

# CONNECTING TWO CONTINENTS

## HISTORICAL CONTEXT

The acceleration of trade and investment *among* developing countries is one of the most significant features of recent events in the global economy. For decades, world trade has been dominated by commerce both among developed countries—the North—and between the North and developing countries—the South.<sup>1</sup> A striking hallmark of the new trend in South-South commercial relations is the massive increase in trade and investment flows between Africa<sup>2</sup> and Asia, especially since 2000. Today, Asia receives about 27 percent of Africa’s exports, in contrast to only about 14 percent in 2000. This volume of trade is now on par with Africa’s exports to the United States, and only slightly below those to the European Union (EU)—Africa’s traditional trading partners; in fact, the EU’s share of African exports has halved over the 2000–2005 period.<sup>3</sup> Asia’s exports to Africa also are growing very rapidly—at about 18 percent per annum—higher than those to any other region.<sup>4</sup> At the same time, although the volume of foreign direct investment (FDI) between Africa and Asia is more modest than that of trade—and Sub-Saharan Africa accounts only 1.8 percent of global FDI inflows<sup>5</sup>—African-Asian FDI is growing at a tremendous rate. This is especially true of Asian foreign direct investment in Africa.<sup>6</sup>

The two emerging economic “giants” of Asia’s developing countries, China and India, are at the center of this explosion of African-Asian trade and investment. Both nations have centuries-long histories of international commerce, dating back to at least the days of the Silk Road, where merchants plied goods traversing continents, reaching the most challenging and relatively untouched markets of the day. In contemporary times, Chinese trade and investment with Africa actually dates back several decades, with most of the early investments made in infrastructure sectors, such as railways, at the start of Africa’s postcolonial era. India, too, has a long history of trade and investment with modern-day Africa, particularly in East Africa, where there are significant expatriate Indian communities. However, the scale and pace of China and India’s current trade and investment flows with Africa are wholly unprecedented.

China and India each have rapidly modernizing industries and burgeoning middle classes with rising incomes and purchasing power. The result is growing demand not only for natural resource-extractive commodities, agricultural goods such as cotton, and other traditional African exports, but also more diversified, nontraditional exports, such as light manufactured products, household consumer goods, processed food, and tourism. By virtue of its labor-intensive capacity, Africa has the potential to export these nontraditional goods and services competitively to the average Chinese and Indian consumer and firm.

With regard to investment, much of the accumulated stock of Chinese and Indian FDI in Africa is concentrated in extractive sectors, such as oil and mining. While this has been grabbing most of the media headlines, greater diversification of these countries' FDI flows to Africa has in fact been occurring more recently. Significant Chinese and Indian investments on the African continent have been made in apparel, food processing, retail ventures, fisheries, commercial real estate and transport construction, tourism, power plants, and telecommunications, among other sectors. Moreover, some of these investments are propelling African trade into cutting-edge multinational corporate networks, which are increasingly altering the "international division of labor." China and India are pursuing commercial strategies with Africa that are about far more than resources.

Despite the immense growth in trade and investment between the two regions, there are significant asymmetries. While Asia accounts for one-quarter of Africa's global exports, this trade represents only about 1.6 percent of the exports shipped to Asia from all sources worldwide. By the same token, FDI in Asia by African firms is extremely small, both in absolute and relative terms. At the same time, the rise of internationally competitive Chinese and Indian businesses has displaced domestic sales as well as exports by African producers, whether through investments by Chinese and Indian entrepreneurs on the Sub-Saharan continent or through exports from their home markets.

Nevertheless, these two prodigious countries' "newfound" interest in substantial international commerce with Africa—home to 300 million of the globe's poorest people and the world's most formidable development challenge—presents a significant, and in modern times, rare, opportunity for growth, job creation, and the reduction of poverty on the Sub-Saharan continent.

Against this backdrop, there is intense interest by policymakers and businesses—in both Africa and Asia—as well as by international development

partners, to better understand the evolution and the developmental, commercial, and policy implications of African-Asian trade and investment relations. This interest is reflected, perhaps most notably, in the South-South discussions held during the African-Asian summit in Jakarta in April 2005 celebrating the fiftieth anniversary of the Bandung Declaration, where the dramatic rise in international commerce between the two regions figured prominently, as well as at the July 2005 G8 summit in Gleneagles, where the leaders of the North underscored the growing importance of South-South trade and investment flows, especially as they pertain to the prospects for fostering growth and poverty reduction in Africa.

Yet despite the sizeable—and rapidly escalating—attention devoted to this topic, especially by some of the world’s most senior officials, there is, surprisingly, a paucity of systematic data available on these issues to carry out rigorous analysis, and from which inferences of a similar caliber could be drawn to meet the interest and provide the desired understanding. The vast majority of accessible information is based on anecdotes or piecemeal datasets, which make a well-informed assessment difficult to generate. This study helps fill these gaps.

## SCOPE AND METHODOLOGY OF THE STUDY

As the global marketplace continues to be increasingly integrated, with rapidly changing notions of comparative advantage, much is at stake for the economic welfare of hundreds of millions of people in Sub-Saharan Africa. With this newest phase in the evolution of world trade and investment flows taking root—the increasing emergence of South-South international commerce, with China and India poised to take the lead—Africans cannot afford to be left behind, especially if growth-enhancing opportunities for trade and investment with the North continue to be as limited as they have been. Nor can the rest of the world, including Africa’s international development partners, afford to allow Africans to be unable to genuinely participate—and most importantly, benefit from—the new patterns of international commerce.

### Scope of the study

Addressing these challenges raises several questions that this study seeks to answer:

- *What* has been the recent evolution of the pattern and performance of trade and investment flows between Africa and Asia, especially China

and India, and *which* factors are likely to significantly condition those flows in the future?

- *What* have been the most important impacts on Africa of its trade and investment relations with China and India, and *what* actions can be taken to help shape these impacts to enhance Africa's economic development prospects?

In focusing on these questions the study examines four categories of key factors that are likely to significantly affect trade and investment between Africa and Asia:

- *"At-the-border" trade and investment policies*, including policies affecting market access (tariffs and non-tariff barriers (NTBs)); FDI policy regimes; and bilateral, regional, and multilateral trade agreements;
- *"Behind-the-border" (domestic) market conditions*, including the nature of the business environment; competitiveness of market structures; quality of market institutions; and supply constraints, such as poor infrastructure and underdeveloped human capital and skills;
- *"Between-the-border" factors*, including the development of cross-border trade-facilitating logistical and transport regimes; quantity and quality of information about overseas market opportunities, including through expatriates and the ethnic diasporas; impacts of technical standards; and the role of migration;
- *Complementarities between investment and trade*, including the extent to which investment and trade flows leverage one another; the effects of such complementarities on scale of production and ability of firms to integrate across markets; participation in global production networks and value chains; and spillover effects of transfers of technology.

The first set of factors typically has been presumed to be dominant in affecting trade and investment relations between Africa and Asia. This study posits that the effects of formal trade and investment policies are likely to be of equal, if not secondary, importance compared to the latter three sets of factors. Thus, it is hypothesized that behind-the-border and between-the-border conditions, as well as the interactions between investment and trade flows, are the major elements that influence the extent, nature, and effects of Africa's

international commerce with China and India, and therefore these are the areas where the priority for policy reforms likely should be placed.

The assessment undertaken in this study is largely economic in nature. In this regard, the analysis focuses on political economy, governance, and institutional issues insofar as they directly have economic implications. Important as those issues are, however, the intention here is not to focus on them per se; they are topics deserving of separate, dedicated study.

Moreover, the study's prism is largely on the impacts on Africa of China and India's trade and investment flows with that continent, rather than the reverse. To be sure, the analysis does cover lessons that can be drawn from Asia's economic success stories that might be applicable for Africa. But a focus on the implications of African-Asian trade for China and India is beyond the scope of the study.

Finally, Sub-Saharan Africa is not a country: it is a very heterogeneous continent comprised of 47 nations with great variations in physical, economic, political, and social dimensions. The bulk of the analysis focuses on those African countries for which new data have been collected specifically for this study, or for which there are systematic data from which economically meaningful analysis, including cross-country comparisons, can be made. The countries that are the subject of the analysis were chosen to be somewhat representative of the continent, but there is no pretense that the study's findings are necessarily applicable to all African countries.

### **Methodology**

To overcome the deficit in the quality and coverage of currently available data, the study makes use of a new database assembled in 2006 for this analysis. Specifically, micro data from a new firm-level quantitative survey and from an original set of individual qualitative business case studies are utilized. These are supplemented by official government statistics at the aggregate level, along with existing firm-level data from Investment Climate Assessments (ICAs). Annex 1.1 describes in detail the databases utilized. Information from qualitative Diagnostic Trade Integration Studies (DTISs) on 26 African countries carried out under the Integrated Framework (IF) for Trade-Related Technical Assistance was also utilized; see annex 1.2 for a description of DTISs.

Briefly, the new firm-level survey covers just under 450 businesses operating in Africa having varying degrees of involvement with Chinese and/or Indian investors, of different sizes and ownership forms, and located among four

countries: Ghana, Senegal, South Africa, and Tanzania. The surveys were carried out on a confidential basis; that is, all individual firms' identities have been blinded and they are not revealed in the analysis. The new business case studies were developed in the field, again, on a confidential basis, of 16 firms located in the same four countries.<sup>7</sup> As in the surveyed firms, the firms on which the business case studies were developed have varying degrees of involvement with Chinese and/or Indian investors, as well as differences in size and ownership form.

The firms covered by the survey and the business case studies are drawn from a consistent set of a variety of sectors in each country, except for the petroleum and petroleum-related sector.<sup>8</sup> Any such firms were excluded in light of the disproportionately large scale of investment required in the sector, which would engender a significant bias to the data analysis; at the same time, while there is much more known—and understood—about what is driving Chinese and Indian investment and trade in the African petroleum sector, the determinants and effects of these countries' commercial involvement in other sectors is much less appreciated.

## STRUCTURE OF THE STUDY

The core of the study is comprised of chapters 2-6. The following pages summarize the focus of each of these chapters' analysis.

### **Chapter 2: Performance and Patterns of African-Asian Trade and Investment Flows**

Chapter 2 systematically documents and assesses regional and national patterns of trade and investment flows between Africa and Asia, with a focus on the roles of China and India. The analysis covers not only historical trends, but also emerging patterns and the contours they will likely take in the medium run. The chapter also quantitatively examines the main determinants of country-level, bilateral African-Asian trade performance. In general, African trade and investment flows with the EU and United States—the continent's traditional trading partners—are included as comparator cases in the chapter's analysis.

The descriptive analysis focuses on flows of merchandise trade and investment, and, where possible, trade and investment in services. Trade flows are examined according to geography (in terms of origin and destination markets), sector composition, extent of product diversification, and level of processing. Sectoral and geographic concentration are measured using the

Herfindahl-Hirschman Index. For foreign direct investment flows, bilateral data are more scarce with regard to origin and destination markets (“home” and “host” countries, respectively), as well as on sectoral composition; as a result, in general, the focus is on FDI flows in the aggregate. There are cases, however, where China has more detailed FDI data and thus these receive more in-depth analysis.

A set of gravity models based on bilateral trade flows is estimated to investigate quantitatively the factors that seem to best explain observed differences in the patterns of trade between Africa and Asia. The analysis focuses on the comparative roles in country-by-country trade performance of “at-the-border” formal trade policies, elements of the “behind-the-border” business environment and related institutions, and the extent of “between-the-borders” trade facilitation and logistics constraints. The gravity models are then extended to consider the nature of any linkages that may exist between trade and inward FDI.

To set the stage for subsequent chapters, chapter 2 concludes by positing which elements are likely to enhance African-Asian trade and investment flows and help such flows leverage growth in Africa.

### **Chapter 3: Challenges “At-the-Border”: Africa and Asia’s Trade and Investment Policies**

This chapter assesses the role that “at-the-border” policy regimes play in affecting the extent and nature of trade and investment flows between Africa and Asia, especially China and India. The analysis focuses on market access conditions, including tariffs and non-tariff barriers; export and investment incentives offered by governments; and bilateral, regional, and multilateral agreements. If Africa is to take full advantage of trade and investment opportunities with Asia, reforms of such policies—by all parties—will be important. There are also valuable lessons that Africa can learn from Asia’s experience in trade and investment policies over the past several decades.

The analysis begins with an examination of trade policy regimes in Africa and Asia. An assessment of tariffs that African exporters face in China and India, and that Asian exporters face in Africa, is carried out at both the regional and country levels, as well as on a product-specific basis. The incidence of non-tariff barriers (NTBs) in African-Asian trade is also examined. Finally, the role of various export incentive regimes operating in the two regions is assessed.

The discussion then turns to an examination of policy instruments used to influence foreign direct investment in Africa as well as in China and India. Various incentive schemes are appraised, as are the use of Investment Promotion Agencies and public-private fora whose objectives are to facilitate FDI flows.

An appraisal of various trade and investment agreements and treaties involving African and Asian countries is then made. The analysis focuses on the impacts of existing bilateral, regional, and multilateral arrangements and discusses new arrangements being contemplated.

The chapter ends by drawing conclusions and discussing policy implications.

#### **Chapter 4: “Behind-the-Border” Constraints on African-Asian Trade and Investment Flows**

This chapter explores how “behind-the-border” conditions in Africa affect the continent’s trade and investment flows with Asia, especially China and India. Unlike chapters 2 and 3, where country-level (or sector-level) data were used, in this chapter, as well as in chapters 5 and 6, the analysis is largely based on firm-level data from the new World Bank Africa-Asia Trade and Investment Survey (WBAATI Survey) and Business Case Studies, as well as existing Investment Climate Assessments (ICAs) and Doing Business data of the World Bank Group. As such, the primary units of analysis are firms operating in Africa, whether of African, Chinese, or Indian origin (firms of other nationalities are also included as comparators). In addition, the examination focuses primarily on four Sub-Saharan African countries that have significant trade and investment ties with China and India and that were covered by the WBAATI Survey and Business Case Studies: Ghana, Senegal, South Africa, and Tanzania.

The basic diagnostics of behind-the-border conditions are first evaluated through the performance of the surveyed firms—in terms of productivity and export performance. These characteristics are compared across sectors, nationality, size, and ownership structure (domestic, joint venture, and foreign-owned).

An assessment of the sources of competition in these African markets is then conducted, first at the country level and then by differentiating among nationalities, with a particular focus on Chinese and Indian firms operating in Africa. At the country level, the assessment looks at various mechanisms through which competition is spurred or constrained. These include foreign import competition, market entry and exit, foreign direct investment, vertical dimensions



of competition, and transactions with the state. At the nationality level, the chapter discusses whether Chinese and Indian investors play any significant role in fostering domestic competition in African markets or in fostering international integration of Africa's private sector.

In light of the importance that domestic competition appears to play in leveraging the beneficial effects of Chinese and Indian trade and investment in these African markets, the analysis examines the principal behind-the-border factors that are most likely constraining such competition. The discussion focuses on: (i) quality of infrastructure services (power supply, telephone services, and Internet access); (ii) factor markets (access to finance, labor market, and skilled labor); (iii) regulatory regimes; and (iv) governance disciplines. The chapter closes with conclusions and a discussion of policy implications.

### **Chapter 5: “Between-the-Border” Factors in African-Asian Trade and Investment**

This chapter assesses the nature and extent of “between-the-border” barriers to African-Asian trade and investment. It also analyzes a variety of ways that the transactions costs of international trade and investment can be reduced.

The discussion first focuses on the fact that foreign market information on potential demand and investment opportunities is essential in facilitating trade and investment between Africa and Asia. Four mechanisms to reduce asymmetric information are discussed: (i) the role of institutional providers of export market information, such as export promotion agencies; (ii) the role of institutional providers of foreign investment information, such as investment promotion agencies; (iii) the role of technical standards in bridging information gaps; and (iv) the role of ethnic networks and the diaspora in facilitating information flows.

The analysis also discusses how flows of technology and people between Africa and Asia facilitate the formation of business links, which then lead to trade and foreign direct investment flows. An emerging agenda for African firms is how to effectively capture opportunities for the acquisition of advances in technology and skills through participating in the international production networks, as discussed in the next chapter.

The analysis concludes with a discussion of the policy implications from the analysis concerning the alleviation of between-the-border constraints.

## **Chapter 6: Investment-Trade Linkages: Scale, Integration, and Production Networks**

This chapter is premised on the fact that the increasing globalization of the world economy and the fragmentation of production processes have changed the economic landscape facing the nations, industries, and individual firms in Sub-Saharan Africa, as they have in China and India—indeed, throughout much of the rest of the world. Firms engaging in trade of intermediate goods (or services) through FDI have been key agents in this transformation. Exploiting the complementarities between FDI and trade, they have created international production and distribution networks spanning the globe and actively interacting with each other. The result has been the rapid growth of *intraindustry* trade—“network trade”—relative to the more traditional *interindustry* trade of final goods and services.

The chapter assesses the extent to which African countries are involved in network trade centered around or linked to large foreign investors, especially those from China and India. Using new firm-level data from both the World Bank Africa-Asia Trade Investment (WBAATI) survey and the World Bank’s newly developed Business Case Studies of Chinese and Indian firms in Africa, the analysis details empirically the ways in which firms operating in Africa link investment and trade activities and the implications of these linkages. The assessment focuses on the economic effects of the scale of business operations (e.g., economies of scale), vertical integration, and horizontal integration across the African continent (regional integration). The analysis also examines where opportunities for network trade might exist in Sub-Saharan Africa by assessing the characteristics of select country-level industry value chains and comparing their performance with that of direct international competitors.

In addition, and equally important from the perspective of furthering economic development and growth *within* Africa, the chapter examines how the linkages between FDI and trade among Chinese and Indian firms involved in Africa create the possibility for positive “spillovers” on the continent—through the attraction of investment for infrastructure and related services development and through the transfer of advances in technology and managerial skills, which are often the intangible assets that accompany FDI.

If the African continent is to effectively take advantage of the opportunities afforded by the already sizable and growing commercial interest in Africa of China, India, and other economies, it will have to successfully leverage this newfound interest and be a more proactive player in global network trade. This calls for African leaders to pursue certain policy reforms. To this end, the last section of the chapter discusses such policy implications.

## REFERENCES

- IMF (International Monetary Fund). 2005. *Direction of Trade Statistics Yearbook*. Washington, DC: International Monetary Fund.
- . 2006. *Balance of Payments Statistics*. Washington, DC: International Monetary Fund.
- Ministry of Foreign Affairs of the People's Republic of China. 2006. "China's Africa Policy."
- Puri, Lakshmi. 2004. *Silent Revolution in South-South Trade*. Geneva: WTO.
- UNCTAD (United Nations Conference on Trade and Development). 2005. *Economic Development in Africa: Rethinking the Role of Foreign Direct Investment*. Geneva: UNCTAD.
- World Bank. 2004. *Patterns of Africa-Asia Trade and Investment: Potentials and Ownership*. Washington, DC: World Bank.

## ANNEX 1.1 DATA SOURCES

To analyze the determinants and consequences of trade and investment patterns between Africa and Asia with an emphasis on China and India, the study relies on data from several sources. First, data from official sources are used. Second, extensive use is made of originally developed qualitative business case studies of firms in four countries in Sub-Saharan Africa where Asian trade and investment activity (involving China and India) is relatively significant—Ghana, Senegal, South Africa, and Tanzania. Third, data are analyzed from a new firm-level quantitative survey—the World Bank Africa-Asia Trade and Investment (WBAATI) Survey. Finally, data from existing World Bank firm-level Investment Climate Surveys are also utilized in the analysis.

### **Official Statistics**

The bilateral trade and FDI data employed in the study, used in the descriptive analysis of the current patterns of trade and investment flows, are drawn from UN COMTRADE and official government sources such as the Ministry of Finance. The gravity model regressions evaluating the impact of formal trade, constraints between the borders, and behind-the-border policies are also collected using UN COMTRADE. For data related to trade in commercial services, IMF balance of payments statistics are used. In order to analyze the extent to which tariff and non-tariff barriers in Asian countries affect African export performance in Asian markets and vice versa, the UN TRAINS database is used.

Analysis of trade and investment ties between China and India, and Africa, based solely on official statistics could not adequately put forward recommendations that could be implemented to strengthen Asian-African trade and investment flows so as to enhance Africa's economic development prospects. To minimize the risk of being superfluous and single-sighted, the study employs two additional instruments for information: a set of original enterprise-level case studies and the firm-level WBAATI Survey. Both instruments cover the four countries of focus in Africa.

### **Firm-Level World Bank Developed Business Case Studies**

Sixteen original in-depth business case studies (BCSs)—four enterprises in each of four countries (Ghana, Senegal, South Africa, and Tanzania)—were developed based on extensive field interviews conducted by World Bank headquarters staff in May 2006. In order to achieve intra- and intercountry

comparisons, the selection of the businesses was systematically based on a set of specific criteria such as firm size, sectoral representation, direction of trade, and enterprise ownership structure.

Half of the firms interviewed are domestically owned; the other half are either fully or partially Chinese and Indian invested. Firms were selected from sectors that not only had relative economic importance in Sub-Saharan Africa, but that also allowed for diversity of firms in each country with common characteristics across the countries. The business case studies were conducted in the agro-industry, textiles, construction, and general manufacturing industries.

Table 1A.1 summarizes the sectors and characteristics of the BCSs developed in the four countries.

**Table 1A.1 Firm-Level Business Case Studies  
(number of interviewed firms)**

Sectors	Origin of Main Owner			Size			Main Markets		
	Domestic	Chinese	Indian	Small	Medium	Large	Foreign	Domestic	Both
Agro-industry	1	1	2	1		3	1	2	1
Textiles	3			1	2			1	2
Construction	2	2			1	3		2	2
Manufacturing	1	1	2	1	2	1		1	3

*Note:* Sixteen companies were interviewed in May 2006 in Ghana, Senegal, South Africa, and Tanzania. By agreement, the specific identities of the firms are confidential.

### **New Firm-Level World Bank Quantitative Survey (WBATTI Survey)**

In addition to the qualitative business case studies, the methodological approach of the study includes the use of data from a new firm-level quantitative survey instrument developed by the World Bank. The WBAATI Survey was conducted in the spring/summer of 2006 in the same group of African countries as those used for development of the business case studies. The survey covered 447 firms, including firms that have actual trade and investment ties with China and/or India. The new survey instrument comprises quantitative questions somewhat similar to some of those in the World Bank's Investment Climate Surveys (see below), but focuses in much greater detail on certain topics, especially the extent and nature of competition, network trade, specific attributes of FDI, and ethnicity.

The surveyed enterprises were drawn from *manufacturing* sectors, such as minerals and metals, agriculture, textiles, and chemicals; in addition, firms from the construction and other *services* sectors were also included. Importantly,

the minerals sector *excluded firms in oil-related activities* due to the dominant share that oil holds in Africa's exports and in order to avoid the biased effects such firms' inclusion would have had on the analysis. The surveyed companies differ also in terms of age and ownership; the majority of the surveyed firms are small and medium sized, with more than 30 percent foreign ownership representation. Among the respondent firms, there are representatives of state-owned, privatized, and startup firms, and also joint ventures. All of the firms surveyed were located either in the capital cities or the largest business cities of each country. Tables 1A.2 and 1A.3 summarize the sectors and characteristics of the firms included in the WBAATI Survey.

### **World Bank Investment Climate Surveys**

Data from a survey instrument developed by the World Bank, the Investment Climate Surveys,<sup>9</sup> covering close to 3,700 firms in 14 Sub-Saharan African countries, were used to complement the survey described above. The Investment Climate Surveys are useful in capturing the magnitude of the institutional barriers faced by enterprises, and thus in providing a quantitative assessment of the overall business environment. These surveys were conducted over the three-year period covering 2001–2004. The firms that took part in the Investment Climate Surveys operate in industrial sectors such as mining, construction, or manufacturing, or are active in services such as transportation, trade, real estate and business services, tourism, or other. In terms of size, the creators of the survey instrument designed the sample frame relying on respondent quotas such that there is an overrepresentation of smaller firms in all of the surveyed countries.

**Table 1A.2 Firms' Characteristics in WBAATI Survey  
(number of interviewed firms)**

<b>Survey Sample Structure</b>	<b>Ghana</b>	<b>Senegal</b>	<b>South Africa</b>	<b>Tanzania</b>
<b>Sector</b>				
Agriculture and food	15	17	7	18
Chemicals	11	7	5	7
Machinery	9	4	11	11
Non-oil minerals and metals	17	2	6	9
Non-durables	10	5	9	21
Textiles	13	23	9	9
Construction	9	12	16	19
Nonconstruction Services	16	37	37	33
<b>Size</b>				
Micro (1–10)	18	20	13	10
Small (11–50)	38	51	19	41
Medium (51–100)	15	19	7	21
Large (101–200)	15	9	9	18
Very large (200+)	14	11	52	37
<b>Ownership Structure</b>				
State-owned	1	0	5	3
Domestic	47	69	49	67
Foreign	48	28	24	53
Joint venture	4	13	22	4
<b>Vintage</b>				
Oldest	1931	1931	1887	1947
Youngest	2005	2004	2006	2005
Average age	1990	1987	1971	1989
Median age	1997	1992	1987	1995
<b>Number of Firms with Chinese Links</b>				
Chinese nationality of principal shareholder	14	4	7	2
Chinese ethnic origin of principal shareholder	14	4	8	2
Parent company headquarters in China*	4	0	4	0
Exporting to China	1	7	8	7
Importing from China	35	24	25	26
<b>Number of Firms with Indian Links</b>				
Indian nationality of principal shareholder	23	1	5	12
Indian ethnic origin of principal shareholder	24	1	12	55
Parent company headquarters in India*	7	0	5	4
Exporting to India	1	7	7	8
Importing from India	22	22	14	44

Source: World Bank 2006.

\* Applies only if a firm is part of group enterprise or holding.

**Table 1A.3 Sectoral Distribution of Surveyed Firms, by Nationality**

	<b>African</b>	<b>Chinese</b>	<b>Indian</b>	<b>European</b>
Agriculture and food	14%	7%	7%	17%
Chemicals	7%	4%	17%	0%
Construction	15%	4%	5%	11%
Machinery	7%	11%	0%	13%
Non-oil minerals and metals	7%	11%	24%	2%
Non-durables	10%	7%	12%	13%
Nonconstruction Services	24%	41%	29%	36%
Textiles	15%	15%	5%	9%

*Source:* World Bank 2006.



## ANNEX 1.2

### DIAGNOSTIC TRADE INTEGRATION STUDIES (DTISS)

International donors have increased their efforts in providing trade-related technical cooperation to least developed countries (LDCs) under the auspices of the Integrated Framework (IF) for Trade-Related Technical Assistance to LDCs. The IF is supported by six multilateral institutions—the International Monetary Fund, International Trade Centre, United Nations Conference on Trade and Development, United Nations Development Programme, World Bank, and World Trade Organization.

The IF has two objectives: (1) to “mainstream” (integrate) trade into national development plans, such as the Poverty Reduction Strategy Papers, of LDCs, and (2) to assist in the coordinated delivery of trade-related technical assistance in response to needs identified by LDCs. IF implementation comprises three broad stages:

- *Preparatory activities*, which typically include an official request from the country to participate in the IF process; a technical review of the request; establishment of a national IF steering committee; and, to the extent possible, identification of a lead donor
- *Diagnostic phase*, which results in the elaboration of a diagnostic trade integration study (DTI)
- *Follow-up activities*, which begin with the translation of the diagnostics findings into an action plan to serve as the basis for trade-related technical assistance delivery.

To date, DTISs have been completed on 26 Sub-Saharan African countries: Angola, Benin, Burkina Faso, Burundi, Comoros, Central African Republic, Chad, Eritrea, Ethiopia, Gambia, Guinea, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome and Principe, Sierra Leone, Senegal, Sudan, Tanzania, Uganda, and Zambia. Based on the findings of the DTISs, an action matrix is developed in consultation with all stakeholders.

## ENDNOTES

1. UNCTAD has estimated that South-South trade accounts for about 11 percent of global trade and that 43 percent of the South's trade is with other developing countries. It also has estimated that South-South trade is growing about 10 percent per year. See Puri Lakshmi, "A Silent Revolution in South-South Trade," WTO (2004). [http://www.wto.org/english/tratop\\_e/dda\\_e/symp04\\_paper7\\_e.doc](http://www.wto.org/english/tratop_e/dda_e/symp04_paper7_e.doc)
2. Throughout this study, "Africa" refers to the countries of Sub-Saharan Africa.
3. Between 2000 and 2005, the share of Africa's exports destined for the EU was reduced by almost one-half—from 50 percent to 27 percent. Data for 2000 are from World Bank (2004). Data for 2005 are from IMF Direction of Trade Statistics ("IMF DOT"); for details see chapter 2.
4. IMF DOT.
5. UNCTAD (2006).
6. "Economic Development in Africa," UNCTAD (2005).
7. There is no known overlap between the quantitatively surveyed firms and those firms on which the qualitative business case studies were developed.
8. See annex 1.1 for a description of the sectors covered.
9. Such surveys conducted prior to 2006 were known as Investment Climate Surveys; surveys conducted since 2006 are now called Enterprise Analysis Surveys.