports

$$AVM = \frac{\frac{P_{MiCh}}{V_{MiCh}}}{\frac{P_{MiP}}{V_{MiP}}} * 100 \quad (2)$$

Avec

PMip: Value of Congo imports of similar product i from a partner country

VMip: Volume of Congo imports of a similar product i from a partner country

PMich: Value of Congo imports of a similar product i from China

VMich: Volume of Congo imports of a similar product i from China

If $AVM < 100\%$, this would mean that Congo's imports from China have a competitive advantage, with resultant profits; otherwise they would be less competitive with resultant losses.

Profit and Loss Indicators in Trade

Two indicators are used to estimate profits and losses in trade. One is the export indicator while the other is the import indicator.

For Exports

$$G_x = \sum_i^n (V_{Xchi} - V_{Xpi}) * \left(\frac{P_{Xchi}}{V_{Xchi}} - \frac{P_{Xpi}}{V_{Xpi}} \right) \quad (3)$$

Where $VXchi - VXpi > 0$

GX: Profit from exports

VXchi: volume of exports of product i from China

VXpi: volume of exports of product i from partner country

PXpi: value of exports of product i from partner country

VXchi: value of exports of product i from China

If $GM > 0$, there is profit and if not, there is a loss.

For imports

$$G_M = \sum_i^n (V_{Mchi} - V_{Mpi}) * \left(\frac{P_{Mpi}}{V_{Mpi}} - \frac{P_{Mchi}}{V_{Mchi}} \right) \quad (4)$$

Where $VMchi - VMpi > 0$

GM: Profit from imports

VMchi: volume of imports of product i from China

VM_{pi}: volume of imports of product i from partner country
 PM_{pi}: value of imports of product i from partner country
 VM_{chi}: value of imports of product i from China

Si $GM > 0$, there is a profit if not there is a loss

As mentioned above, these indicators are based on import and export unit costs of the main similar products that are traded between Congo and China as well as other partner countries. The annual volume and value data disaggregated according to products, destination and origin are required for various calculations. On the basis of unit cost estimations, it is then possible to compare the costs of similar product categories.

But there are other profits and losses of qualitative nature and which are not always able to be measured at a micro economic level such as consumption of lower quality goods for instance or non adherence to labour legislation in some companies.

Case Study

In order to refine the methodological approach, several case studies focusing on the trade of two products, namely, oil and timber, were conducted. The objective was to measure the specific profits and losses resulting from trade in these two goods. The rationale of this approach is the fact that oil and timber are Congo's main exports.

Moreover, we felt it worthwhile to measure the profits and losses of trade between Congo and Cameroon from similar products with China. The aim was to determine whether trade with China was a threat to intra-regional trade within the CEMAC region.

Furthermore, a case study on the diversification of Congo's economy was conducted. This involved the analysis of the timber chain value and the impact of trade between Congo and China in raw and processed goods of this sector. It seems more relevant to view the diversification issue on the basis of sector oriented analysis of specific cases. Such an analysis provides better results and allows for a more realistic perception of a country's capacity to diversify its production as well as its exports within a clearly determined industrial sector. Numerous studies on diversification have adopted this sector and product approach by distinguishing traditional and non-traditional products (Bamou Tankoua Lydie 2006).

- Discussion

The issue with a comparative approach as induced by the theory of relative costs has much to do with the heterogeneity of similar products. The issue

raised by the comparison involves the quality of products. The quality variance of two similar products may account for the difference in unit costs. If we assume for instance that a product imported from China is of lower quality this would explain why it would be cheaper. The question we therefore need to answer is the following: how come that although this product is of lower quality, there is a high demand for it on the market? A study conducted by Alvarez and Carlo on the issue of the quality of Chinese exports and using 15 years data (1990-2005) in Chile, led to the following conclusion: Chinese products tend to close in quality similarity to products exported by OECD countries.

Table 1. Countries exporting goods to Chile whose similarity index is higher compared with OECD exports

Country	1990	Country	2005
Brazil	0.602	South Korea	0.700
Taiwan	0.540	Brazil	0.568
Mexico	0.467	Taiwan	0.544
Argentina	0.398	Mexico	0.484
China	0.388	Chine	0.434
South Korea	0.370	Colombia	0.384
Indonesia	0.368	Uruguay	0.382
Panama	0.240	India	0.360
Peru	0.224	Singapore	0.353
Colombia	0.215	Thailand	0.343

Sources: Alvarez and Claro 2009

Thus, based on these findings which show that China is among the first five developing countries that has the highest similarity index with products exported by OECD, it is thus possible to compare similar products exported by China with those exported by OECD to Congo. In addition, from 1990 to 2005, China's similarity index improved by 11.86%. It is noteworthy too that China has now become the top supplier of light industry goods to the USA market. It also massively exports to the European Union market. Yet, these markets are very demanding as far as quality standards are concerned. Lastly, in recent years, it has been noted that there has been an improvement in the quality of Chinese products coupled with a reduction in their prices. This phenomenon can be explained by the increase in productivity (Yueh 2009). However, the quality control mechanism of Chinese manufactured goods is still experiencing some weaknesses and this would account for food contamination issues currently faced by the country.

Data and its source

Data is mainly obtained from the statistical imports and exports yearbooks compiled by the Customs Directorate. This data covers years 2006 and 2007.

They include a nomenclature of several thousands of products from the Harmonized System (HS). The statistical data focuses on volumes (kg) and value (FCFA) of traded goods. The value of imports and exports are CIF and FOB respectively. For harmonization needs, the value has been converted into dollars. The disaggregated data enables us to know the products traded between Congo and foreign countries in a detailed and exhaustive manner. They also assist in better understanding of the trade within the product sector and also to have a clear view of the capacities to be diversified. Thus, a diversification analysis for instance, is more robust when it is founded on disaggregated data rather than a macro-economic approach. The aggregated data from the National Statistics and Economic Studies Centre (CNSEE) was also employed. This data cover the 2000 to 2005 period. It made it possible to measure macroeconomic trends. The data collected serve as a remarkable basis for estimating competitive advantages using export and import unit cost estimates as well as China's share in Congo's external trade according to products and trade partners.

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Empirical

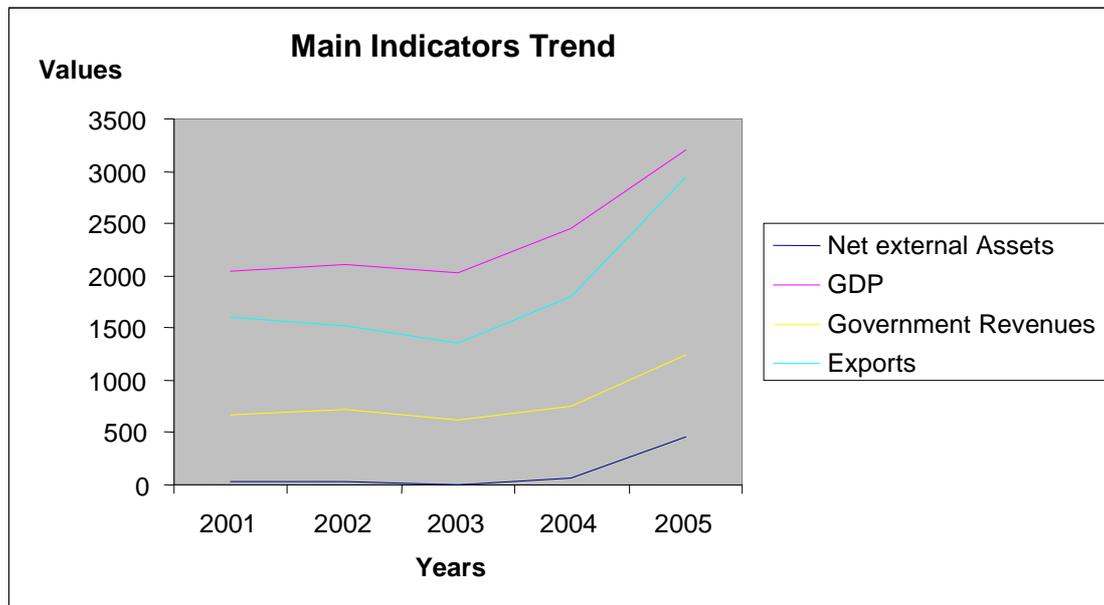
Analysis: Results and Interpretation

Macroeconomic Analysis

.Congo's Macroeconomic Performance and China's Involvement

The GDP growth rate during the 2001-2005 period experienced an increase as well as other macroeconomic aggregates like net external assets, exports and State budgetary income. These positive performances were brought about by the raw materials boom in the global market. Exports, as indicated by the graph, registered the highest growth rate between 2003 and 2005. Thus exports represent the main factor which contributed to the improvement of the economic performances. If we bear in mind that China became the main client of Congo in oil and timber export, we can therefore conclude that trade with this country largely contributed to the performance improvement of Congolese economy.

Graph 1. Macroeconomic Performance Trend from 2001 to 2005

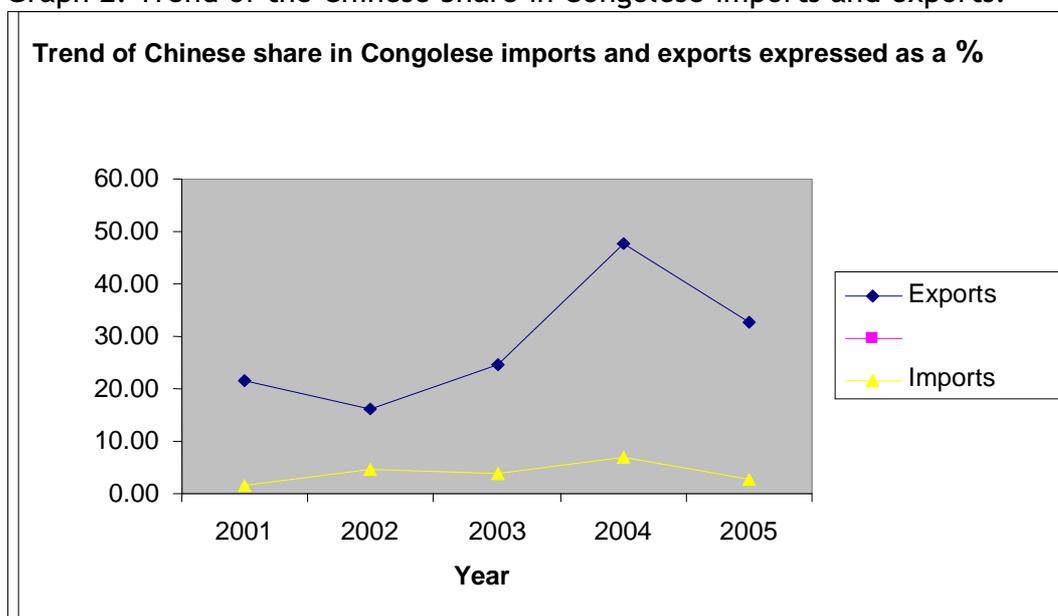


Source: Statistical Yearbook of Congo, CNSEE 2005

II. China's Business Weight in Congo's External Trade

The period between 2003 and 2004 experienced a real boom in exports from Congo to China. The country market share recorded a spectacular increase whilst China's export had a slow curve as it is shown in the first graph.

Graph 2. Trend of the Chinese Share in Congolese imports and exports.



Source: Author using CNSEE data

2.1. Trend of Congo exports to China

The data from the first Graph shows that the exports from Congo to China recorded a steep increase for the 2001-2005 period. Indeed, the exports went up from 178 million to 483 million of \$, which corresponds to an increase of 171.3%. This increase confirms the enormous need in raw materials by the Chinese economy and which again justifies such a demand. In 2004, 32.44% of Congolese export was destined to China whilst in the year 2000, Congolese exports stood at only 16.56%. This is a new configuration in the geographic orientation of Congolese external trade in the sense that, for the last five years, oil exports were destined mainly to Taiwan, its biggest client.

Table 2. Trend of Congolese Exports to China from 2000 to 2005
(In millions of dollars)

	2000	2001	2002	2003	2004	2005
Exports to China	178	114	234	434	1721	1926
Total exports	1075	1928	3359	1991	1489	5873
% of X to China	16.56	5.94	6.97	21.80	47.44	32.80

Source: Author based on CNSEE Data

Structure of exports from Congo to China

The main exports from Congo to China in 2004 were basically oil and timber. These two products were exported in their unprocessed state. These two types of products are distributed as follows. Oil accounted for 86.36% and the diverse types of timber (Okoume, Sapele, Sipo, etc.), represented 13.50%.

Table 3. Structure of Main Exports from Congo to China in 2004
(In millions of dollars)

Name	Volume (tons)	Value	Value en %
Oil	1 830 803	410.984	86.36
Timber (Wood)	186 898	64.258	13.5
Plywood	313	0.634	0.14
Total	2 015 130	475.876	100

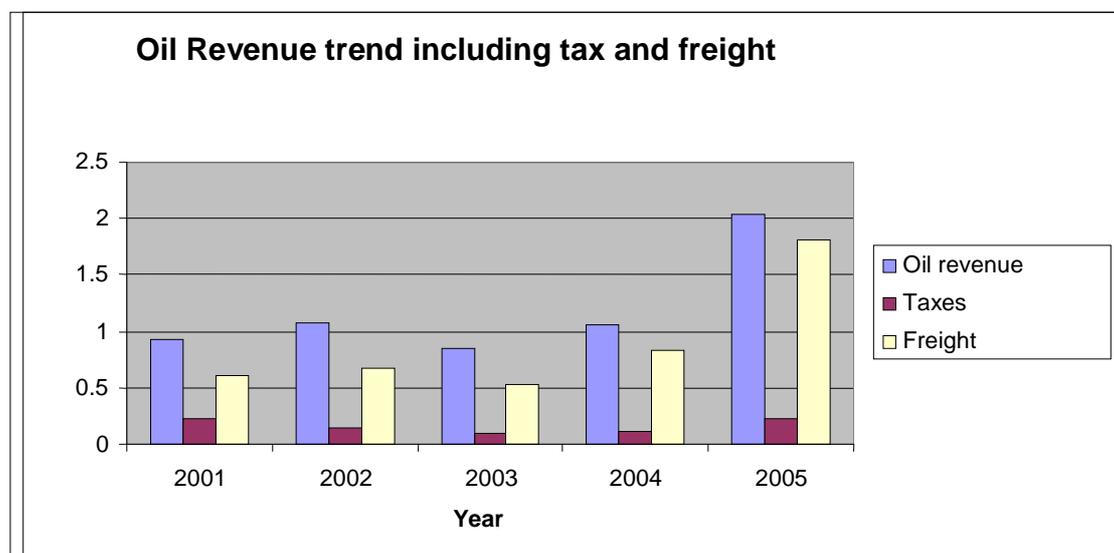
Source: Author based on DGD and BEAC Data

2.3. Impact on Congo's oil income

The increase in oil exports had direct impact on the income collected by the State in order to finance its budget. Income generated from external sales in oil went up from 0.9 Billion US dollars in 2001 to 2 Billion US dollars in 2005, an increase of 121.73%. During the same period, exports from Congo to China increased by 179.13%. Thus it is obvious that this increase in exports had an impact on the increase of oil revenue since China became Congo's main client in terms of exporting oil and timber.

Graph 3. Trend of State income emanating from oil exports

Values (in Billions of \$ US)



. Trend of imports originating from China

Imports are characterized by a slight increase during the period under review. However, in a general manner, the imports remained a little higher and in the total Congolese imports, the quantity originating from China is somehow marginal. In 2004, this import share rose to 0.48 %, which is modest in comparison with the exports.

Table 4. Trend of Congo imports from China
(In Million of dollars)

	2000	2001	2002	2003	2004	2005
Total imports	739	861	952	821	803	2033
Imports from China	6	13	45	30	57	53
% of M from China	0.79	1.52	4.68	3.66	7.09	2.64

Source: Author based on CNSEE data

Structure of imports from China

Congo imports from China are essentially manufactured goods and food commodities. There are four dominant goods namely; rice, tobacco, cement and construction materials.

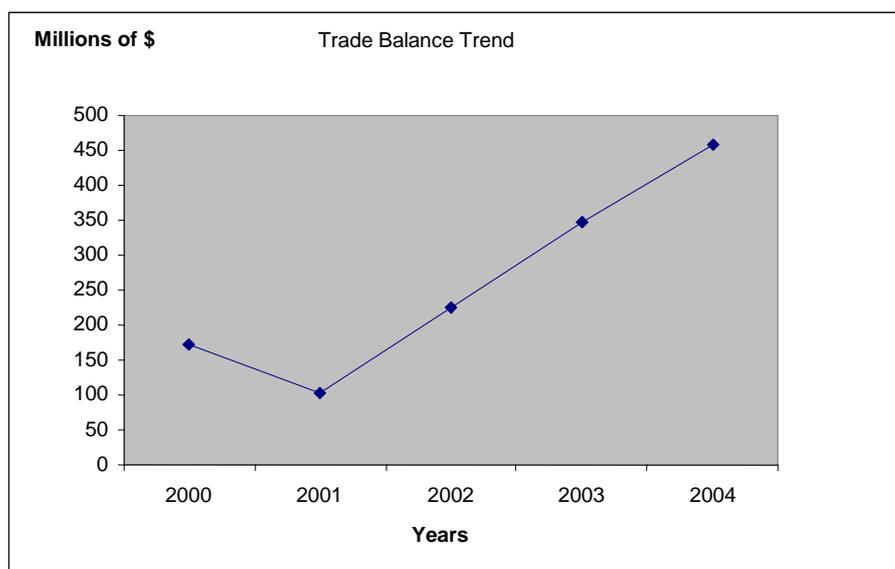
Table 5. Structure of main imports from China in 2003

Name	Volume (in tons)	Value (in millions of dollars)
Construction material	70 789 668	5.3
Food products	4 738 073	3.7
Pharmaceutical products	476 027	1.7
Textile products	915 653	1.1

Source: Author from the Ministry of Planning Data.

We notice on graph 2 that the trade balance is positive. Congo has got trade surplus with China. In addition, the trade surplus is showing increase during the period due to strong expansion of exports on the one hand and stagnation of Congo imports from China on the other hand. The Congolese market with her 3.5 million inhabitants is of small size for a major exporter like China.

Graph 4. Trend of Congo's trade balance with China



Congolese trade relations with China have got positive impact because they allow for a diversification of trade partners in a context where trade had been polarised since independence in 1960 by European Union countries in the area of imports and by USA in the domain of exports (oil). In the area of exports we realise a rapid trend with an increase emanating from the Chinese share. As for imports, we note that while the growth is weak the impact still remains marginal which then denotes the dominant role played by European union countries (particularly France) as the main suppliers of Congo in food, chemical and mechanical products. More than 50% of these products are imported from this region.

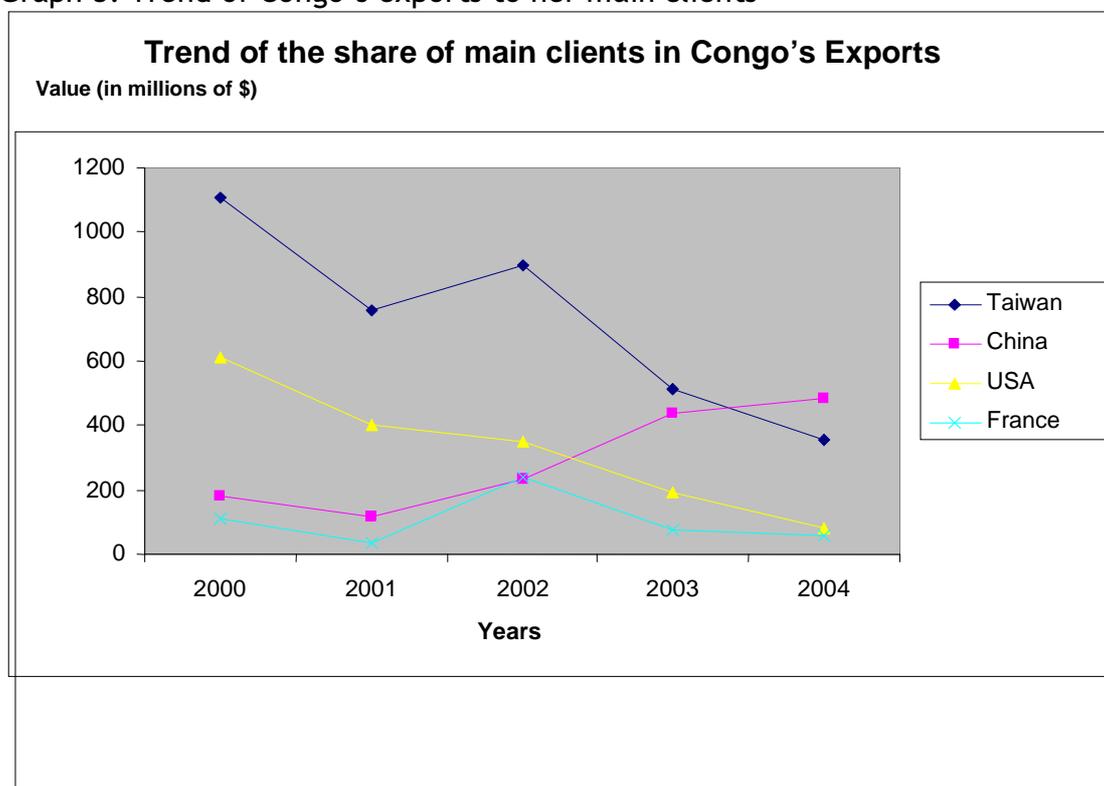
Trade trend with traditional partners

Exports according to clients

Export trends clearly display a spectacular increase from China which was placed third in terms of Congolese exports in the year 2000 and has now taken the first position since 2004 thus taking over the traditional position of Congo's top client. This position was previously held by Taiwan. While the trend is the decline of exports to traditional partners of Congo (Taiwan, United States, France), conversely, china is gaining weight in Congolese exports and it is the

only country that has this increasing trend. This can be attributed to the major increase in oil exports to china as from the year 2001.

Graph 5. Trend of Congo's exports to her main clients



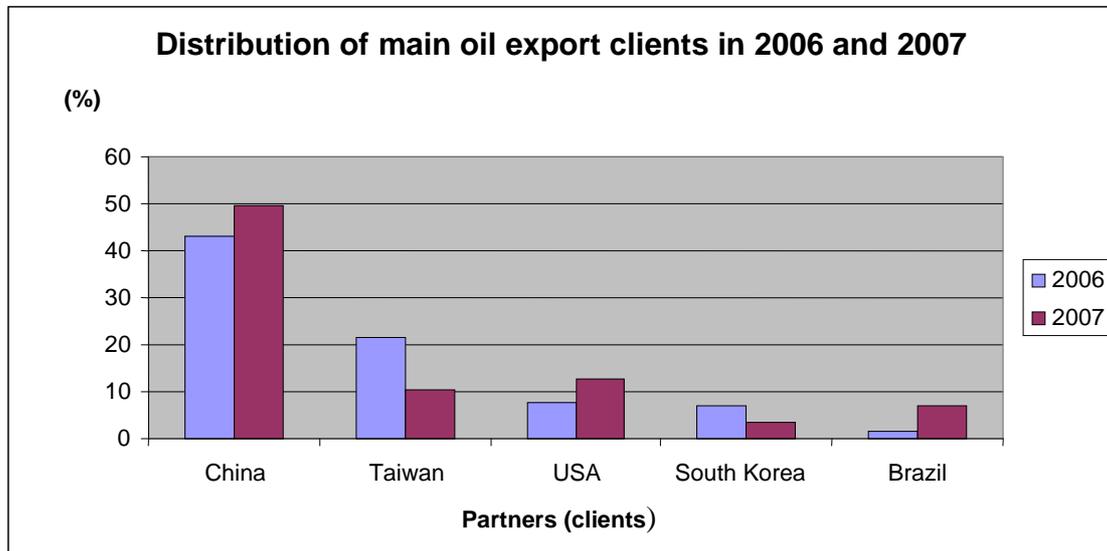
When we examine the distribution trend of main countries which are clients of Congo in selling oil, we can fully note that there has been an increasing participation of China for the last few years. China's share in exports is strengthening as compared to that of the traditional partner countries like Taiwan and the USA.

Exports according to the products

The two main products, oil and timber are mainly destined for China as illustrated by the graph above.

Graph 6. Geographical distribution of oil exports

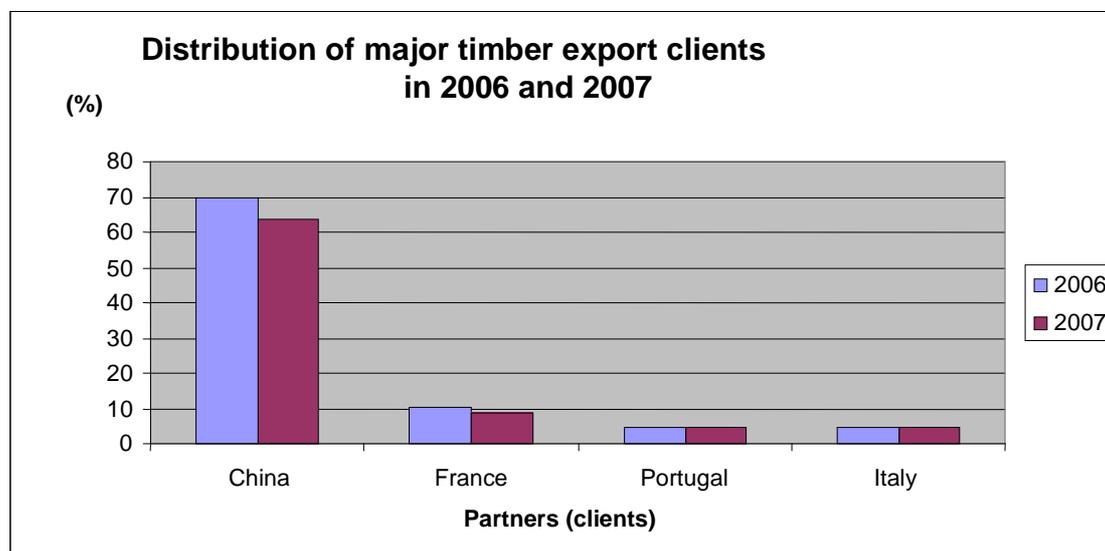
Export Share



Concerning timber exports, China is by far the first client with about 70% of exports in her favour.

Graph 7. Geographical distribution of timber exports

Export share



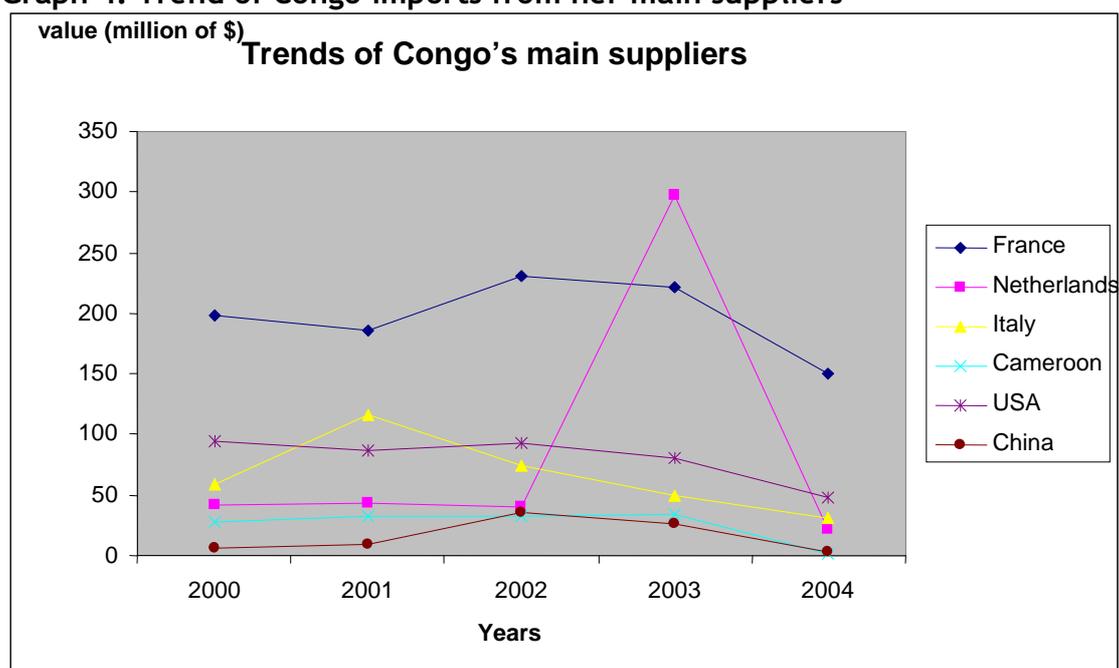
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Imports

Congo imports have not experienced disruptions in the face of exports. We get the same trends with France enjoying the dominant position as the main traditional partner in terms of supply. USA takes up the second position but still remains far from France. As for China, her share has experienced a slight increase from 2001 to 2003 and thereafter a reduction has been recorded. In a general manner, China imports remains marginal.

Thus, the impact in the area of Congo imports is significant and requires modification of the geographical structure of the Congolese imports in favour of China. This impact is weak and even conversely nil as far as the geographic orientation of Congo imports is concerned. Traditional partners maintain their position and China's significance is very weak.

Graph 4. Trend of Congo imports from her main suppliers



III. Assessment of profits and losses generated by internal trade with China

Impact of trade according to countries

Impact of the exports

Trade transactions with China have got a significant impact on the profits and losses that Congo has achieved through export of goods and particularly in oil exports. When we compare exports destined to several partners, we note that Congo enjoys competitive advantage with certain partners as compared to China but is also disadvantaged with some of these partners. This varied situation can be explained by the difference in export unit price. As for products whose unit price paid by China is higher than the unit price paid by

other partners, we realise that Congo registers a profit (France, Germany, Netherlands, Belgium), but on exports whose unit price paid by China is lower compared to the unit price offered by other partners, we find that Congo records a loss (Taiwan, USA, South Korea). It is necessary to mention the determinant aspect of oil since its unit price is crucial in the eventual loss or profit in total exports. Therefore, the average unit price is advantageous when we compare exports destined to China to those destined to Portugal since Congo records a loss due to export unit price of oil which is lower in terms of selling this product in Portugal as compared to the price paid by China.

Table 6. Unit cost and profits of Congo exports to China in comparison with other partner countries (2006) (in US dollars)

Destination	Number of categories of similar products (SH)	Average unit cost of China exports	Average unit cost of exports destined to other partners	Competitive advantage of Congo (%)	profit realised by Congo (in dollars)
France	13	0.312	0.310	100.55%	12 380 697
Portugal	9	0.272	0.266	102.08%	-1 817 734 173
Germany	6	0.296	0.288	103.11%	651 872 491
Netherlands	3	0.358	0.326	109.77%	266 091 035
Italy	7	0.404	0.390	104.04%	58 385
Belgium	3	0.312	0.290	107.36%	586 923 940
Taiwan	8	0.240	0.252	95.22%	-134 888 432
South Korea	1	0.298	0.340	87.79%	-292 563 729
USA	4	0.440	0.472	93.12%	-248 346 016
Total					-415 071 464

The table showing exports in the year 2007 indicates increase in losses recorded in Congolese exports. This trend can be explained by the low level of unit price in oil exports to China in comparison to other partners.

Table 7. Unit price and gain in exports destined to China in comparison with other partner countries (2007) (in US dollars)

Destination (partner)	Number of categories of similar products	Average unit cost of China exports	Average unit price of exports to other partners	Competitive advantage of Congo (%)	Profit realized by Congo (in dollars)
Cameroon	5	0.342	0.342	100.12%	81 736 031
France	15	0.296	0.286	103.75%	576 342 910

Portugal	6	0.246	0.234	104.87%	-669 464 750
Germany	10	0.32	0.288	111.29%	427 981
Netherlands	2	0.246	0.272	90.04%	-606 235 698
Italy	12	0.284	0.278	102.74%	-683 311 559
Belgium	5	0.326	0.326	100.07%	-61 100
Taiwan	11	0.302	0.304	99.46%	-78 536 529
South Korea	1	0.298	0.446	66.89%	-1 157 051 418
USA	2	0.348	0.372	93.64%	-422 410 707
Total					-2 958 564 839

. Impact of imports

As pertains to imports, the general situation for virtually all the goods imported from China shows a comparative advantage for Congo as compared to other imports from other partners. Due to imports from China, Congo has managed to realise significant economic resources by paying low prices for imports of similar products. We can affirm that China holds a comparative advantage in terms of the manufactured goods imported in Congo. The cost of imports of the Chinese products goes between 20% and 50% of the import cost of similar products from other trade partners. The estimates done on the 2006 and 2007 data confirms this trend for all the European and African trade partners.

Table 8. Unit cost and import profit from China in comparison with other country partners (2006) (in US dollars)

Origin (partner)	Number of categories of similar products (SH)	Average unit cost of imports from China	Average unit cost of imports from other partner	Competitive advantage from China (%)	Profit obtained by Congo
Cameroon	20	1.31	2.53	51.76%	12 582 538
Italy	18	1.36	4.65	29.30%	14 386 326
France	50	2.65	8.50	31.12%	34 548 363

Table 9. Unit cost and import profit from China in comparison with other partners (2007) (in US dollars)

Origin (partner)	Number of categories of similar products	Average unit cost of imports from	Average unit cost of imports from partners	Competitive advantage from China (%)	Profit realized by Congo
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	(SH)	China			
Cameroon	29	2.10	7.37	28.45%	61 945 122
Italy	41	1.80	13.95	12.92%	145 773 421
France	76	2.02	8.86	22.74%	480 082 680
Belgium	42	2.05	7.98	25.71%	113 045 587

Impact of trade according to the products

. Impact of exports

Oil exports

During the year 2007, Congolese oil exports experienced losses with an exception of exports to France and Cameroon whose unit price was below that of Chinese exports. Thus exports to china were higher by 103.03% and 134.92%. As for the other partners, the prices paid by China were lower and ranged between 76% and 96% compared to those exercised by Taiwan, USA, South Korea, etc. This competitive disadvantage explains the reason for loses registered in the oil exports.

Table 10: Unit price and profit on oil exports to China in comparison with other partners (2007) (in US dollars)

Destination	Unit price	Competitive advantage and disadvantage of Congo	Profit gained by Congo
China	0.340	-	-
Cameroon	0.330	103.03%	67 500 281
France	0.252	134.92%	576 341 588
Portugal	0.442	76.92%	-669 304 964
Italy	0.444	76.58%	-683 407 696
Netherlands	0.436	77.98%	-606 245 401
South Korea	0.446	76.23%	-664 509 413
Taiwan	0.354	96.05%	-78 559 813
USA	0.362	93.92%	-112 337 381

Timber exports

Timber exports to China are more competitive than those destined to other trade partners. With an exception of two countries, Cameroon and Taiwan, Congolese timber exports to China present a comparative advantage to Congo. Their unit price is more higher compared to the same products exported to other trade partners. This trend leads to profits for Congo.

Table11. Average unit price and profit of timber exports to China in comparison with other partners (2007) (in US dollars)

Destination (partner)	Unit price of exports to China	Unit price of exports to other partners	Competitive advantage for Congo	Profit /Benefit
Cameroon	0.344	0.346	99.40%	14235750
France	0.294	0.288	101.78%	1 322
Belgium	0.326	0.326	100.07%	-61 099
Germany	0.320	0.288	111.29%	427 981
Portugal	0.226	0.192	117.66%	73 919
Italy	0.280	0.262	106.79%	96 137
Netherlands	0.396	0.382	104.03%	9 702
Spain	0.354	0.336	105.14%	1 171 143
Taiwan	0.298	0.298	99.90%	23 284
USA	0.396	0.38	104.35%	14 504

Sources: author's calculations using DGD data

Impact of imports

The impact of imports from China is remarkable since the imported goods contribute in economizing the resources and therefore leads to benefits at the external trade level of Congo. On the total imports from China, the unit cost is quite low as compared to unit cost of similar products imported from France, Italy, Belgium, Germany and other trade partners who are main suppliers of manufactured goods to Congo. The competitive advantage of the Chinese products is quite considerable. Unit price for similar products imported from China has a major difference and is ranked between 7% and 45% of the concurrent products as indicated by the tables below.

Table12. Average unit cost and profits of manufactured import goods from China in comparison with other partners (2006) (in US dollars)

Origin	Product	Unit cost	Unit cost of	Competitive	Profit
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(partner)		of imports from China	imports from other partners	advantage of China	
Cameroon	Water cement	0.076	0.846	8.93%	7 138 742
	Sanitary Tissue	1.134	4.458	25.43%	674 255
	Cubic tiles	0.582	1.686	34.52%	2 376 713
	Insecticides	1.712	11.82	14.48%	839 674
France	Water cement	0.076	0.398	19.10%	2 912 995
	Calcium chloride	0.044	1.314	3.35%	5 071 785
	Cotton trousers for men	1.19	5.64	21.10%	991 673
	Iron and steel works	0.518	11.398	4.54%	4 171 114
	Plumbing articles	4.986	29.756	16.76%	10 674 653
	Electrical lighting equipments	1.914	24.538	7.80%	2 733 612
Italy	Water cement	0.076	0.172	44.37%	876 146
	cotton outfits for men	1.412	34.764	4.06%	2 084 153
	Iron and steel works	0.518	15.808	3.28%	7 475 048
	Spare parts for vehicles	0.526	4.414	11.91%	1 192 160
Total		0.076	0.846		7 138 742

Sources: Author's calculation using DGD data

Impact on the diversification capacity and intra- regional integration

The estimation of the impact of economic diversification and regional integration was done on the basis of two case studies. The first was on the timber sector and the second was a comparative study of Congo's products that are similar to those from Cameroon and China.

Impact of Trade with China on Congolese export diversification capacity

According to study carried out recently, the impact of trade between African countries and China has got no effect on the diversification of African economies. The model that led to this conclusion was based on the gravitation model which integrates the global values of imports and exports (Berthelemy 2009). It would be interesting to adopt another approach, a model based on the analysis of the industries. Such an approach enables us to see if trade between

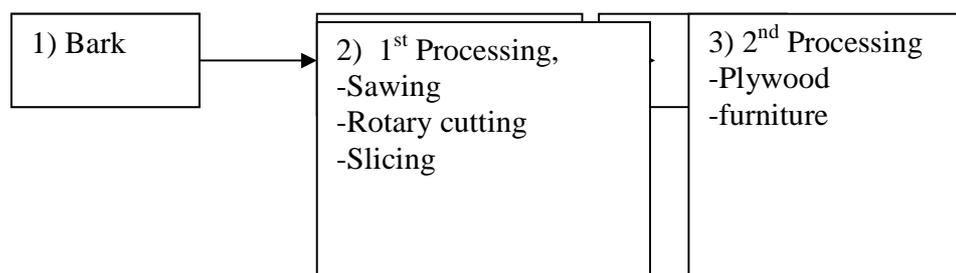
China and African countries can encourage diversification of products in an industry and consequently contribute to the success of the industry. This means that the product made is a primary commodity in the first step. Thereafter, the country moves to the level of semi finished goods and finally to the level of finished goods. As far as Congo is concerned, we have taken the example of the timber industry.

In the beginning, China used to import several goods from the timber industry. These were raw timber, timber logs and veneers. Consequently, exports of raw timber increased whilst exports for timber logs decreased and in the process, veneers disappeared completely from the range of goods exported to China. At the same time, we can note that during the same period, Congo was importing plywood from China. Let us consider the years 2006 and 2007. In 2006, Congo exported to China plywood worth 262 million FCFA. In 2007, this product was not among Congolese exports. To the contrary, during the same year, we can observe that it was part of the imports from China. Thus during the same year, Congo imported plywood from China to a tune of 38 million FCFA. This means that in her trade strategy, China prefers to import raw timber and make plywood locally with the raw materials imported from Congo and consequently export finished products to Congo. Such a strategy, mainly used by the western countries during the colonial and post-colonial period cannot encourage production diversification and by extension reduces the re capacity for Congo in terms of industrialization. This confines African countries to the production of primary products.

Within the framework of national forestry plan of action (PAFN) adopted in 1994, the main regulation instrument in the sub sector is the forest code promulgated in 2000. Among the innovations introduced by the code, is the condition that requires 85% of the undressed timber to be transformed at the place of origin. In practice, processing, which is usually in sawing form, does not achieve the objective placed at 85%, the difference is part of the surcharge. It is however worth noting that, this regulation framework fixes, according to the international organization on tropical timber (OIBT), the basis for sustainable development of forests and its application in Congo is ongoing; Congo will be among the first countries in the world to do it as far as this International Organization on Tropical Timber (OIBT) is concerned.

In addition, observations on the statistical data illustrate a sound trend of Congo in importing finished products from the timber industry which are mainly furniture. Indeed, in 2006 and 2007, furniture imports increased to several hundreds of millions of dollars.

Graph 9. Chart of main steps of the value chain in the timber industry



Diversification requires that the involvement of companies in Congo in the timber industry focus on the total value chain in conformity with the industry's regulatory mechanism. But Chinese companies restrict themselves to the first and second steps. The manufacturing of furniture represents the missing link in the sector. Congo imports significant quantities of furniture from China and other Western countries in order to equip its public offices. The sector diversification policy should incorporate the production of this furniture locally

4.2. Impacts of trade with China on the regional integration in CEMAC

Trade with China has an impact on intra regional trade. We can assume that this trade can lead to diversion of traffic which might then limit trade between Congo and her other CEMAC countries. This assumption will be faced in the trade between Congo and Cameroon. It is therefore an issue of trying to see the impact of imports from China on other similar imports from Cameroon. Oil and timber exports to Cameroon are less competitive as compared to similar exports to China. As for imports, similar products imported from China are more competitive than those from Cameroon. Thus trade between Congo and Cameroon is faced with strong competition for similar products from China. The table below illustrates this trend in a concrete manner.

Table 13. Unit cost of Congo imports from the 10 categories of similar products in 2007: China/Cameroon comparison. (US Dollars)

HS Code	Products	Origin	Unit cost	Gap
3923290000	bags, sachets, cartons, plastic / bags	China	2.182	
		Cameroon	2.532	-0.35
4011100000	New rubber tires for tourism vehicles	China	1.646	
		Cameroon	9.976	-8.33
4011200000	New rubber tires for buses and lorries	China	2.036	
		Cameroon	5.71	-3.672
4202190000	Trunks, suitcases, briefcases	China	1.392	
		Cameroon	7.96	-6.568

42022900000 Hand bag	China	1.432	
	Cameroon	14.86	-13.428
44121300000 Plywood with external layers	China	0.732	
	Cameroon	1.162	-0.43
48181000000 Sanitary Tissue	China	1.042	
	Cameroon	3.728	-2.686
48202000000 Exercise books	China	0.8	
	Cameroon	1.238	-0.438
52085200000 Cotton printed material	China	0.684	
	Cameroon	2.9	-2.216
61091000000 T-shirts and undergarments for women and girls	China	1.078	
	Cameroon	1.29	-0.212

Sources: Authors calculations from the DGD data.

The above table shows that the imports of similar manufactured products are more advantageous for Congo when they originate from China as compared to Cameroon. This comparative advantage has got a negative impact on the intra community trade in the CEMAC zone which is already characterized by a low percentage estimated at 3%. We note here that the estimated import Profits from China as compared to those with Cameroon, have permitted Congo to achieve a resource economy (Profit) estimated at 61,276 millions of dollars in 2007. In future, imports of certain products manufactured from China could increase and bypass those originating from Cameroon. If we take for instance, an exercise book, the difference in cost for the exercise books imported from China and those from Cameroon is 219 FCFA or 0.418 US dollar per unit. Households with modest income and with many children in school prefer to buy Chinese exercise books to the detriment of those originating from Cameroon. It is worth stating here that 50.7% of people live below the poverty line in Congo (Ministry of planning 2006).

Implications of the Economic Policy and Challenges faced in order to minimize losses and Optimize Profits

Based on the foregoing, we can identify three challenges to be surmounted. The first one is on the limitation of losses and maximization of profits in the exports destined to China. The second one is in regard to strengthening of imports that contribute in economizing on the foreign currency exit without compromising on the quality of imported goods. The third challenge focuses on the need to benefit from the Chinese expertise as well as her industrial capacity so that the Chinese companies set up in Congo realise finished products as well as contribute in improving the capacity to export products of high added value.

The first challenge is on determination of oil price. This price is different from that of timber. For the timber, the price is uniform on the market regardless of the buyer. In contrast, the price for oil is not only volatile but is variable depending on clients. In 2006, the selling unit price for oil was higher as compared to that applied in the 2007. Furthermore, while in 2006, the price was higher than that paid by a larger number of partners in 2007 the situation was different. This explains the increasing trend of losses during that period. The challenge to be met is considerable. China has become a giant client and above all, a major investor in Congo. This position could have a significant influence on price negotiations. The challenge is to negotiate the most beneficial prices for Congo by aligning them to those of other clients.

The second challenge requires that import quality control services be strengthened so that goods imported from China are of better quality and at the same time give satisfaction to the consumers. Low prices allows for massive access to Chinese products by the poor. However, it is crucial to ensure that the products consumed are not of poor quality and they should have a positive impact on household standard of living.

The third challenge requires strengthening of the institutional mechanism and improving the macroeconomic environment as well as the business climate. Chinese companies, especially those in the forest sector, should be well controlled and the legislation requiring that most of the undressed timber be transformed at source should be fully enforced. In Cameroon for example, the government has succeeded in having almost 80% of the bark processed on the ground. In Congo, the 80% regulated threshold is far from being achieved. Furthermore, the industrial and trade policy must be reinforced so as to improve the capacity to produce and diversify products in some production sectors like the timber industry. This therefore requires upgrading the infrastructure such as airports, roads, rail and maritime transport. The administrative procedures at the customs and in other areas need to be simplified. In addition, human capital training policies need to be strengthened.

The fourth challenge is on effective management of vital monetary resources generated by exporting natural resources to China. Raw material exports, particularly crude oil to China have generated significant monetary reserves that the country should benefit from to diversify its economy, improve public services and contribute to poverty reduction which is still high with 51.7% of the population living below the poverty line (Ministry of Planning 2006). The improvement of public funds management is a prerequisite for benefiting from monetary reserves. A public funds reform project is underway with the support of the World Bank, the European Union and the French Development Cooperation. This project consists of rationalizing public expenses, computerising the expenditure chain in all financial administrations, improving the procurement and Government contract awarding procedures.

Trade between Congo and China presents an important opportunity not only in strengthening exports income and minimizing imports costs, but also in diversifying partners as well as production and export capacity. Improving the business environment could constitute an essential factor in attracting investors from China in the manufacturing production sector in Congo. Congo can also take advantage of China's experience in the manufacturing industry by developing joint ventures in sectors that have significant export capacities on both the regional and global market.

Conclusion

Trade between Congo and China has registered a considerable increase over the last few years. China, within a period of five years has become Congo's premier partner in oil and timber exports. Congolese trade with this country has been a key factor in the strong economic growth from 2000 to 2007 that the country has experienced. Imports from China have remained marginal. The traditional suppliers of Congo notably European Union countries, mainly France have maintained their previous positions. As for profits and losses, exports with China have led to profits and losses depending on trade partners to which these exports are destined and also according to the period. With regard to timber, exports to China have provided Congo with a competitive advantage and contributed to the procurement of substantial profits. As far as oil is concerned, Congo has recorded losses since export unit prices of this commodity in China are at a lower level compared to the oil selling price of clients in countries such as the USA, Taiwan and South Korea. From 2006 to 2007, losses went up because the unit price of oil sold in China was lower. If the price was equal or higher than that of other buyers, the export income could have been higher than that obtained.

Concerning imports from China, this has led to economising significant resources. Low prices of the Chinese imported products explain this favourable situation of Congolese external trade.

Trade with China has also emphasized on diversification capacity as well as constraints related to the intra regional trade. The tendency of exporting raw products and importing manufactured products at low prices is due to the non diversification of the timber industry and reduces imports from CEMAC countries.

The challenges to be surmounted require the enforcement of regulation for the local timber processing and also improving the business climate so as to attract Chinese companies to work in the manufacturing area and establishing an efficient public funds management system.

Based on the forgoing, economic policy recommendation are as follows:

- Negotiate advantageous prices for selling oil to China in order to align prices to the level of clients offering the best prices so as to optimize Government revenue;
- Ensure adherence to environmental regulations in forestry exploitation;
- Ensure quality control of imports from China;
- Consider the possibility of attracting Chinese manufacturing and construction companies by establishing joint ventures with the aim of fostering knowledge and technological transfer and ensuring production and export diversification on the regional market;
- Improve, to this end, the business climate by improving administrative procedures for the establishment of businesses as well as public infrastructure and services;
- Establish training centres in the timber industry profession and provide incentives to motivate locals to invest in this sector.

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