

**How Does China's Growth Affect Poverty Reduction in Asia, Africa and Latin
America?**

Expanded Report to DFID*

10 December 2004

**Rhys Jenkins and Chris Edwards
Overseas Development Group
University of East Anglia
Norwich
NR4 7TJ**

email addresses

c.edwards4@btinternet.com

r.o.jenkins@uea.ac.uk

* The views in this report are those of the authors and should not be regarded as reflecting the views of DFID

Contents	Page
Executive Summary	3
1. Introduction – China’s Recent and Future Growth	6
2. The Impact of China’s Growth on Developing Countries	7
3. Trade and poverty	9
4. A Framework for Analysing the Impacts of China’s Growth on Poverty in Third Countries	10
5. Trade Impacts with a Poverty Focus	14
6. Foreign Direct Investment and Poverty	27
7. Conclusions, Policy Recommendations and Further Research	29
References	35
Appendix I; Classification of SITC 3-digit Products according to Production and Consumption Categories	38
Appendix II; Textiles and Garments and the Abolition of MFA Quotas	39
Statistical Appendices (Tables A1 to A7)	42
Fig.1: Framework for Analysing the Potential Impact of China on Poverty in Latin America, Africa and Asia	49

How Does China's Growth Affect Poverty Reduction in Asia and Latin America?

Executive Summary

China has experienced rapid economic growth in recent years and this looks set to continue with predictions that it will become the world's largest exporter by 2010 and the second largest economy by 2020. While there has been extensive discussion of the impact of China's growth on the world economy, very little attention has been given to the implications of this for poverty reduction in other developing countries and the achievement of the Millennium Development Goals. This study is a first attempt to fill this gap.

The main contribution of the paper is to provide a framework within which the impacts of China's economic expansion on poverty in other developing countries can be analysed. It then applies this framework to eighteen countries, six in Asia (Bangladesh, Cambodia, India, Indonesia, Pakistan and Vietnam), six in Africa (Cameroon, Ethiopia, Mozambique, Nigeria, South Africa and Uganda) and six in Latin America (Bolivia, Brazil, Honduras, Mexico, Nicaragua and Peru), which between them account for a major share of poor people, defined as those living on less than US\$2 a day, in their respective regions.

The study combines a disaggregated approach to examining the impact of China on the trade of third countries at the 3-digit SITC level with an analysis of trade-poverty linkages based on the framework developed by Winters. The growth of China has implications for other countries through its impact on their exports to China itself (positive) and to third countries (negative), and through their imports from China. It may also have implications for foreign direct investment (FDI) flows either through the diversion of FDI from other countries to China, or through the growth of outward investment from China. There may also be indirect impacts through the effects of China's growth on global economic growth and on world prices of primary commodities

Trade and FDI can impact on poverty through their effects on production and factor markets, or through changes in the prices of consumer goods, or via effects on government revenues and expenditure. They may also affect the vulnerability and exclusion of the poor from economic activity and create conflict with marginal groups. The likely impact of trade changes on the poor will depend in part on the types of goods that are involved and the conditions under which they are produced. The study therefore distinguishes between a number of different types of products - labour-intensive agricultural products; other agricultural products; forestry; mining and petroleum; labour-intensive manufactures; other manufactures.

Indonesia and Vietnam in Asia, Brazil and Peru in Latin America and Cameroon and South Africa in Sub-Saharan Africa are the countries which have been most successful in *exporting to China*. However their exports have mainly been non labour-intensive agricultural products and extractive products (timber, minerals and petroleum). They are

not therefore likely to have had a significant positive impact on the poor, who may even have been negatively affected as a result of the growth of natural resource based exports.

Imports from China are not surprisingly more significant for the Asian countries than for Latin America and Africa (apart from Nigeria). However there are no great grounds for concern that this has led to displacement of poor producers in the Asian countries, partly because imports of labour-intensive products from China have often been incorporated into exports, rather than competing with domestic production. Although Chinese imports are lower in Latin America, they may have been more competitive with domestic production than in Asia, particularly in countries such as Bolivia and Nicaragua with weak domestic industries. Nigeria, Ethiopia and South Africa are the countries in Africa most affected by Chinese competition in their domestic markets.

The Asian countries are much more likely to face *competition from China in third markets* than the Latin American and African countries. Bangladesh, Cambodia and Pakistan, and to a lesser extent Vietnam, see their labour-intensive manufactured exports facing increased Chinese competition. In Africa only Ethiopia has any labour-intensive exports that might be threatened by China. In Latin America, competition from China may be a serious problem for Honduras and possibly to a lesser extent Mexico and Nicaragua. A key factor in determining future trends in labour-intensive products is what happens with the ending of the MFA in 2005. Although there is no agreement amongst commentators on the most likely outcome, a brief study of this issue is included in Appendix II of this report.

Disaggregated data is not available for FDI in the same way as for trade, so it has not been possible to carry out a detailed analysis in this area. However there is little real evidence that China has diverted FDI from other countries in Latin America or Asia. Up to now, outflows of FDI from China have been relatively low, although this may change in the future, so there is no evidence that this has made any contribution to poverty reduction in our eighteen countries.

There are both *challenges and opportunities* for poverty reduction facing the Asian and Latin American countries as a result of China's growth. The challenges which need to be addressed arise most notably for those countries which face Chinese competition in exporting labour-intensive manufactures to third country markets. However there are also opportunities, for example for some countries to increase exports of labour-intensive agricultural products to China as incomes there increase. In the future Chinese FDI in labour-intensive industries may also provide an escape from poverty for some.

This analysis suggests that other countries should look for market opportunities in China to expand labour-intensive agricultural exports. They could also seek to utilize increased tax revenues from primary product exports to fund pro-poor initiatives. In terms of challenges, governments should seek to ensure that smallholders are able to participate in new export markets and are not displaced by large, less labour-intensive farms. More generally, the government should monitor the impact of expansion of primary product exports on the poor and local communities which may be negatively affected.

It is also important to consider whether existing policies aimed at reducing poverty need to be changed in the light of China's expansion. Some policies such as education or redistributive measures such as land reform, remain just as relevant irrespective of China's growth and may even become more so. However some other policies, such as emphasising the expansion of labour-intensive manufactured exports as a means of poverty reduction, may need to be qualified, in light of the increasing competition and falling prices for many such products.

There is ample scope for further research in this field. Priority areas would be:

- Identification of labour-intensive products which are likely to have a pro-poor impact
- More detailed analysis on the likely effects of Chinese competition on exports of labour-intensive products to third markets
- Studies of individual value chains
- More in-depth studies of specific countries

1. Introduction – China’s Recent and Future Growth

China has experienced rapid economic growth in recent years and this looks set to continue with predictions that it will become the world’s largest exporter by 2010 and the second largest economy by 2020 in purchasing power parity terms. This expansion, combined with trade liberalisation and China’s entry into the World Trade Organisation (WTO), has given rise to considerable debate over the implications for other countries.

Two opposing views can be identified:

- One argues that; *‘China was the cause of the 1997/98 Asian Crisis’* and that *‘China could trigger a global deflation’* (for some references, see Yang 2003, n.2 and n.3). In this view, China’s accession to the WTO will trigger another wave of international trade expansion which will wipe out jobs in both the developed and developing worlds.
- A second, very different, view is that *“...because of the high import contents of China’s exports and the fact that foreign-funded companies account for about half of China’s international trade, future growth in China’s international trade will benefit to various degrees China’s trading partners as well as home countries of transnational corporations. Furthermore the talk of an imminent export surge from China seems far-fetched as the conditions of China’s accession to WTO as well as China’s foreign trade potential are unlikely to permit that to take place”* (Li Yuefen, 2002, p.1). In addition, economic growth in China plays a major part in creating growth in the world economy and therefore, given the world’s massive labour surplus, generates jobs and increased real incomes.

China’s economy has grown rapidly over the past quarter century. Between 1975 and 2001, per capita GDP grew at an annual average of 8.2% compared to an average growth rate for the world economy as a whole of 1.2% (UNDP, 2003, Table 12). By 2015, projecting at the average annual growth rates of the past two decades, China’s *total* GDP would be \$3825 bn., about 8% of the projected world total.

The major concern has been less with China’s GDP growth than with its increasingly influential role in world trade. China’s economy has become increasingly open with its average tariff rate on imports declining from over 50% in the early 1980s to 13% by 2002 (Yang, 2003, Table 1) while its total trade (exports plus imports) as a share of GDP has risen from less than 10% in 1979 to more than 50% by 2002 (Prasad and Rumbaugh, 2003, 1). Between 1979 and 2002, China’s share of world merchandise exports increased from 1% to 5% and if, over the 2002-2015 period, the exports of both China and the world continue to grow at the same rates as they did over the past 10 years (1992-2002), then by 2015, China’s share of world exports would be 14%.

These are impressive rates of growth, but two points are worth noting. First, the growth in China’s exports has been no faster than many other East Asian tigers at their peaks (Rumbaugh and Blancher, 2004, Box 1). Moreover, while China accounts for 11% of US imports, Japan’s share of US imports at its peak in 1986 was double that at 22% (Rumbaugh and Blancher, 2004, p.5). Second, the projected share of China in world exports in 2015, namely 14%, will be considerably less than the share of the world’s

population projected for China for 2015 which is expected to be 19% (UNDP 2003, table 5). Thus some of the more alarmist reports concerning the effects of China's rapid economic growth on the world economy have been exaggerated. Nevertheless, China has, because of its size and increased openness, become an increasingly significant player in the world economy and its impacts on other countries cannot be ignored.

While there has been extensive discussion of China's impact on the global economy, as will be seen in Section 2, very little attention has been given to the implications of this for poverty reduction in other developing countries and the achievement of the Millennium Development Goals. This study is a first attempt to fill this gap.

The paper looks at the impact of China's growth on eighteen countries, six in Asia, six in Africa and six in Latin America. Between them these countries account for a significant proportion of poor people, defined as those living on less than US\$2 a day, in their respective regions. Bangladesh, Cambodia, India, Indonesia, Pakistan and Vietnam between them account for 86% of the poor in South Asia and East Asia and the Pacific (excluding China). Cameroon, Ethiopia, Mozambique, Nigeria, South Africa and Uganda have almost half of Sub-Saharan Africa's total poverty, while Bolivia, Brazil, Honduras, Mexico, Nicaragua and Peru make up almost two-thirds of the poor in Latin America (see Statistical Appendix, Table A.1).

The main purpose of the paper is to develop a framework for analysing the impact of China on poverty in other developing countries. This is then applied using trade data for the twelve country cases. There is no attempt to quantify this impact in terms of changes in the levels of poverty. The aim is rather to identify the key channels through which growth in China has potentially affected poverty in the different countries. Much more detailed analysis at the country level would be required in order to estimate any quantitative impacts.

2. The Impact of China's Growth on Developing Countries

In the last few years there have been a number of attempts to analyse the impacts which China's growth or more specifically, its accession to the WTO will have on other developing countries. These have either been fairly aggregative studies which look at the impacts on broad regions of the world or more specific analyses mainly concentrated on China's neighbours in East and South East Asia, and to a lesser extent on Latin America. There have been rather fewer studies which have looked at the impacts on South Asian or Sub-Saharan African countries.

The growth of China presents both challenges and opportunities for other developing countries. Four types of direct impacts are usually identified:

- Growth of developing country exports to China ("complementarity effect")
- Increased competition from China for developing country exports to third markets ("competitive effect")

- Increased competition from China in the home markets of developing countries ("competitive effect")
- Effects on foreign direct investment (FDI) ("competitive or complementarity effect")

There may also be indirect impacts of China's growth on developing countries. For example the increased demand in China for imports from developed countries has multiplier effects in those countries which in turn lead to more demand in the developed countries for the exports of other developing countries. Alternatively the growth of demand in China for primary commodities may push up prices which benefit primary commodity exporters, even if they do not have any direct exports to China, but can also be a disadvantage for other developing countries who are net importers of the products concerned.

The overall impact that the growth of China has on a developing country depends on the balance between competition and complementarity in the relationship between the two countries.

In terms of their methodological approach, previous studies fall into two broad categories.

a) Computable general equilibrium (CGE) models

A number of studies have used the Global Trade Analysis Project (GTAP) or similar models to estimate the impact of China's growth or accession to WTO on the income and trade of other countries and regions (e.g. Yang, 2003; Ianchovichina and Martin, 2001). These models tend to be at a high level of aggregation both in terms of sectors/products and country groupings. The results which they generate are highly dependent on the structure of the model and the assumed values of the parameters. Because of the "black-box" nature of the models, it is also often difficult to see the causal mechanisms which lead to particular outcomes.

b) More disaggregated approaches

Several studies have adopted a more disaggregated approach looking in detail, usually at the 3-digit level of the Standard International Trade Classification (SITC), at the products which are most affected by competition from China or demand within China (e.g. Shafaeddin, 2002; Lall and Albaladejo, 2004; Lall and Weiss, 2004). This approach is also more disaggregated in terms of countries, looking at the impacts on individual countries rather than large regions.

None of the existing studies look at the poverty impacts of China's growth on other developing countries. The CGE studies focus on the impact on national income and/or national welfare without any analysis of the distributional impacts. The product level studies are more concerned with identifying those areas in which China poses a competitive threat to other developing countries and recommending strategies to counter this threat.

The present study is an attempt to go beyond these approaches in order to provide a poverty angle on the impact of China's growth in a number of developing countries in Africa, Asia and Latin America.

3. Trade and poverty

Several approaches have been used to analyse the links between trade and poverty (see Bannister and Thugge, 2001; McCulloch et. al., 2001, Ch.5; Reimer, 2002; Winters et. al., 2004 for reviews of the different approaches).

a) Cross-country regression

This approach uses large data sets to estimate links between trade variables, growth and poverty outcomes. It assumes the existence of a universal relationship which applies on average across all countries and cannot be used to estimate the effects of trade changes on individual countries.

b) Partial equilibrium/cost of living analysis

The most common approach here is to evaluate the way in which price changes affect different groups of consumers based on differences in their expenditure patterns. A major limitation of this approach is that it only deals with the consumption effects of trade, ignoring the impact on the production side which is arguably more significant in terms of the impact on poverty.

c) CGE modelling

The most relevant types of models here are national CGE models which are combined with a Social Accounting Matrix to generate the impacts of trade changes on different income or occupational groups¹. As pointed out above, the results generated by such models are very sensitive to the assumptions made.

d) The "Winters' Approach"

This approach developed by Alan Winters and presented most comprehensively in McCulloch et. al. (2001) identifies three channels through which trade "shocks" can affect poverty:

- the enterprise channel
- the distribution channel
- the government channel

These correspond to the impacts on the poor as producers, consumers and beneficiaries of government expenditure.

Although applied primarily to analyse the effects of trade liberalization on poverty, the approach can be used to look at any kind of trade "shock". It can be used at a disaggregated level to look at the impacts of changes in exports or imports of particular products on poverty.

¹ Global CGE models are generally too aggregated to give useful insights into the impacts on poverty within particular countries (McCulloch et. al., 2001, pp.108-9).

One limitation of all these approaches to analysing the impact of trade on poverty is that they are based on a narrow income or consumption definition of poverty. Even the Winters approach, although recognising the role of institutional and social factors in determining the impacts of trade, and acknowledging the importance of livelihoods and vulnerability in analysing poverty, remains primarily economic and market based (Kanji and Barrientos, 2002)

The methodology proposed for the present study is a combination of the disaggregated approach to analysing the impact of China on national economies, and the Winters approach to tracing through the effects on poverty, with some recognition of broader issues of vulnerability, exclusion and conflict.

4. A Framework for Analysing the Impacts of China's Growth on Poverty in Third Countries

The framework for analysing the impacts of China's growth derives in the first instance from the four types of direct impacts on other countries identified in Section 2.² These are identified at the first level of Figure 1 (at the end of the paper). At the second level of the diagram, each impact is further disaggregated according to the major types of products or situation involved. Level three then indicates likely effects on production, consumption and government revenues. Finally at the bottom level, the impacts on the poor are identified in their roles as producers, consumers and beneficiaries of government expenditure. This also includes consideration of the effects on groups who are not directly affected by any of these three channels but may nevertheless experience negative impacts.

a) Exports to China

Four main types of products account for the bulk of China's imports from developing countries and since their expansion may have different implications for poverty we shall consider each in turn.

Agricultural exports

The impact of agricultural exports on poverty depends on a number of factors including landownership, the production relations under which they are produced and the labour-intensity of different crops. Commercial agriculture is less likely to have a pro-poor impact because larger farmers/landlords are likely to be the main beneficiaries. Indeed there are numerous examples historically of cases where the expansion of export agriculture has had negative impacts on the poor as new commercial opportunities have led the rich and powerful to appropriate land previously occupied by lower income rural households (Berry, 2001). Crops also vary considerably in the amount of labour required per hectare. Labour-intensive crops are more likely to have a pro-poor impact because

² A comprehensive analysis would also require consideration of the indirect impacts of China's growth on other developing countries mentioned in Section 2. These have not been considered here because of the difficulty of identifying these impacts and tracing through the effects on the poor, with the data available.

of the employment effects (even if they are not produced by smallholders) and there is likely to be less pressure to displace poor farmers because they do not require a great deal of land.

The distinction between smallholder and commercial agriculture while very relevant in analysing the impact of agricultural exports in a particular country, is difficult to apply in a cross-country study of this kind, since production of different crops can be produced by different types of farmers in different countries. They can also change over time. If a commercial farm produces a labour-intensive crop it can have similar pro-poor effects to smallholder production (cf. McCulloch and Ota, 2002 on horticulture in Kenya). Thus the main classification that will be used for agricultural products will be to divide them between labour and non-labour intensive products.

Wood exports

Forestry in this context has more in common with extractive industries than agriculture.³ The employment impact of timber production tends to be quite limited and the main effects on the poor of a growth in timber exports are indirect. Exporters are often required to pay a royalty to the state so that there may be a positive impact on government revenues which could be deployed in poverty reduction. However there are also numerous examples of the negative impacts which intensive logging for export markets can have on local communities. Where these depend on forests for their livelihoods they may be pushed into (deeper) poverty as a result of loss of access.

In brief timber exports are unlikely to directly benefit the poor and may have serious negative impacts for some groups. They can however generate significant government revenues and if these are used appropriately, the negative impacts may be offset or diminished.

Oil and minerals

As with timber, the direct effects on the poor are minimal in terms of employment opportunities. These sectors tend to be capital and skill-intensive, although there may be some jobs created in the initial construction stages of opening a new mine. A more substantial contribution can potentially come from government revenues which increase as a result of higher prices or increased levels of production. Often however new mines or oil fields can give rise to conflicts with neighbouring communities and as these may be poor prior to the expansion, such developments have a significant impact on the poor.⁴ Environmental spillovers can also have a negative impact, as when tailings from dams for the mines or oil leaks pollute local rivers which affect the livelihood of the community.

Manufactured exports

It is generally recognised that growth of exports of unskilled labour-intensive manufactures, such as textiles and garments can spur pro-poor growth (World Bank,

³ An ongoing DFID project is looking at the impacts of China on the trade in timber products in the Asia Pacific region and its implications for livelihoods. See DFID (2004).

⁴ Recent reports from Orissa which has seen people displaced through the expansion of mines and large dams illustrate this danger (Singh, 2004).

2002, pp.38-42). Therefore the key distinction that needs to be made as far as manufactured goods are concerned is between those which are unskilled labour-intensive and those which are skilled labour- or capital-intensive. Some classifications of exports of manufactures also identify a category of resource based manufactures or processed primary products, but from our point of view these need either to be allocated to the relevant primary product categories, or divided between labour and non-labour intensive manufactures.

Manufactured exports have their primary effects through employment creation. They do not tend to make a contribution to government revenue since they are not taxed. Nor do they generally have the kind of negative spillovers which can arise with timber or minerals.

On the basis of these criteria therefore, exports will be classified in this study into the following categories:

- Agriculture (including fisheries)
 - labour-intensive
 - non-labour intensive
- Timber
- Oil and minerals
- Manufactures – labour-intensive
 - other

The different SITC products allocated to each category are identified in Appendix I.

b) Exports to third markets

The same typology of products is relevant for analysing exports to third markets as for exports to China. However whereas the growth of China will increase the demand for imports from other developing countries, increased competition from China may reduce the demand for other developing countries' exports in third countries, where they compete in the same products.

Currently almost 40% of Chinese exports are unskilled labour-intensive manufactured goods. Over time, the build-up of technological capabilities in China is leading to an upgrading of its exports to more sophisticated, skill-intensive products. There are some exports of agricultural products from China which could also affect other developing country exporters.

Labour-intensive manufactures

Countries which compete with China will face deteriorating terms of trade and a loss of market share. Many of these products already show a downward trend in prices relative to other goods. In the case of garments and textiles, competition may be particularly acute with the ending of the MFA in 2005 (although full competition from China will not occur immediately).

This could have a negative effect on the poor as those who are employed in export industries are often low income women especially recent migrants from rural areas and

the loss of employment will lead to a significant drop in household income. There may also be pressures to reduce wages as a result of the downward trend in prices. Where countries seek to respond by moving up the value chain, this is more likely to require more skilled workers so that unskilled workers will still lose out. Since export production and goods sold on the domestic market are often not close substitutes, there will be little benefit for consumers from falling prices.

Agricultural products

The effects are similar to those observed for labour-intensive manufacturing, except in so far as inelastic supply leads to the short-run effects of increasing Chinese competition being felt more on prices and the impact on employment taking longer to materialise. The implications of falling prices depends partly on the mode of production, as noted above under 1a. In the longer term, reductions in employment will lead to a fall in demand for unskilled labour.

c) Competition from Chinese imports

It is useful to distinguish between two situations depending on whether China competes primarily with imports from other countries, or with domestic production.

Competition with domestic producers

This will lead to reduced output by domestic producers and falling prices. Where there are import duties there may be a small increase in government tariff revenues as demand switches to imports. Reduced production will lead to retrenchment of workers and since China's exports are mainly of labour-intensive products, those most affected are likely to be unskilled workers. However on the positive side, reduced consumer prices for imported goods (e.g. clothing) may have a positive effect on the real income of the poor.

Competition with other imports

If China displaces other importers, then there will be no negative effect on domestic production and employment. In other respects the impact will be similar to that of competition with domestic producers, but the overall effect on poverty is more likely to be positive since there is a gain to consumers without any offsetting loss for producers.

Given that increased competition from China is likely to have a significant effect on prices, it is worth distinguishing those imported goods which are likely to have a significant share in the consumption basket of the poor. Although in general the rich may spend a higher proportion of their income on imports than the poor, the poor may benefit from reduced prices of some basic consumer goods. The most significant of these are likely to be garments, footwear and basic foodstuffs. Thus it is worth making a further distinction in the classification of both manufactured goods and agricultural products when looking at imports.

d) Foreign direct investment

There are two aspects to the impact of the growth of China's economy on FDI that need to be discussed here. First, there is a concern that the massive growth of FDI flows to China has diverted investment from other Asian and Latin American countries and that

this could have a negative effect on growth and poverty reduction in those countries. On the other hand, China itself has begun to invest overseas and this aspect of Chinese economic growth might have a positive effect on growth and poverty reduction in host countries.

Despite the significance of FDI as a source of capital and technology for developing countries and the increased emphasis on poverty reduction, very little research has been done on the impacts of FDI on poverty.⁵ The main impact on poverty is seen as occurring through the effect on investment and growth, but these are subject to considerable debate. There is evidence for some countries that FDI does not add to domestic gross fixed capital formation but rather has tended to “crowd out” domestic investment. This appears to be particularly true in Latin America where Brazil, Mexico and Peru have been notably unsuccessful in adding domestic private and public investment to FDI inflows whereas China and Developing Asia generally, have been more successful. These conclusions are consistent with other studies showing that Latin American countries have been most vulnerable to this form of ‘crowding out’ (see UNCTAD 2003a, 78).

If crowding out is not significant then any diversion of FDI to China will have negative effects on production in other countries, which would reduce the demand for labour. Increased competition for FDI might also reduce government revenues as countries compete to attract investors through lower tax rates and increased incentives. On the other hand inflows of FDI from China would tend to increase employment and might reduce prices as a result of increased competition. Particularly if Chinese FDI went into labour-intensive industries there could be positive effects on poverty.

5. Trade Impacts with a Poverty Focus

a) Exports to China

The first issue in analysing the impact of exports to China on poverty in other developing countries is to determine the significance of such exports for each country. A second step is then to analyse the composition of such exports in terms of their potential impacts on the poor. In terms of pro-poor outcomes, the relevant categories are labour-intensive agriculture and manufacturing activities, while problems may arise from forestry and extractive industries, although these may also generate additional government revenues.

The Asian Countries

Although exports to China have increased significantly since 1990 for all the Asian countries apart from Bangladesh, only Indonesia and Vietnam send more than 5% of their total exports to China, and these are the only countries for which exports to China represent more than 1% of GDP (see Table 1). This is not entirely surprising since China has tended to import manufactured goods mainly from the advanced industrialized countries and the Asian NICs while its imports from developing countries have tended to be of primary products.

⁵ For a review of the literature on FDI and poverty see Klein et. al. (2000)

Table 1: Exports of Six Asian Countries to China as a Share of Total Exports and GDP, 1990 and 2002

	1990		2002	
	% Exports	% GDP	% Exports	% GDP
Bangladesh	1.5	0.1	0.2	0.0
Cambodia	0.0	0.0	1.3	0.6
India	0.1	0.0	4.1	0.4
Indonesia	3.2	0.7	5.1	1.7
Pakistan	1.2	0.2	2.4	0.4
Vietnam	0.3	0.1	6.4	2.9

Sources: own elaboration from data on GDP in World Bank, *World Development Indicators* and trade from IMF, *Direction of Trade Statistics Yearbook*

In terms of the types of products exported, the six Asian countries divide into two groups (see Appendix Table A.2). Bangladesh, Cambodia and Pakistan predominantly export labour-intensive manufactured products (with some exports of labour-intensive agricultural products in the case of Cambodia).⁶ On the other hand India, Indonesia and Vietnam have very limited exports of labour intensive products to China (apart from some labour-intensive agricultural exports from Vietnam). Both India and Indonesia export extractive industry products (including timber in the case of Indonesia) and non-labour-intensive manufactures, while Vietnam mainly exports minerals and petroleum.

Since only Indonesia and Vietnam of the six countries have a significant level of exports to China, it is unlikely that the growth of China has had much of a pro-poor impact in the Asian countries. Moreover since exports to China from these two countries are predominantly from extractive industries, the impacts on poverty are likely to be primarily indirect. There is potential for a positive impact since these products usually generate significant government revenues, but there are also potential negative spillovers where the expansion of logging, mining or oil exploration and production put pressure on local communities which may often be poor and do not share in the additional rents being created and may even be displaced or have their livelihoods threatened.

The Latin American Countries

Brazil and Peru are the only Latin American countries, amongst those covered, to have made significant inroads in the Chinese market, and even for these two countries these exports account for a relatively small share of GDP (see Table 2). In both cases exports are predominantly of primary products (see Appendix Table A.3). Brazil's major exports are agricultural products (predominantly oil seeds⁷) and minerals (iron ore) which each account for over a quarter of the total in 2001. Wood and pulp account for almost 10% of

⁶ Pakistan saw a substantial drop in the share of other agriculture and an increase in the share of labour-intensive manufactures between 1990 and 2001 as exports of cotton were replaced by cotton yarns and fabrics.

⁷ 35 % of Brazil's soya crop was exported to China last year.

exports while the remainder are mainly non-labour-intensive manufactures of which cars and aircraft are the most significant. Peru's exports to China are entirely of agricultural products and minerals. More than half the total is fishmeal for animal feed and the bulk of the remainder are unprocessed or semi-processed minerals.

Table 2: Exports of Six Latin American Countries to China as a Share of Total Exports and GDP, 1990 and 2002

	1990		2002	
	% Exports	% GDP	% Exports	% GDP
Bolivia	0.0	0.0	0.6	0.1
Brazil	1.2	0.1	4.2	0.6
Honduras	0.0	0.0	0.0	0.0
Mexico	0.2	0.0	0.3	0.0
Nicaragua	3.4	1.1	0.0	0.0
Peru	1.1	0.1	7.9	1.1

Source: see Table 1

Any positive impact that these exports may have on poverty is likely to be through government revenues since they are not significant employers of unskilled labour. However there are also potential threats to local communities and the poor from the expansion of exports of some of these products. The extension of soya cultivation in South America has been blamed for the destruction of forests and the displacement of labour as soya replaces other more labour-intensive crops.⁸ The demand for wood and pulp can also have negative impacts on the poor, while increased mineral production can also give rise to environmental degradation and conflicts with local communities.

The African Countries

China's trade with Africa has grown rapidly in recent years (Economist, 2004). However only Cameroon, and to a lesser extent South Africa, amongst the six African countries selected made significant exports to China in 2002, and their exports only account for just over 1% of GDP (see Table 3). Cameroon's exports to China are almost entirely of extractive products with the oil industry accounting for three-quarters of the total and forestry for a quarter (see Appendix Table A.4). As might be expected, South Africa's pattern is somewhat different from that of other Sub-Saharan African countries, with 40% of exports being manufactured goods. However a significant proportion of these are in fact resource based manufactures, with iron and steel accounting for about 20% of total exports.⁹ Mining provides half of all South African exports to China.

⁸ It is reported that in Argentina more than 300,000 farmworkers have lost their jobs (Observer, 2004). See Dros (2004) for a discussion of the environmental and social consequences of the expansion of soya cultivation in South America.

⁹ Draper (2004) reports that mining and basic processing accounted for 90% of South Africa's exports to China in 2003.

Table 3: Exports of Six African Countries to China as a Share of Total Exports and GDP, 1990 and 2002

	1990		2002	
	% Exports	% GDP	% Exports	% GDP
Cameroon	1.9	0.3	5.5	1.1
Ethiopia	0.0	0.0	0.5	0.0
Mozambique ¹⁰	14.1	2.2	1.0	0.1
Nigeria	0.1	0.0	1.0	0.1
South Africa	0.0	0.0	3.9	1.1
Uganda	0.0	0.0	1.5	0.1

Source: see Table 1

Since exports to China are predominantly resource based, the direct impacts on poverty reduction are likely to be minimal, with the major potential impact coming from increased government revenues. However, particularly in Cameroon, there are also potential threats to local communities from the increased demand for timber to supply the Chinese market, while government revenues are limited because, as the World Resource Institute reports, illegal logging accounts for half of all timber harvested (FERN, 2003). The exports to China of the other four African countries account for 0.1% or less of GDP and they have therefore had very little impact on poverty up to now.

Future Prospects

As was indicated in the first section of this paper, China's rapid economic growth is expected to continue in the foreseeable future. This is likely to continue and even intensify current trends. Increasing levels of per capita income will lead to a growing demand for food, particularly those with high income elasticity of demand. These include meat products, fruit and beverages. The growing demand for meat will lead to increased imports of animal feedstuffs which has been a major export from Latin America in recent years, while there may be new opportunities for other agricultural exports. China's industrial production will also continue to expand leading to increased demand for raw materials and energy which have also figured significantly amongst exports from several of the countries studied in all three regions.

Up to now, the pattern of exports to China from Asia, Africa and Latin America has not been such as to directly contribute to poverty reduction and has potential negative effects in some instances. In the future however there may be more opportunities for exporting

¹⁰ The surprisingly high proportion of Mozambique's exports in 1990 which go to China probably reflects South African exports channelled through the country. By the mid-1990s these exports were no longer being passed through Mozambique which explains the subsequent apparent fall in the country's trade with China.

labour intensive agricultural products such as fruit or coffee which could create more income or employment opportunities for poorer sections of society.

b) Competition in Third Markets

The main concern here is that China, with its immense unskilled labour force, is a major competitor in world markets for labour-intensive products. As such it both threatens to displace exports from other developing countries and to depress prices leading to a deterioration in the terms of trade of other exporting countries. The significance of this depends on the extent to which the other countries under consideration have specialised in areas in which China is gaining market share.

To take the analysis further, it is useful to focus on those products which are most likely to have a positive impact on the poor, namely labour-intensive agricultural products and manufactures. The share of China in world exports of each of the SITC 3-digit categories previously identified as labour intensive was calculated for 1990 and 2002. In the vast majority of these, its share had increased indicating increased competition for other exporters.

The Asian Countries

Table 4 provides a measure of the similarity between the export structure of China and the other countries.¹¹ The closer the value is to 1, which would indicate identical export structures, the greater the likelihood that China and another country will be competitors in third markets.¹² The table shows the index both for all exports and for manufactured exports (defined as SITC classes 5-8).¹³

Table 4: Export Similarity between China’s Exports and Six Asian Countries, 2002

	All Exports	Manufactures
Bangladesh	0.34	0.33
Cambodia	0.37	0.36
India	0.13	0.10
Indonesia	0.35	0.68
Pakistan	0.25	0.23
Vietnam	0.27	0.40

Source: own elaboration from UN data

In terms of the overall structure of exports, Bangladesh, Cambodia and Indonesia have the greatest similarity to China, and when confined to manufactures they are joined by

¹¹ This has been calculated as the correlation between the share of each 3-digit product in the total exports of China and that of the other Asian country.

¹² This is a crude indicator. It does not take any account of the markets to which the countries export and the level of disaggregation may also be insufficient to capture some areas in which two countries compete. It may therefore overstate the degree of competition between two countries.

¹³ The index for all commodities may be misleading where a country specialises in a primary commodity which is not exported from China and this could give the impression that there is very little competition between them in world markets, although in fact they may be competing in manufactured products.

Vietnam. These four countries are those most liable to be affected by competition from China in third markets. Pakistan has a rather lower overlap of export structure while India is the least similar to China overall and for manufactures.

Table 5 covers those labour-intensive agricultural products and manufactures in which China had a significant increase in its world market share between 1990 and 2002¹⁴. It indicates the share of such products in the total exports of the six Asian countries. For Cambodia, Bangladesh and Pakistan, more than 85% of their exports in 2002 were of such goods. In the case of Vietnam, the share was less than 50% although it had the highest proportion of labour-intensive agricultural products. India and Indonesia both had only around 30% of total exports in the threatened categories.

Table 5: Share of Labour-intensive Products threatened by Chinese Competition in the Exports of Six Asian Countries, 2002 (%)

	Agricultural Products	Manufactures	Total
Bangladesh	0.4	89.9	90.3
Cambodia	1.5	95.6	97.1
India	3.5	27.8	31.2
Indonesia	2.8	24.8	27.6
Pakistan	5.5	80.0	85.5
Vietnam	6.0	42.0	48.0

Source: see Table 4

A significant proportion of labour-intensive manufactures are textiles and garments, so that the consequences of the ending of the MFA for world trade will be a major determinant of the impact on the poor in the future (see Appendix II for a discussion of the textiles and garments industry). Cambodia, Bangladesh and Pakistan are the countries where increased competition from China in third markets is most likely to have a negative effect on the poor.

The Latin American Countries

Table 6 provides information on the similarity between the exports of China and the six Latin American countries. Mexico stands out as the country with the export structure with the greatest overlap with China. The only other Latin American country which has any similarity in its export structure to China is Brazil but this is at about the same level as India, the Asian country that has the least similarity of exports with China. The other countries in the table do not have a significant correlation with the structure of exports from China and therefore it seems unlikely that they will experience negative effects from competition in third markets.

¹⁴ An increase was considered significant if the absolute change in China's share of the world market was more than 1%, thus excluding products in which China had a very small share of the market.

Table 6: Export Similarity between China's Exports and Six Latin American Countries, 2002

	All Exports	Manufactures
Bolivia	-0.03	0.04
Brazil	0.12	0.20
Honduras	0.02	0.11
Mexico	0.51	0.54
Nicaragua	-0.03	0.08
Peru	-0.00	0.04

Source: see Table 4

The threat to the poor from increased Chinese competition is also likely to be less, because the Latin American countries are less dependent on exports of labour intensive products, particularly labour-intensive manufactures. This is confirmed by Table 7 which shows that labour-intensive manufactures in which China has been gaining world market share account for a far lower proportion of total exports for the six Latin American countries than for any of the Asian countries, with Honduras and Mexico being the most affected.

In the case of Honduras and Nicaragua, the extent to which they export labour-intensive manufactures is underestimated by the export data which appears not to include substantial exports of garments from *maquila* operations. Large discrepancies between the values of exports reported and those from mirror estimates based on the imports of trade partners seem to be attributable primarily to this factor. Thus the two Central American countries face a greater threat from Chinese competition in labour-intensive manufactures than is apparent from Table 7.

Table 7: Share of Labour-intensive Products threatened by Chinese Competition in the Exports of Six Latin American Countries, 2002 (%)

	Agricultural Products	Manufactures	Total
Bolivia	0.8	6.7	7.4
Brazil	2.2	9.8	12.0
Honduras	8.3	22.4	30.6
Mexico	1.8	12.5	14.4
Nicaragua	4.1	4.7	8.8
Peru	4.6	10.6	15.2

Source: see Table 4

Honduras is the country with the highest share of labour-intensive agricultural products threatened by Chinese competition, so that overall it is probably the most vulnerable country in the region to competition in third markets. More detailed analysis of import

data for major developed country markets (particularly the United States) would give a clearer picture of the extent to which Honduras (and Nicaragua) face problems that could have a negative impact on employment in the garment industry and the effect that this would have on poverty.¹⁵

The case of Mexico does not seem to be as serious as is sometimes thought, at least from the point of view of the impacts on the poor. Although there is evidence of considerable competition between China and Mexico in world markets, it seems from Table 7 that this is not primarily in industries that use unskilled labour intensively, so that the impact on the poor is not so great.

The African Countries

As might be expected, there is very little similarity between the export structures of the African countries and China, with virtually all the correlations reported in Table 8 very close to zero. This confirms casual observation that none of the countries covered are likely to be competing directly with China in world markets, because their exports are (with the exception of South Africa) overwhelmingly of primary products, not manufactures.

Table 8: Export Similarity between China’s Exports and Six African Countries, 2002

	All Exports	Manufactures
Cameroon	-0.02	-0.01
Ethiopia	-0.04	-0.01
Mozambique	0.00	-0.00
Nigeria	-0.00	0.01
South Africa	0.07	0.02
Uganda	-0.03	0.16

Source: see Table 4

As might be expected, the extent to which African countries’ exports of labour-intensive products to third markets are threatened by China are limited, because the region is primarily an exporter of primary products and Chinese competition is most intense in manufactures. The only country with a significant proportion of its exports of labour-intensive products potentially facing Chinese competition is Ethiopia which tops the list for both manufactures and agricultural products (Table 9). This is almost entirely explained by two categories, leather and fresh and frozen vegetables. Further research would be required in order to analyse the extent of competition by markets, and specific products in the case of vegetables.

¹⁵ Recent estimates suggest that the textile and garment industry employed almost 100,000 workers in Honduras and 40,000 in Nicaragua in 2003 (Condo, 2004).

Table 9: Share of Labour-intensive Products threatened by Chinese Competition in the Exports of Six African Countries, 2002 (%)

	Agricultural Products	Manufactures	Total
Cameroon	1.6	3.2	4.9
Ethiopia	9.5	14.1	23.6
Mozambique	0.5	0.7	1.1
Nigeria	0.2	1.0	1.1
South Africa	1.4	8.5	10.0
Uganda	2.8	1.3	4.0

Source: see Table 4

Future Prospects

China will continue to be highly competitive in manufacturing. As the economy becomes more technologically sophisticated it will broaden the range of manufactures in which it is internationally competitive. However, given the vast army of unskilled labour available in China, it is unlikely that such upgrading will lead to a withdrawal from exports of unskilled labour-intensive products. Thus countries which specialise in exporting such goods are likely to continue to face intense competition in world markets and to experience a deterioration in their terms of trade. The extent to which this affects exports to third countries will depend in part on the reaction of the OECD countries to increased market penetration from China. A key determinant of this is what happens in the textiles and garments industry after the ending of the MFA. As Appendix II suggests, some of the predictions concerning the impact of China have been exaggerated and so the effects may be less dramatic than is sometimes predicted.

Since the Latin American and Sub-Saharan African countries are much less specialised in exports of unskilled labour-intensive manufactures than many of the Asian economies, the potential negative impacts on poverty are less there, although Mexico is likely to face increased competition from China in more sophisticated industrial products. Mexico and the Central American countries may be able to maintain a competitive advantage in some of their unskilled labour-intensive industries because of their proximity to the US market and this again will reduce the extent of any negative impacts.

c) Imports from China

Imports from China potentially have two types of effects on the poor in other developing countries. On the production side, imports which compete with domestic producers can lead to workers being displaced and if this occurs in industries which employ large numbers of unskilled workers, this may lead to an increase in the level of poverty. On the other hand imports can also lead to falling prices and if imported goods are consumed by the poor, this effect will tend to increase their real income. The significance of these

effects depends on the scale of imports from China¹⁶, the types of goods being imported and the extent to which they compete with local producers.

The Asian Countries

China is more significant as a source of imports than as a market for the six Asian countries. Imports from China have grown significantly since 1990 and now account for more than 5% of total imports for all the Asian countries apart from India, and more than 10% of imports for three of the six (see Table 10). They are most significant in relation to GDP for its near neighbours, Cambodia and Vietnam, where they potentially have an important impact on the domestic economy.

Table 10: Imports from China of Six Asian Countries as a Share of Total Imports and GDP, 1990 and 2002

	1990		2002	
	% Imports	% GDP	% Imports	% GDP
Bangladesh	3.4	0.4	11.6	1.9
Cambodia	5.4	0.3	11.2	6.9
India	0.1	0.0	4.5	0.6
Indonesia	3.0	0.6	7.8	1.4
Pakistan	4.6	0.8	6.2	1.2
Vietnam	0.2	0.2	11.6	6.7

Source: see Table 1

The imports from China of all six countries are overwhelmingly of manufactured goods (see Appendix Table A.5). However although China is generally regarded as an exporter of labour-intensive manufactures, these account for a significant share of its exports only to Bangladesh and Cambodia amongst the countries included here. These comprise mainly yarns and fabrics which are probably used in those countries' garment exports. As such they are unlikely to have had any significant labour displacing effect since they do not compete with production for the domestic market. In the other Asian countries, manufactured imports from China do not threaten industries which employ high levels of unskilled labour, so again the negative effects on the poor are likely to be small.

Are the goods imported from China likely to benefit poor consumers in the Asian countries? A crude indication of the potential for this effect can be obtained by looking at the proportion of imports which are made up of goods which are likely to be consumed by the poor. Since the poor spend a large share of their income on food, beverages,

¹⁶ There is an argument that the effect of competition from China does not require a significant level of imports from China to actually occur. This would be the case where the threat of competition from China tends to reduce domestic prices or prices on the world market. If this were the case, then there might be benefits to poor consumers which are not adequately reflected here. On the other hand it may also be the case that the goods traded on the world market are not close substitutes for those consumed by the poor and that the prices of the goods that they consume are largely unaffected by international competition.

tobacco, garments and footwear, the share of these products in each country's imports from China was calculated (see Table 11).

Table 11: Share of Basic Consumer Goods in Total Imports by Asian Countries from China (%)

	1990	2002
Bangladesh	1.2	4.2
Cambodia	2.1	6.3
India	2.6	2.4
Indonesia	13.7	16.0
Pakistan	24.2	4.0
Vietnam	0.0	9.5

Source: see Table 4

In 2002 such imports are only at all significant in Indonesia (16.0%), Vietnam (9.5%) and to a lesser extent Cambodia (6.3%). In the case of Indonesia, the low ratio of imports from China to GDP means that the impact of imports on consumer prices is likely to be very limited, so that only in Vietnam, and to a lesser Cambodia extent, is there much potential for the poor to benefit significantly from imports of consumer goods from China.

The Latin American Countries

Imports from China are much less significant in Latin America than in Asia. In 1990 they were non-existent or negligible in all six countries, and although they had increased by 2002, they still accounted for less than 5% of total imports in each of the selected countries and for a correspondingly low share of GDP (see Table 12).

Table 12: Imports from China of Six Latin American Countries as a Share of Total Imports and GDP, 1990 and 2002

	1990		2002	
	% Imports	% GDP	% Imports	% GDP
Bolivia	0.6	0.1	4.8	1.1
Brazil	0.9	0.0	3.3	0.3
Honduras	0.0	0.0	1.2	1.0
Mexico	0.7	0.1	3.7	1.0
Nicaragua	0.2	0.1	2.8	1.4
Peru	0.2	0.0	3.3	0.4

Source: see Table 1

As in Asia, imports are overwhelmingly of manufactured goods which make up more than 85% of imports in all the countries apart from Brazil (79%) (see Appendix Table A.6). The proportion of imports accounted for by labour-intensive manufactures varies from around 20% in Brazil, Honduras and Mexico to over half in Bolivia. Unlike Bangladesh and Cambodia, it seems likely that such imports in the Latin American countries are primarily for the domestic market, rather than for use in export production¹⁷, so that they do compete directly with local manufacturers. The impact on employment and hence on the poor is limited by the relatively small share of imports from China in GDP. The most affected countries are likely to be Bolivia and Nicaragua where both the share of GDP and the proportion of imports that are labour-intensive are relatively high.

Table 13: Share of Basic Consumer Goods in Total Imports by Latin American Countries from China (%)

	1990*	2002
Bolivia	0.5	13.3
Brazil	6.8	6.6
Honduras	0.7	9.4
Mexico	42.2	3.3
Nicaragua	98.7	21.4
Peru	0.2	16.2

Source: see Table 4

* data for 1990 is rather misleading since the absolute level of imports from China was so low for many of the countries included.

Although producers lose out from competing imports, consumers may gain where imports reduce the price of consumer goods. Table 13 shows the proportion of imports from China that were goods likely to be consumed by the poor. In three countries, Brazil, Honduras and Mexico, the shares were relatively low, but in the other 3 countries, Bolivia, Peru and Nicaragua, there may have been an impact on the cost of living for poor consumers from Chinese imports. Since Bolivia and Nicaragua are also the countries where losses to producers are likely to have been greatest, it is difficult to determine whether the poor have been net gainers or losers overall as a result of increased imports from China.

The African Countries

The six African countries show a more varied pattern in terms of the significance of imports from China than either of the other two groups of countries. For Nigeria, Ethiopia and South Africa, imports from China are more important than for any of the Latin American countries, whereas the other three African countries are amongst the least

¹⁷ Only Honduras of the six countries has a significant share of textiles and garments in its total exports.

dependent on Chinese imports of all eighteen countries covered in this study (see Table 14).

Table 14: Imports from China of Six African Countries as a Share of Total Imports and GDP, 1990 and 2002

	1990		2002	
	% Imports	% GDP	% Imports	% GDP
Cameroon	0.6	0.1	2.2	0.5
Ethiopia	0.7	0.1	5.9	1.7
Mozambique	1.5	0.6	1.3	0.5
Nigeria	3.0	0.4	9.2	2.6
South Africa	n.a	n.a.	4.9	1.3
Uganda	0.9	0.1	3.1	0.5

Source: see Table 1

Once more imports are almost entirely of manufactured goods which account for at least 85% of the total in all countries (see Appendix Table A.7). The proportion of imports which are labour-intensive manufactures is significant in all six countries, ranging from a low of 31% in Nigeria to a high of 55% in Ethiopia, with the other countries all at around 40%. As in some of the Latin American countries, it seems likely that these imports compete directly with domestic manufacturing and therefore represent a threat in terms of employment losses in industries which employ significant numbers of unskilled workers. Ethiopia is likely to be particularly affected because it has both a high share of imports from China and a high proportion of labour-intensive imports.

Table 15: Share of Basic Consumer Goods in Total Imports by African Countries from China (%)

	1990*	2002
Cameroon	6.8	10.5
Ethiopia	3.6	28.1
Mozambique	3.8	19.3
Nigeria	5.0	8.6
South Africa	1.4	22.8
Uganda	0.0	19.4

Source: see Table 4

Table 15 shows that several of the African countries are amongst those where basic consumer goods account for the highest share of imports from China. Ethiopia stands to benefit most because of the overall level of imports and the high proportion of imports that are potentially consumed by the poor. South Africa is also relatively favourably placed in this respect. The other countries with a relatively high proportion of consumer goods imports (Mozambique and Uganda) do not benefit so significantly at present

because of the low level of imports from China, but this could be seen as an opportunity for further expansion in the future.

Future Prospects

As China increases its technological capabilities and becomes competitive in a wider range of manufactured goods, its share of imports in the case study countries is likely to increase, particularly in Latin America where it is still relatively low. As already indicated, the impact which increased competition from China has on the poor is difficult to judge since they may lose as producers when local production is displaced, but gain as consumers when the prices of the goods that they consume are reduced. However as Chinese exports become more technologically sophisticated, the impacts on the poor are likely to diminish since the goods being imported are both less likely to be heavily dependent on unskilled labour and also less likely to be consumed by low income households.

6. Foreign Direct Investment and Poverty

a) FDI into China – a diversion from other Developing Countries?

FDI flows to China have increased massively in recent years, growing from \$3.5 bn. in 1990 to \$54 bn. in 2003, which represented 10% of world FDI flows (UNCTAD 2003b, p.43, and UNCTAD, 2004, p.370).¹⁸ The key question is whether this inflow to China has involved a diversion of resources at the expense of developing countries in Latin America and Asia?¹⁹

Despite the often expressed concern over investment diversion, there is little evidence that this has been a significant factor in either Latin America or Asia. The IDB report concluded that “*it is hard to argue that the rising importance of China has negatively affected FDI to Latin America*” (IDB 2004, 113). Chantasawat et. al. (2004), on the basis of an econometric analysis of FDI flows to sixteen Latin American countries, also conclude that there is no negative “China effect”.²⁰

A number of reasons may account for the lack of FDI diversion in Latin America as a whole. Diversion is more likely where the countries concerned are engaged in export production and are alternative sites for foreign firms. As was seen above, most Latin American countries, with the partial exception of Mexico and possibly the Central

¹⁸ These figures overestimate the level of FDI flows to China because of “round tripping” whereby domestic investment in China (Mainland) is routed through Hong Kong and back into the Mainland to take advantage of tax incentives for foreigners (see IDB 2004, 105). If round-tripping is taken into account, the inflow into China is estimated to be between 10% and 25% lower (UNCTAD 2004, 26).

¹⁹ Sub-Saharan Africa attracts such a small proportion of world FDI inflows and is mainly directed to extractive sectors, that it is unlikely that the growth of FDI flows to China would have had any significant effect on the region.

²⁰ However García-Herrero and Santabarbara (2004) suggest that there is some evidence of FDI diversion from Mexico and Colombia in the period 1995-2001, although this does not appear to have been the case for the four other Latin American countries included in their study, nor for the longer period from 1984-2001.

American countries do not compete with China in third markets. The conventional determinants of FDI such as market size and government policies are more significant factors in explaining FDI flows to the region (Chantasawat et. al. 2004). Other conjunctural factors such as privatisation and the 1998 crisis in Latin America rather than diversion to China accounted for variations in FDI flows to the region (IDB, 2004, p.113). It is also the case that in recent years a large proportion of FDI flows into China has come from within Asia, most notably from Hong Kong, Taiwan, Singapore, South Korea and Thailand, (see Rumbaugh and Blancher, 2004, p.6 and Yang, 2003, p. 3), whereas the main investors in Latin America have been North American and European

Even in the case of Asia, Yang states that “*It is difficult to judge the extent to which the redistribution of FDI among Asian developing countries has been the result of China’s increased attractiveness to FDI*” but, as in Latin America, he concludes that; “*Other shocks are likely to have contributed to the outcome*” (Yang 2003, 13). Tan (2001, quoted in Yang, 2003) and Panitchpakdi and Clifford (2002) have argued that FDI flows to China and other Asian economies have been complementary rather than competing. Chantasawat et. al. (2004) confirm this in their study of eight East and South East Asian economies arguing that this reflects the development of global production networks in the region. However their study only includes Indonesia from amongst the six Asian countries included in this report and involvement in global production networks with China is less extensive for the other five countries.

Thus the conclusion is that in the short run, FDI inflows may have led to a slight diversion from some other developing countries (particularly since FDI in China has been linked so closely to exports²¹) and therefore the effect on poverty – through the associated loss of economic growth - in some of the Asian developing economies which compete most directly with China, may have been harmful. However, even in the short run the poverty effect is almost certainly very small. In the long run there is probably no diversionary effect because of China having been more successful than most countries in adding FDI inflows to domestic investment and thereby generating its remarkably rapid rate of economic growth.

b) FDI from China – a benefit?

Annual FDI outflows from China averaged \$3 bn. between 2000 and 2003 about 25% up on the average annual outflow in the early 1990s (UNCTAD, 2004, p.24). The outflow from China between 2000 and 2003 was less than 0.5% of the world total. China’s stock of FDI held in other countries in 2003 was also less than 0.5% of the world total (UNCTAD, 2004, p.382). Thus China has played a much smaller role in exporting FDI than in importing it and the conclusion is that the effect of outward FDI from China on developing countries in Latin America, Africa and Asia has (so far) been slight, especially relative to the effects of trade.

²¹ It has been estimated that foreign affiliates account for more than half the total exports from China in 2002 suggesting that a substantial part of FDI into China is for trade reasons.

c) Future Prospects

The pattern of FDI into China is likely to change as China opens its service industries to FDI under its WTO accession agreement.²² However this changing pattern is unlikely to represent a diversion of FDI from other developing countries since any such FDI inflow into China will be (to a large extent) in non-traded goods such as banking and finance, telecommunications, distribution, retail and wholesale trade (UNCTAD 2004, 56).

As far as outward FDI is concerned, the 2004 World Investment Report expects investment from China to increase as the government has relaxed restrictions on outward investment, partly to ease the pressure of rising international reserves on the exchange rate (UNCTAD 2004, 20). Chinese FDI in Africa has grown rapidly over the four years up to 2002 and some commentators predict that it could be one of the top three investors on the continent within five years (Economist, 2004). Most such investments are likely to be in oil and mining and will not necessarily have positive effects in terms of directly benefiting the poor.

7. Conclusions, Policy Recommendations and Further Research

a) Challenges and Opportunities

In terms of the central theme of this paper, namely the impact of China's growth on poverty reduction in Asia, Africa and Latin America, a number of challenges and opportunities have been identified. Table 16 summarises the findings of the paper concerning the main impacts that the recent growth of China in the global economy is likely to have had on the poor in the eighteen countries studied. For some countries, such as Brazil, Peru and Cameroon, the main impact has been through the growth of exports. Others, such as Bangladesh and Cambodia, have primarily been affected through competition from China in third markets. On the other hand, the most significant impact in Bolivia, Nicaragua and Nigeria has probably been on producers who compete with Chinese imports in the domestic market. These different patterns of relations with China are reflected in a variety of different challenges and opportunities.

Challenges

Looked at from the point of view of the impacts on poverty, there are several challenges posed by the growth of China. Most attention has been given in the literature to the effect of competition from China on the exports of other developing countries to third markets. This is likely to be particularly marked in labour-intensive products and to lead both to a reduction in the market share of other Asian and Latin American countries, and a deterioration in their terms of trade (UNCTAD, 2002, p.136). As Wood (1997) has noted, increased competition from China is one of the factors that contributed to increased income inequality in Latin America in recent years. It also poses a threat to some of the Asian countries, particularly Bangladesh, Cambodia and Pakistan, which depend heavily on labour-intensive manufactured exports.

²² Most of the current inward stock of FDI in China is in manufacturing (63% in 2002). This is in sharp contrast to the FDI inward stock in the world as a whole where 60% is in services (UNCTAD 2004 30).

Table 16: Summary of Likely Effects on Poverty of China's Trade Growth on Eighteen Countries

	Exports to China	Comp. in 3rd Markets	Imports from China
Bangladesh	Little or no effect	Significant harm from competitive threat	Significant imports but not displacing local production
Cambodia	Little or no effect	Significant harm from competitive threat	Significant imports but not displacing local production. Opportunity -cheaper consumer goods.
India	Little or no effect	Small harm	Low impact
Indonesia	Challenges from negative spillovers; Opportunities from increased government revenues	Moderate harm from competitive threat	Not a major threat
Pakistan	Little or no effect	Significant harm from competitive threat	Not a major threat
Vietnam	Challenges from negative spillovers; Opportunities from increased government revenues	Moderate harm from competitive threat	Not a major threat. Opportunity - cheaper consumer goods
Bolivia	Little or no effect	Little or no effect	Challenge – reduced employment; Opportunity - cheaper consumer goods.
Brazil	Challenges from negative spillovers; Opportunities from increased government revenues	Little or no effect	Limited threat to local production.
Honduras	Little or no effect	Moderate harm from competitive threat*	Limited threat to local production.
Mexico	Little or no effect	Low harm (to poor) from competitive threat	Limited threat to local production.
Nicaragua	Little or no effect	Little or no effect*	Challenge – reduced employment; Opportunity-cheaper consumer goods.
Peru	Challenges from negative spillovers; Opportunities from increased government revenues	Little or no effect	Limited threat to local production.

Cameroon	Challenges from negative spillovers; Opportunities from increased government revenues	Little or no effect	Limited threat to local production.
Ethiopia	Little or no effect	Moderate harm from competitive threat	Challenge – reduced employment; Opportunity-cheaper consumer goods.
Mozambique	Little or no effect	Little or no effect	Limited threat to local production.
Nigeria	Little or no effect	Little or no effect	Challenge – reduced employment
South Africa	Moderate challenges from negative spillovers; Opportunities from increased government revenues	Little or no effect	Challenge – reduced employment; Opportunity-cheaper consumer goods.
Uganda	Little or no effect	Little or no effect	Limited threat to local production.

* For these countries this is a lower bound estimate of the threat because of the likely underestimation of the extent of competition with China as a result of the exclusion of *maquila* exports from the trade data used.

Although growing exports of primary commodities can have a positive impact, they may also provide a challenge in terms of poverty reduction.²³ This is particularly true for certain forms of agricultural production and for logging, where the history of commodity booms provides numerous examples of negative impacts on the poor, and where recent experiences with soya in Brazil and logging in Indonesia have also had negative effects.

Two other challenges have been identified. Local producers may be displaced by competition from cheap Chinese imports and again where these are in industries which employ significant numbers of unskilled workers, they may lose their jobs and be pushed into poverty. The data on Bolivia, Nicaragua, Ethiopia and Nigeria suggests that this may have happened there although this would require more thorough investigation. Finally the possible diversion of FDI to China could also have negative impacts, although there is little evidence that this has had a significant effect on either growth or poverty.

Opportunities

In identifying the challenges however, one should not lose sight of the opportunities which the growth of China also presents in terms of poverty reduction. First, although not discussed in any detail here (and not reflected in Table 16), is the impact of China's growth on the overall growth of the world economy, and in particular that of the OECD

²³ They may also be problematic in other ways. For example the expansion of primary commodity exports may have "Dutch Disease" effects in Latin America which reduces the long-term dynamism of the economy (IDB, 2004, p.151).

countries (see IMF, 2004, Box 1.4). In so far as this contributes to growth in Latin America and Asia and in so far as growth, other things being equal, reduces poverty, then there is a positive indirect impact from China's growth.

The paper, however, has concentrated on the direct impacts of China's growth and here the opportunities are easier to identify. Chinese imports have grown rapidly in recent years and countries which have been able to penetrate the Chinese markets have benefited. The opportunities for poverty reduction arise for those countries that have been able to export labour-intensive products to China, such as Pakistan, and those which have significant exports of minerals and petroleum, such as Cameroon, Peru and Vietnam. In the latter case however this depends on government revenues from increased exports being used to reduce poverty.

Other opportunities arise where the poor gain access to cheap consumer goods from China, which will raise their real income, as may have happened to some extent in Bolivia, Nicaragua, Ethiopia and South Africa. A further potential impact could be from attracting Chinese FDI, particularly in labour-intensive industries, but there is no evidence that this has been significant in any of the countries studied.

b) Implications for Policy

The policy implications of this analysis of the impact of China on poverty in other developing countries can be addressed in one of two ways. The first is to focus directly on the impacts of China and to look at policies to take advantage of the opportunities identified above and to respond to the challenges in ways which maximize the benefits and minimize the costs to the poor. This would suggest that other countries should look for market opportunities in China to expand labour-intensive agricultural exports. They could also seek to utilize increased tax revenues from primary product exports to fund pro-poor initiatives. In terms of challenges, governments should seek to ensure that smallholders are able to participate in new export markets and are not displaced by large, less labour-intensive farms. More generally, the government should monitor the impact of expansion of primary product exports on the poor and local communities which may be negatively affected.

The problem with this approach is that it artificially isolates policies to respond to the impacts of external factors, and the impact of China in particular, from more general policies to reduce poverty.²⁴ An alternative approach is to ask the question, "do the policies that countries adopt to reduce poverty need to be changed in the light of China's expansion?" Looked at in this way, policies to provide assets to the poor, either through education or redistributive measures such as land reform, remain just as relevant irrespective of China's growth and may even become more so. However some other policies, such as emphasising the expansion of labour-intensive manufactured exports as a means of poverty reduction, may need to be qualified, in light of the increasing competition and falling prices for many such products.

²⁴ In this context it is also worth bearing in mind that China's own impressive achievements in reducing poverty can be mainly attributed to domestic rather than international factors (Ravallion, 2004)

c) Further Research

To the best of our knowledge, this is the first study which has attempted to analyse the impact of China's growth and trade liberalisation on poverty in other developing countries, as opposed to poverty in China itself. It has provided an analytical framework for such an analysis and some preliminary evidence for eighteen countries in Asia, Africa and Latin America, which between them account for a major share of poverty in the three regions. In preparing the paper, a number of gaps and areas for further research were identified.

Part of the empirical exercise for this paper involved identifying products which were likely to be "pro-poor" in the sense of generating employment or income for low income groups. Since the poor tend to have low levels of education and skill, a key consideration was the extent to which products were unskilled labour-intensive. However while there are numerous classifications of manufactured exports which distinguish between products on the basis of labour, capital or technology intensity, there are no trade studies which classify agricultural products according to factor intensity.²⁵ While it is obviously more difficult to classify agricultural products in this way, since production conditions differ to a much greater extent than in manufacturing, further work could be done in identifying the effects of exports of different products on the poor in order to refine the classification used in this study.

A second area in which further research is required is in terms of the implications of competition from China in third markets. In the time available, it was only possible to make a very crude estimate of the extent to which exports of labour-intensive products were threatened by competition from China and more extensive work could be carried out here, for example using the categories of market situations identified by Lall and Albaladejo (2004). There is also a need for more disaggregated research which looks at competition in individual developed country markets.²⁶

The study shows that the impact of China on individual countries is often largely determined by what happens in one or a small number of sectors (e.g. fishmeal and minerals in Peru, soya and minerals in Brazil, oil and logging in Cameroon, textiles and garments in Bangladesh). Considerable insights into the effects of China on poverty internationally could therefore be gleaned from studies of a relatively small number of global value chains.

Finally, the very general nature of this study means that it can only provide a very rough overview of the potential impacts of China's expansion on the countries included. While this is a useful exercise in identifying the countries in which poverty is most likely to be affected, it cannot begin to analyse the actual effects in any detail. This requires much

²⁵ See for example Lall (2000), Wood and Mayer (1998), UNCTAD (1993, 2002). These tend to classify primary products as an undifferentiated group or only distinguish between agricultural products and minerals.

²⁶ Such research based on developed country import statistics would also give a clearer picture of the position of certain countries, particularly Honduras and Nicaragua, where the UN trade data used in this study underestimates the significance of competition with China because it does not adequately reflect the importance of exports of *maquila* type activities.

more specific studies of the relations between China and individual countries which can also take into account the profile of poverty in the country and the nature of production relations in affected sectors.

References

- Bannister G J and Thugge K 2001; “International Trade and Poverty Alleviation”, IMF Working Paper, 01/54
- Berry A, 2001; “When do Agricultural exports Help the Rural Poor: A Political-economy Approach”, *Oxford Development Studies*, 29(2)
- Chantasawat B, Fung K C, Iizaka H and Siu A, 2004; “Foreign Direct Investment in East Asia and Latin America: is there a People’s Republic of China Effect?”, *ADB Institute Discussion Paper No. 17*
- Condo, A. (2004), *China’s Competitiveness and the Future of the Textile Sector in Latin America*, presentation at the 2004 LAEBA Annual Conference on “The Emergence of China: Challenges and Opportunities for Latin America and Asia”, Beijing, December, 2004.
- DFID 2004; *China and Forest Trade in the Asia Pacific Region: Implications for Forests and Livelihoods: Overview*
- Draper, P 2004; *China and Southern Africa: Opportunities and Threats*, presentation to the UK-China Trade and Development Seminar, Beijing, 20 October
- Dros, J.M. 2004; *Managing the Soy Boom: Two scenarios of soy production expansion in South America*, Report Commissioned by WWF Forest Conversion Initiative, available at www.panda.org/downloads/forests/managingthesoyboom.pdf (accessed 10/11/04)
- Economist (2004), “China’s Business Links with Africa: A New Scamble”, *The Economist*, 25 November.
- FERN, 2003; *Cameroon: Illegal Logging Fact File*, FERN – the EU Forest Campaign, October, available at http://www.fern.org/pubs/media/Cameroon_factfile.pdf (accessed 9/12/04)
- García-Herrero A and Santabarbara D 2004; *Does China have an impact on Foreign Direct Investment in Latin America?* paper presented at the 2004 LAEBA Annual Conference on “The Emergence of China: Challenges and Opportunities for Latin America and Asia”, Beijing, December, 2004.
- Ianchovichina E and Martin W 2001; *Trade Liberalization in China’s Accession to the WTO*, Policy Research WP 2623, Washington DC, World Bank, May
- IDB, 2004; *The Emergence of China; Opportunities and Challenges for Latin America and the Caribbean*, Inter-American Development Bank, Integration and Regional Programs Department/Research Department, Washington DC.
- IMF, 2004; *World Economic Outlook, April*, International Monetary Fund, Washington DC
- Kanji N and S Barrientos, 2002: *Trade liberalisation, poverty and livelihoods; understanding the linkages*, IDS Working Paper 159
- Klein, M., C. Aaron and B. Hadjimichael 2000; *Foreign Direct Investment and Poverty Reduction*, World Bank Research Working Paper 2613, available at http://econ.worldbank.org/files/2205_wps2613.pdf (accessed 9/8/04).
- Lall S 2000; “The technological structure and performance of developing country manufactured exports, 1985-98”, *Oxford Development Studies*, 28(3)
- Lall S and Albaladejo N 2004; “China’s Competitive Performance; A Threat to East Asian Manufactured Exports”, *World Development*, Vol 32, No 9 1441-1466.

- Lall S and Weiss J 2004; “People’s Republic of China’s Competitive Threat to Latin America; An Analysis for 1990-2002”, *ADB Institute Discussion Paper No 14*
- Li Yuefen, 2002; “China’s Accession to WTO; Exaggerated Fears?” *UNCTAD Discussion Paper 165*, November
- McCulloch N et al 2001; *Trade Liberalization and Poverty; A Handbook*, DFID/CEPR
- McCulloch N. and M. Ota, 2002. *Export Horticulture and Poverty in Kenya*. Globalisation, Production and Poverty Discussion Paper No.4, Overseas Development Group, University of East Anglia: Norwich
- Nordas H K 2004; *The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing*, WTO, Geneva
- Observer 2004; “They hailed it as a wonderfood. But soya not only destroys forests and small farmers – it can also be bad for your health” *Observer Food Monthly*, November
- Panitchpakdi S and Clifford M 2002; *China and the WTO; Changing China, Changing World Trade*, Singapore, John Wiley and Sons (Asia)
- Prasad E and Rumbaugh T 2003; “Beyond the Great Wall”, *Finance and Development*, December
- Ravallion, M. 2004; *Looking Beyond Averages in the Trade and Poverty Debate*, paper presented at the WIDER conference on the Impact of Globalization on the World’s Poor, Helsinki, October.
- Reimer J 2002; “Estimating the Poverty Impacts of Trade Liberalization”, Purdue University
- Rumbaugh T and Blancher N 2004; “China; International Trade and WTO Accession”, IMF Working Paper, 04/36, March
- Shafaeddin M 2002; “The Impact of China’s Accession to WTO on the Exports of Developing Countries”, *Discussion paper 160*, UNCTAD, June
- Shafaeddin S M 2004; “Is China’s Accession to WTO threatening exports of developing countries?” *China Economic Review* 15, 109-144
- Singh K 2004; *Industry Flocks to ‘Backward’ Indian State* at <http://www.twinside.org.sg/title/1907-cn.htm> (accessed 11/11/04)
- Spinanger and Wogart 2002; “Will the Emperor Wear New Clothes from Bangladesh in 2005?” in Export Panel on Trade and Sustainable Development (EPTSD), *Promoting Sustainable Trade in Textiles and Garments*, Dialogue Report, March.
- UNCTAD 1993; *Trade and Development Report, 1993*, UNCTAD, Geneva
- UNCTAD 2002; *Trade and Development Report, 2002*, UNCTAD, Geneva
- UNCTAD 2003a; *Trade and Development Report, 2003*, UNCTAD, Geneva
- UNCTAD 2003b; *World Investment Report, 2003*, UNCTAD, Geneva
- UNCTAD 2004; *World Investment Report, 2004*, UNCTAD, Geneva
- UNDP 2003; *Human Development Report, 2003*, UN, New York
- USITC 2004; *Textiles and Apparel; Assessment of the Competitiveness of Certain Foreign Suppliers to the US Market*, June
- Winters L A et al 2004; “Trade Liberalization and Poverty: the Evidence So Far” *Journal of Economic Literature*, Vol XLII (March), pp 72-115
- Wood A 1997, “Openness and Wage Inequality in Developing Countries; The Latin American Challenge to East Asian Conventional Wisdom”, *World Bank Economic Review*, Vol 11, 33-57

Wood A and Mayer J 1998; *Africa's Export Structure in a Comparative Perspective*, Study No. 4 of African Development in a Comparative Perspective, UNCTAD, Geneva

World Bank 2002; *Global Economic Prospects and the Developing Countries*, Washington DC

World Bank 2004; *Textile and Clothing Policy Note: Implications for Pakistan of Abolishing Textile and Clothing Export Quotas*, World Bank, Washington DC

Yang, Y 2003; "China's Integration into the World Economy; Implications for Developing Countries", *IMF Working Paper 03/245*, December

APPENDIX I

Classification of SITC 3-digit Products according to Production and Consumption Categories*

Production Categories

Labour-intensive agricultural products – 037; 042; 05; 06; 07; 232

Other agricultural products – 00; 01; 02; 034; 035; 036; 04 (-042); 08; 09; 12; 21; 22; 26 (-266 and 269); 29; 411; 42; 43

Forestry – 24; 25

Minerals and petroleum – 233; 266; 27; 28; 32; 33; 34; 35; 68

Labour-intensive textiles and garment products – 65; 84

Other labour-intensive manufactures – 269; 61; 63; 665; 666; 821; 831; 851; 89 (-896 and 897)

Other manufactured products – 11; 51; 52; 53; 54; 55; 56; 58; 59; 62; 64; 66 (-665 and 666); 67; 69; 71; 72; 73; 74; 75; 76; 77; 78; 79; 812; 87; 88; 896; 897; 9

Consumption Categories

The following SITC products were identified as products likely to be consumed by low income consumers. These consist of food, beverages, tobacco, garments and footwear.

00; 01; 02; 03; 04; 05; 06; 07; 09; 11; 12; 269; 84; 851

* where a 2-digit SITC classification is indicated, this means that all 3-digit classes within it are included in the product group.

APPENDIX II

Textiles and Garments and the Abolition of MFA Quotas

The abolition of quotas

Under the ATC introduced in 1995 after more than 40 years of ‘temporary’ import quotas, the T and G sectors will become subject to the general rules of the GATT from 1 January 2005. Quotas into the US, Canada, EU and Norway will have been abolished through four stages under the ATC but a large proportion of restrictions into US, Canada and the EU have been left to the last, fourth stage – over 80% by value of the quotas are due to be abolished at the end of 2004. Thus the impact of quota abolition is being squashed in to this fourth stage. However it is worth noting that not only does the 1999 Sino-US agreement provide for specific safeguards on T and G until the year 2008 but the ATC allows WTO members to set new quotas on imports when they threaten serious damage to a domestic industry.

The effects of quota abolition

A simulation using the GTAP model has estimated that, as far as the share of imports in domestic demand in the US and EU are concerned, there will be little change in textiles but for garments the shares are likely to rise from 34% to 45% in the US/Canada and from 49% to 51% in the EU (Nordas 2004, 26).

However it is when the shares of particular countries exporting to these markets are examined that there are very large differences estimated as a result of the abolition of quotas. For example the GTAP simulation estimates the following effects on China and some of the 18 countries (Honduras, Nicaragua, Bolivia and Brazil would be included in ‘Rest of Americas’).

T and G market shares in the US and EU before and after the abolition of quotas – the GTAP view

EU market		China	India	Indonesia	Bangladesh		
Textiles	Before	10	9	4			
	After	12	13	5			
Garments	Before	18	6	3		3	
	After	29	9	3		4	
US market		China	India	Indonesia	Bangladesh	Mexico	Rest of Americas
Textiles	Before	11	5	3			
	After	18	5	3			
Garments	Before	16	4	4	4	10	16
	After	50	15	2	2	3	5

Source; Nordas 2004, 27-30

Some of the changes are massive with the biggest being the rise from 16% to 50% for the share of China in garments imports into the US. However Nordas recognises that the above GTAP simulation figures are unrealistic (Nordas 2004, 30, 34). There are *three* reasons why the changes are unlikely to be as large as these. *The first* is the effect of the regionalisation of the textiles and garments markets due to a combination of regional import duty concessions and proximities to final points of sale (on this see www.twinside.org.sg/title2/5636a.htm). The *second* is the likely continuation of protectionism in the textiles and garments markets through ‘transitional safeguards’ and anti-dumping under the ATC. A possible *third* reason is that Bangladesh, India, Indonesia and Vietnam are becoming increasingly competitive with China (Nordas 2004, 23 and Shafaeddin, 2004, 114)

Thus the changes in market shares predicted by the GTAP simulation model are almost certainly overstatements with the effects on China, Bangladesh, India, Mexico and Honduras likely to be less than predicted. While it is true that “*China is expected to become the ‘supplier of choice’ for most US importers*”, nevertheless “*this <choice> will be tempered by the uncertainty over the use by the US and other importing countries of the textile-specific safeguard provisions contained in China’s WTO protocol of accession*” (USITC, 2004).

The views of the USITC report and other sources on the prospects of all but seven (Brazil and Cambodia and all six Sub-Saharan African countries except South Africa²⁷) of the 18 countries are summarised below;

Bangladesh; uncertain prospects but considered to be a competitive alternative to China for mass-produced low-end garments (USITC 2004); competitive with China (Shafaeddin 2004) although Spinanger and Wogart 2002 disagree.

India; considered by many US firms to be the primary alternative to China (USITC)

Indonesia; uncertain prospects because of political unrest but considered as a competitive supplier of garments (USITC) and its market shares for labour-intensive goods were much less affected in the 1990s than Philippines and Thailand (Lall and Albaladejo, 2004, 1457);

Pakistan; overall the impact in the 1990s of quota abolition will be positive on the textile sector, negative on garments but the adverse impact on garments is reduced by many of the products in which Pakistan specialises, such as men’s knit shirts, being much less important to competing countries (World Bank 2004); nevertheless its competitive position in garments is not as strong as Vietnam and Bangladesh (Shafaeddin)

Vietnam; along with Indonesia, the only member country in the ASEAN considered competitive with China (USITC, Shafaeddin)

Bolivia; small supplier but could become a source for speciality products (USITC)

Honduras and Nicaragua; reasonable prospects in the US market but only if a Central American free-trade agreement is negotiated that permits the use of regional (Mexican) or Asian fabrics (USITC)

²⁷ In 2002, textiles and garments accounted for 1.3% or less of total exports of all the African countries studied apart from South Africa where the share was 4.1%.

Mexico; share of US garments market likely to continue to decline even with NAFTA preferences but has the potential to expand yarn and fabric exports to other countries in the Americas if permitted by FTAs under discussion (USITC);

Peru; may see its overall share of US garments decline but expected to continue to be a niche supplier of high-end knit shirts (USITC)

South Africa; in 2001, textiles and garments exports were split evenly between textiles and garments but garment exports to the USA had trebled between 1997 and 2001 as a result of preferences under the African Growth and Opportunity Act (AGOA). By 2001, 60% of South Africa's garments exports went to the USA, but this market will level out or even decline with the abolition of the quotas (USITC).

In summary the most serious threat in textiles and garments (following the abolition of quotas) is almost certainly that faced by Honduras, Mexico, Nicaragua and South Africa. However, given the continuing mix of tariff protection and regional preferences in the industry, the changes predicted by the GTAP model are almost certainly on the high side.

STATISTICAL APPENDIX

Table A.1

The 18 sample countries and China – poverty

	People below \$2 a day		
	Number (mn)	% of popn	Year of data
Latin America			
Bolivia	3	34	1999
Brazil	41	24	1998
Honduras	3	44	1998
Mexico	24	24	1998
Nicaragua	5	95	1998
Peru	11	41	1996
Total/weighted average	87	27	
All Latin America	135	26	
% in 6 countries	64		
Africa			
Cameroon	10	64	1996
Ethiopia	65	98	1999/2000
Mozambique	14	78	1996
Nigeria	118	91	1997
South Africa	6	15	1995
Uganda	22	96	1996
Total/weighted average	235	78	
All Sub-Saharan Africa	516	75	
% in 6 countries	46		
Asia			
Bangladesh	111	83	2000
Cambodia	na	na	
India	825	80	2000
Indonesia	115	55	2000
Pakistan	94	66	1998
Vietnam	51	64	1998
Total/weighted average	1196	75	
All South and East Asia and Pacific	1993	65	
China	602	47	2000
South and East Asia and Pacific (excl. China)	1391	78	
% in 6 countries(excl. China)	86		

Source: DFID (2003), *Statistics on International Development; 1998/1999 to 2002/2003* (Table 1.1)

Table A.2

Structure of Exports to China from Six Asian Countries

	Bangladesh		Cambodia		India		Indonesia		Pakistan		Vietnam	
	1990	2001	1990	2001	1990	2001	1990	2001	1990	2001	1990	2001
LA	25.6%	0.0%	53.2%	16.4%	0.0%	1.2%	2.1%	3.6%	0.0%	0.2%	11.3%	11.6%
OA	28.1%	12.2%	0.0%	3.1%	4.1%	5.9%	2.1%	6.1%	67.4%	4.8%	59.1%	4.4%
F	0.0%	0.0%	0.0%	6.9%	0.0%	0.0%	0.6%	12.5%	0.0%	0.0%	0.0%	0.5%
MP	0.0%	0.0%	0.0%	0.0%	54.8%	42.5%	27.5%	21.7%	26.9%	1.3%	18.1%	75.1%
LM	15.2%	83.7%	0.0%	72.7%	2.6%	16.0%	52.7%	15.2%	4.9%	77.0%	0.0%	4.3%
of which	4.8%	6.1%	0.0%	1.8%	1.1%	12.0%	10.5%	6.7%	3.4%	70.9%	0.0%	1.7%
LMT												
OM	31.1%	4.1%	46.8%	0.9%	38.5%	34.4%	15.1%	40.9%	0.9%	16.8%	11.5%	5.9%

Source: own elaboration from UN data

- LA – labour-intensive agricultural products
- OA – other agricultural products
- F- forestry
- MP – minerals and petroleum
- LM –labour-intensive manufactures
- LMT – labour-intensive textiles and garments
- OM – other manufactures

Table A.3

Structure of Exports to China from Six Latin American Countries

	Bolivia		Brazil		Honduras		Mexico		Nicaragua		Peru	
	1990	2001	1990	2001	1990	2001	1990	2001	1990	2001	1990	2001
LA	0	0.0%	0.1%	1.6%	0	18.5%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
OA	0	4.7%	38.4%	32.1%	0	0.0%	1.9%	1.6%	100.0%	0.0%	99.9%	59.0%
F	0	2.4%	0.0%	9.0%	0	0.0%	0.8%	0.0%	0.0%	0.0%	0.0%	0.2%
MP	0	69.6%	16.6%	28.9%	0	62.2%	14.3%	6.1%	0.0%	12.7%	0.0%	40.0%
LM	0	23.2%	1.4%	4.0%	0	0.0%	0.5%	2.4%	0.0%	83.1%	0.0%	0.4%
of which	0	18.9%	0.9%	0.1%	0	0.0%	0.3%	1.5%	0.0%	0.0%	0.0%	0.4%
LMT												
OM	0	0.0%	43.4%	24.5%	0	19.3%	82.6%	89.9%	0.0%	4.2%	0.0%	0.4%

Source: see Table A.2

- LA – labour-intensive agricultural products
- OA – other agricultural products
- F- forestry
- MP – minerals and petroleum
- LM –labour-intensive manufactures
- LMT – labour-intensive textiles and garments
- OM – other manufactures

Table A.4**Structure of Exports to China from Six African Countries**

	Cameroon		Ethiopia		Mozambique		Nigeria		South Africa		Uganda	
	1990	2002	1990	2002	1990	2002	1990	2002	1990	2002	1990	2002
LA	1.8%	0.0%	0	0.4%	8.6%	15.1%	36.3%	0.0%	33.3%	0.7%	0	3.7%
OA	97.9%	0.1%	0	11.7%	0.0%	0.0%	6.0%	0.1%	28.4%	2.0%	0	25.6%
F	0.0%	24.6%	0	0.0%	0.0%	84.8%	0.0%	0.3%	0.0%	4.3%	0	0.0%
MP	0.0%	74.2%	0	45.0%	44.3%	0.1%	3.8%	97.4%	32.5%	50.9%	0	69.6%
LM	0.4%	1.1%	0	43.0%	0.1%	0.0%	0.0%	0.3%	2.9%	2.0%	0	0.0%
of which	0.4%	0.0%	0	0.0%	0.1%	0.0%	0.0%	0.1%	2.9%	1.6%	0	0.0%
LMT												
OM	0.0%	0.0%	0	0.0%	47.0%	0.0%	54.0%	1.8%	2.9%	40.1%	0	1.1%

Source: see Table A.2

LA – labour-intensive agricultural products
 OA – other agricultural products
 F- forestry
 MP – minerals and petroleum
 LM –labour-intensive manufactures
 LMT – labour-intensive textiles and garments
 OM – other manufactures

Table A.5**Structure of Imports from China of Six Asian Countries**

	Bangladesh		Cambodia		India		Indonesia		Pakistan		Vietnam	
	1990	2002	1990	2002	1990	2002	1990	2002	1990	2002	1990	2002
LA	0.9%	1.7%	0.0%	0.6%	2.6%	2.2%	5.6%	6.9%	24.1%	3.4%	0.0%	4.2%
OA	1.1%	2.1%	0.0%	2.3%	31.5%	5.9%	23.0%	10.7%	7.8%	1.2%	0.0%	4.4%
F	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
MP	1.4%	1.7%	1.6%	0.6%	23.5%	14.6%	10.3%	16.3%	2.4%	1.6%	0.0%	20.3%
LM	12.8%	50.6%	11.2%	68.7%	3.2%	13.2%	16.8%	14.2%	2.2%	9.9%	0.5%	18.4%
of which												
LMT	10.1%	48.0%	0.5%	61.4%	2.5%	9.5%	12.7%	8.6%	0.7%	4.7%	0.5%	13.1%
OM	83.7%	43.8%	87.2%	27.8%	38.8%	64.1%	44.2%	51.7%	63.5%	83.9%	99.5%	52.8%

Source: see Table A.2

LA – labour-intensive agricultural products
 OA – other agricultural products
 F- forestry
 MP – minerals and petroleum
 LM –labour-intensive manufactures
 LMT – labour-intensive textiles and garments
 OM – other manufactures

Table A.6

Structure of Imports from China of Six Latin American Countries

	Bolivia		Brazil		Honduras		Mexico		Nicaragua		Peru	
	1990	2002	1990	2002	1990	2002	1990	2002	1990	2002	1990	2002
LA	0.0%	0.1%	6.1%	1.7%	0.0%	4.7%	31.2%	0.5%	98.7%	1.3%	0.2%	0.4%
OA	0.0%	0.1%	4.4%	0.5%	0.0%	1.8%	0.9%	1.1%	0.0%	0.4%	0.0%	1.0%
F	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MP	0.4%	1.4%	73.8%	18.3%	3.7%	6.3%	5.8%	6.0%	0.0%	3.6%	35.8%	4.7%
LM	4.6%	52.5%	1.4%	17.7%	8.4%	19.8%	29.1%	23.6%	0.6%	46.7%	1.0%	40.9%
of which												
LMT	1.1%	42.4%	0.3%	7.1%	2.5%	2.3%	24.9%	10.1%	0.0%	30.3%	0.0%	25.5%
OM	95.0%	46.0%	14.3%	61.8%	87.9%	67.4%	33.0%	68.7%	0.7%	48.0%	63.0%	53.0%

Source: see Table A.2

- LA – labour-intensive agricultural products
- OA – other agricultural products
- F- forestry
- MP – minerals and petroleum
- LM –labour-intensive manufactures
- LMT – labour-intensive textiles and garments
- OM – other manufactures

Table A.7**Structure of Imports from China of Six African Countries**

	Cameroon		Ethiopia		Mozambique		Nigeria		South Africa		Uganda	
	1990	2002	1990	2002	1990	2002	1990	2002	1990	2002	1990	2002
LA	3.4%	1.1%	3.4%	0.3%	1.5%	1.0%	2.8%	0.8%	0.0%	1.3%	0.0%	0.0%
OA	0.3%	10.1%	0.0%	0.3%	15.7%	3.1%	0.0%	0.1%	0.0%	2.8%	0.0%	0.0%
F	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MP	0.0%	1.1%	0.0%	0.2%	44.4%	0.2%	0.9%	2.1%	0.0%	3.9%	0.8%	0.4%
LM	36.3%	40.8%	15.5%	54.8%	4.1%	39.6%	11.6%	30.8%	8.4%	41.5%	31.5%	42.2%
of which	23.5%	21.3%	12.0%	39.0%	1.4%	17.8%	3.7%	15.1%	3.6%	22.9%	0.0%	18.7%
LMT												
OM	60.0%	46.9%	81.1%	44.4%	34.4%	56.0%	84.7%	66.2%	91.6%	50.5%	67.8%	57.4%

Source: see Table A.2

- LA – labour-intensive agricultural products
- OA – other agricultural products
- F- forestry
- MP – minerals and petroleum
- LM –labour-intensive manufactures
- LMT – labour-intensive textiles and garments
- OM – other manufactures

Fig.1: Framework for Analyzing the Potential Impact of China on Poverty in Africa, Latin America and Asia

