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Paper's Title:
China's Ambiguous Impact on Commodity-Dependent Countries: the Example of Zambia

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Abstract:
The spectacular growth of China has induced major changes for developing countries, in particular low-income Sub-Saharan African economies. Firstly, most of these economies heavily depend on primary commodities for their exports, and China's demand for these commodities, especially oil and metals, has contributed to a long cycle of increase in commodity prices (the 'supercycle' of the 2000s) - but also to increased price volatility. Secondly, China has become a significant trade partner of Sub-Saharan African economies – often offering preferential trading concessions. Thirdly, China has also invested significantly in Sub-Saharan economies not only via its multinationals, but also via a great number of locally based medium-size enterprises. A theoretical question is therefore whether these changes may generate structural transformation and trigger sustained growth paths in Sub-Saharan countries.
The paper shows that the transmission channels of China's impact on growth prospects in Sub-Saharan African economies are multiple, both direct and indirect, and underscores the ambivalence of these impacts. The ambiguous Chinese impact on global trade and price dynamics is firstly presented as the broad context for an exposition of the ambiguous impact of China' trade and investment at the local level:
i) Sustained high commodity prices have the potential to improve fiscal space, creating opportunities to catalyse diversification, industrialisation and structural transformation. Moreover, Chinese investments occur not only in the commodity sectors but also in

industrial sectors and infrastructure, which are likely to have a positive impact on growth and fiscal balances - as infrastructure is a key determinant of growth.
i) However, higher and more volatile commodity prices, driven substantially by China, can result in negative effects (e.g., Dutch disease) in the context of weak institutions. Furthermore, China's demand may lock African economies into their century-old pattern of dependence on the export of primary commodities. Chinese imports from Sub-Saharan Africa are mostly commodities, whilst its exports to Africa – and indeed, the World – are manufactures. To African commodity producing countries, this represents colossal competition in a route out of traditional export structures. So through its demand and its competition, China potentially reinforces existing market and export structures. In addition, large Chinese investments (especially in infrastructures) may also have lock-in effects, as they are organised by original contracts that exchange investments for commodities (coined as the 'Angola model').
iii) In this context, it is particular commodity and industry factors that affect an individual country's ability to harness opportunities created by high commodity prices: these factors determine bargaining power over the price of resources, which ultimately determines how much of the country's endowments in primary resources is channelled domestically into long term growth. This is demonstrated via the case study of Zambia – an oft cited focal point for Sino-African relations – through a bargaining power framework, which investigates the setting of taxation of multinationals (which control large swathes of commodity export sectors, notably copper): because of the large asymmetry of power between the Zambian government and the incoming investors when the copper sector was privatised, the windfalls of the copper price boom are largely appropriated by foreign multinationals, Western and Chinese, due to attractive taxation and regulatory terms. At this local level too there is ambivalence regarding China's impact, apparent in how bargaining with the main Chinese mining multinationals yielded a different outcome than bargaining with Western multinationals. Chinese multinationals have a poor record in reinvestment of mineral wealth into wages and human capital upgrading. However, they may have facilitated transforming Zambia's mineral wealth into structural growth determinants more than Western multinationals.