The New Global Challenges and Regionalism:

China, India and Africa

Brendan Vickers

Institute for Global Dialogue (IGD)
Email: brendan@igd.org.za

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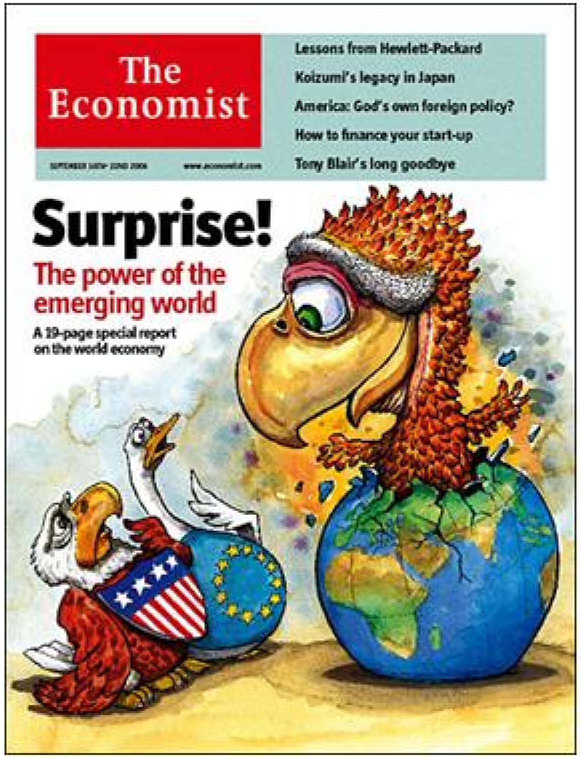
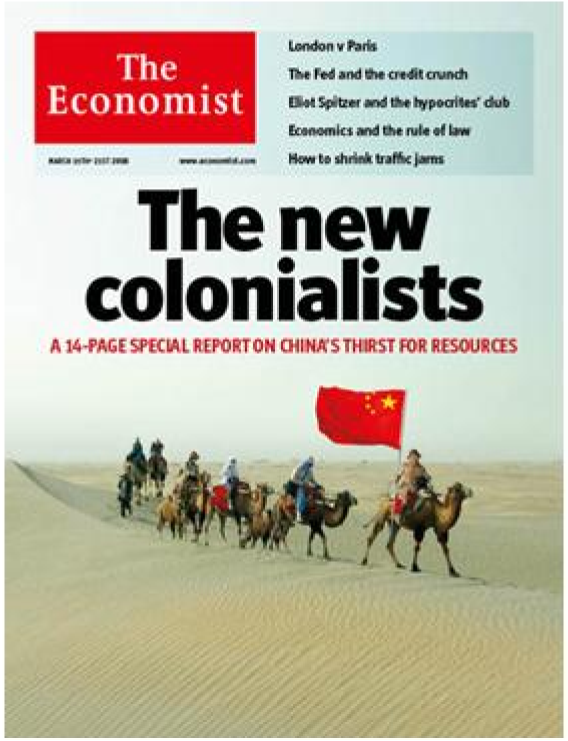

The Economist
Lessons from Hewlett-Packard
Koizumi's legacy in Japan
America: God's own foreign policy?
How to finance your start-up
Tony Blair's long goodbye
Surprise!
The power of the emerging world
A 19-page special report on the world economy


The Economist
London v Paris
The Fed and the credit crunch
Eliot Spitzer and the hypocrites' club
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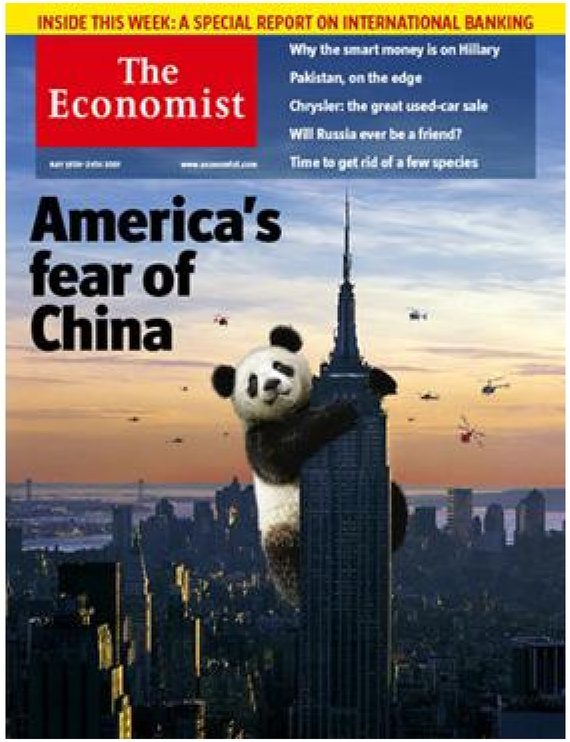
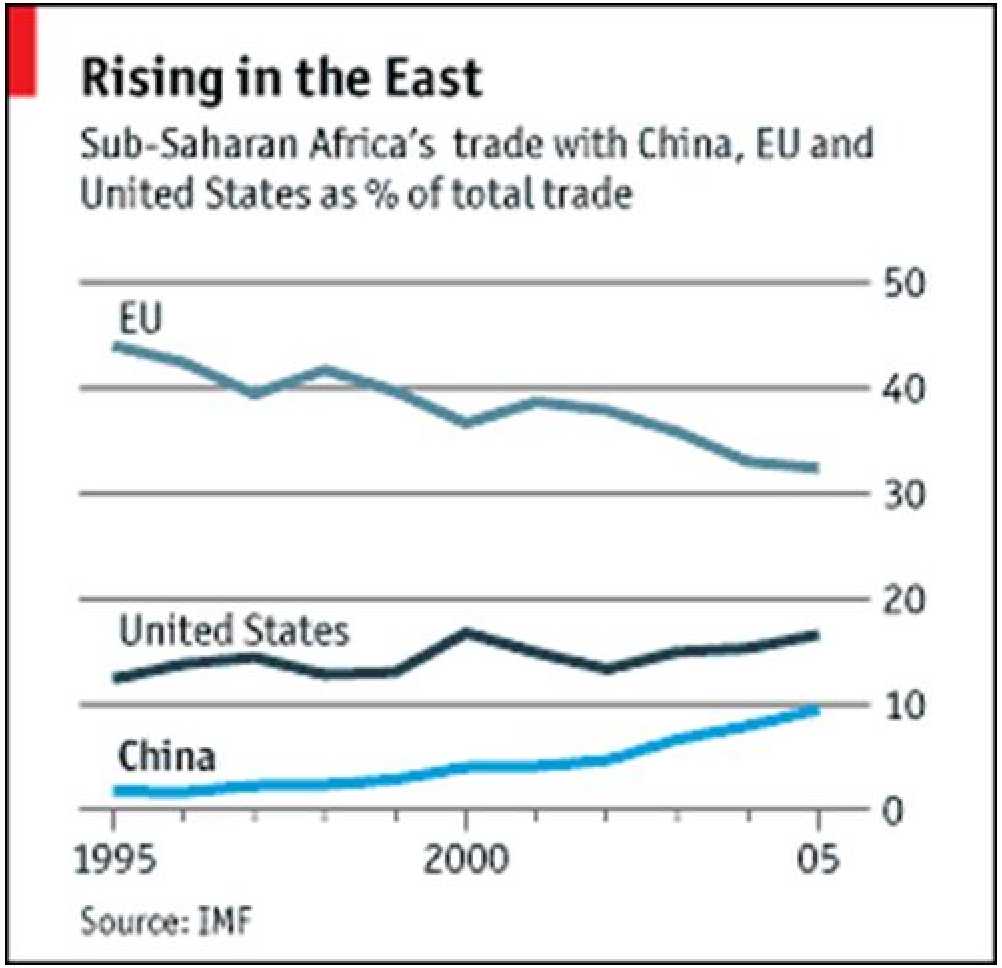
How to shrink traffic jams
The new colonialists
A 14-PAGE SPECIAL REPORT ON CHINA'S THIRST FOR RESOURCES


INSIDE THIS WEEK: A SPECIAL REPORT ON INTERNATIONAL BANKING
The Economist
Why the smart money is on Hillary
Pakistan, on the edge
Chrysler: the great used-car sale
Will Russia ever be a friend?
Time to get rid of a few species
America's fear of China

- Conceptual, popular primers:
  - Long, rich history that predates maritime forays of Western navigators
  - Guard against moral relativism in dealing with China
  - ‘Chindia’ – 2 rigid, oversimplified schools of thought:
    - Exploitative, extractive and destructive vs.
    - Benign, non-threatening
    - Asian Drivers’ presence is BOTH a challenge and an opportunity
    - They are HERE
    - In-depth sector studies and experiences...
    - Common SADC – even African – approach?

A. AFRICA AND 'ASIAN DRIVERS'

- Economic activity between Africa and Asia is booming:



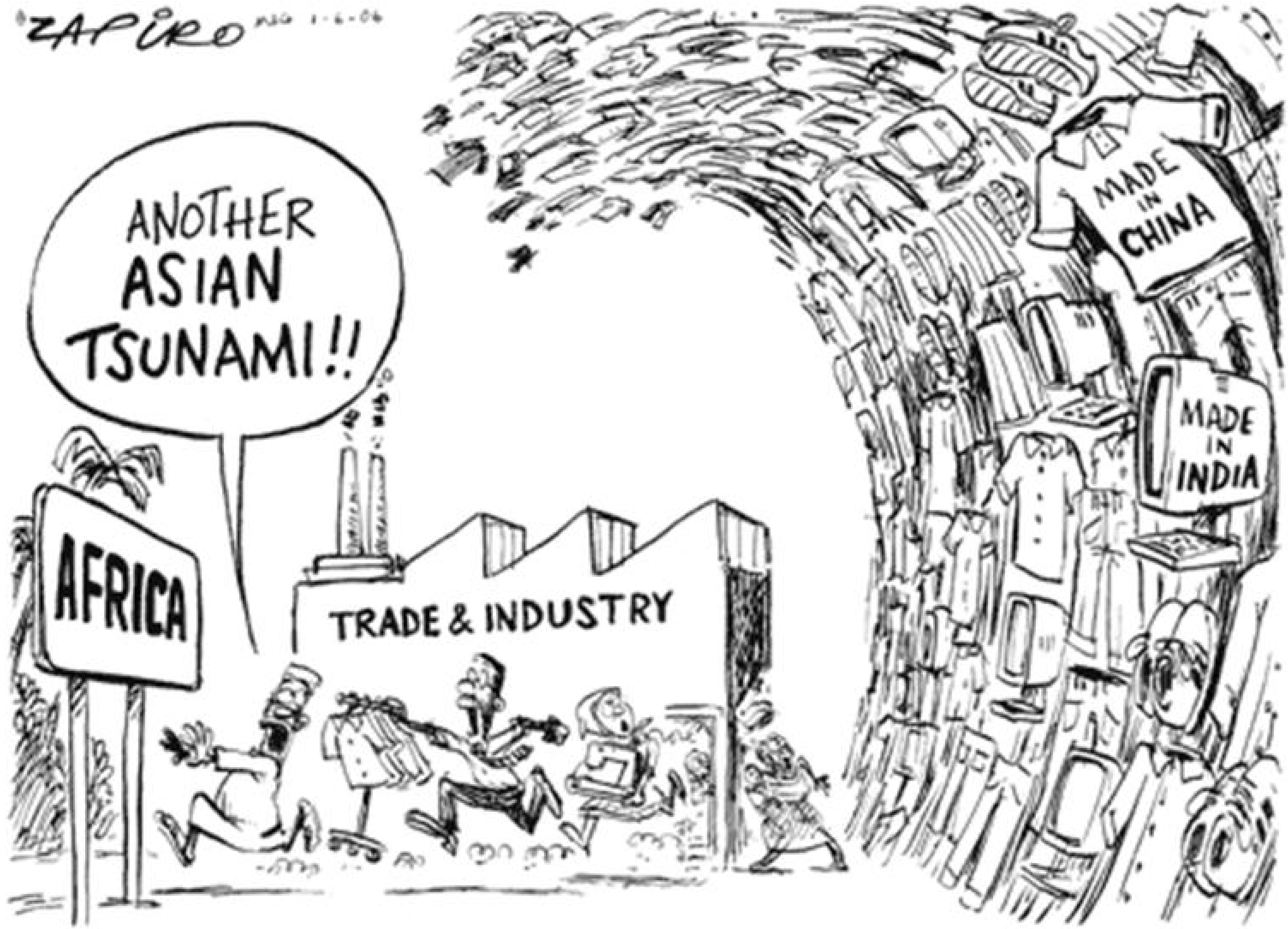
- Impressive scale and pace of trade/investment between SSA, India and China:
  - Exports grew by 15% (1990-1995) – 20% (2000-2005)
  - Imports grew by 13% (1990-1995) – 18% (2000-2005)
  - Africa’s exports to China increased 48% annually (2000-2005)
  - India’s trade with Africa doubled: $5.5 billion (2001) - $12.24 billion (2007)

- Cumulative Chinese, Indian FDI (UNCTAD, 2007):
  - 2002-2005 Indian firms topped greenfields FDI in Africa (48 projects)
  - China: 32 projects
  - India one of 24 non-African members of ADB (Indian firms to bid for $4.6 billion for Bank infrastructural development projects)

- Sectors?
  - Aside from extractive (oil, minerals)…
  - Apparel
  - Agro-processing
  - Financial (ICBC)
  - Power generation
  - Road construction
  - Tourism
  - Telecommunications

- Why ‘Chindia’ boom?
  - Rapidly modernising, expanding industries
  - Growth (inputs)
  - Burgeoning middle classes
  - Rising incomes, purchasing power
  - So, not just fuels, minerals, metals:
    - Africa’s light manufactured products
    - Household consumer goods
    - Semi-processed commodities (cotton, food products)
    - Using back-office services, tourism facilities and telecommunications
  - Different factor endowments (resources, labour, capital)
  - Complementary business partners?

- BUT risks…
  - Direct competition in labour-intensive and low-technology industrial sectors (stepladder for SSA’s industrial growth)
  - Indirect squeezing of SSA’s clothing, textile, furniture and footwear exports in US, EU
  - Few jobs (high capital-intensity)
  - Environment (Merowe dam, timber logging, etc)
  - Migration
  - The Sudan connection
  - Corruption
- AND opportunities…
  - Intermediate capital goods and inputs (bolster manufacturing competitiveness?)


ZAPIRO
ANOTHER ASIAN TSUNAMI!!
AFRICA
TRADE & INDUSTRY
MADE IN CHINA
MADE IN INDIA

B. CHINESE & INDIAN FIRMS

- **Chinese firms:**
  - Medium-sized or large state-owned or state-controlled enterprises (over 800)
  - Enter new African markets by:
    - Building new facilities
    - Vertically-integrated business entities
    - Buy supplies and skills from China, rather than local markets
    - Selling in Africa mostly to government entities
    - Rarely facilitate the integration of their workers into African socioeconomic fabric
    - Lack of trust towards African businesses
    - Backed by Beijing, outbid competitors for local government procurement contracts

- **Indian firms:**
  - Vary by size, privately-owned or mixed private-public ownership
  - Enter new African markets by:
    - Acquiring established businesses
    - Less vertically integrated
    - Prefer to procure locally or from international markets (rather than from Indian suppliers)
    - Engage in far more sales to private African entities
    - Encourage local integration of their workers
    - Indian immigrants substantially more integrated into the African business community

C. CHINA'S COMMERCIAL STRATEGY

- Strategic drivers of China in Africa:
  - Secure predictable supply-chain of oil, key metals (Angola, Sudan, Nigeria)
  - Commodity assets 'at source' (go-out policy)
  - Long-term: establish parallel markets removed from international commodity markets, prices
  - Mining majors (Anglo American, BHP Billiton, Rio Tinto and CVRD) will sell to traditional markets, with new competition from state-owned Chinese firms

- China’s African Policy (2006) :
  - Guiding principles for future cooperation
  - 2006 FOCAC:
    - Double its assistance to African countries by 2009
    - $5 billion concessional loans and credits
    - Development Fund to encourage Chinese investment in Africa ($5 billion)
    - Cancel interest-free debt owed by 33 African countries
    - Open 3-5 trade, economic cooperation zones in Africa by 2009
    - Support for AU/NEPAD

- Public programmes for trade-investment finance:
  - China is leveraging state resources to implement commercial policy toward Africa:
    - Export-Import Bank of China (EXIM)
    - China Development Bank
    - China Investment Corporation ($200 billion capitalisation)
  - Provides export credits, loans, investment guarantees:
    - Aid tied to preferential export agreements, closed tendering processes, specific projects AND ‘One China’ policy
    - EXIM: $6.5 billion (2005) – 260 projects, 36 countries
  - Vertical integration formula of investment, project operation and business conduct in Africa:
    - All inputs (management, project design, labour, material, components and technology) originate in China
    - Little, or no local content

- Special Economic Zones (SEZs) in Africa:
  - SEZs (growth nodes), linked with infrastructure corridors
  - Metals hub:
    - Chambishi, Zambian copper belt region
    - $800 million in investment credit for Chinese firms
    - Anchor investment: $250 million copper smelter for local beneficiation
    - Others: cobalt, diamonds, tin and uranium
  - Trading hub:
    - Mauritius
    - $500 million manufacturing zone (40 Chinese businesses)
    - Market access to COMESA, exports to South Asian market

- Special Economic Zones (SEZs) in Africa:

  - Trans-shipment hub:

    - Trans-shipment of commodities mined in copperbelt (with some local beneficiation in Dar SEZ)
    - Investment and upgrading of Dar-es-Salaam, Benguela port capacities
    - Rehabilitation of the Tanzam, Benguela railway lines
    - Create functioning east-west infrastructure corridor
    - Transport of commodities diverted away from southern Africa
    - Repercussions: Transnet, RSA ports (e.g. Richards Bay)?

  - Nigerian hub?

    - Nigerian port city
    - Resource extraction, plus manufacturing and assembly operation
    - Domestic sales, re-export to West Africa

D. INDIA'S COMMERCIAL STRATEGY

- Summit of India-Africa Forum (8-9 April 2008):
  - Delhi Declaration, India-Africa Framework for Cooperation (education, technology, food security, health)
  - Commitments:
    - Doubling financial credits from $2 billion over past five years to $5.4 billion
    - Investing $500 million in development projects across the continent over the next 5 years
    - Duty-free imports, preferential market access for LDC primary and finished products (including cotton, cocoa, aluminium ores, copper ores, cashew nuts, cane sugar, ready-made garments, fish fillets, gem diamonds)
    - Doubling trade from $25 billion to $50 billion by 2011.
  - Support for NEPAD priority areas

- Public programmes for trade/investment finance:
  - Export-Import Bank of India (EIBI), Confederation of Indian Industries (CII)
  - ‘Focus Africa Programme’: market development assistance; technical cooperation and assistance
  - Extension of credit lines, over $550 million
  - EIBI/CII conclave meetings (signaling)

E. MANAGING 'CHINDIA'

- Africans need to make a greater effort to overcome obstacles related to language, culture and racial bias ('yellow peril' stereotype).
- African countries must insist that donor activity in Africa be harmonised (share data, develop complementary approaches).
- African governments, NGOs should urge China to participate in EITI.
- African governments need to improve their own regulatory frameworks, policies for business, investment, environmental protection and labour relations.
- African ownership of the FOCAC process must be deepened and enhanced (FOCAC secretariat in Africa?)

F. REGIONAL ECONOMICS?

- Southern Africa could possibly..
  - Play donors, investors off against one another
  - Coordinate coherent SADC policy to capture benefits (Angola...)?
  - Flexible WTO-compatible arrangements: Enabling Clause vs. EPA MFN
  - Localisation agreements to guarantee local labour inputs, sourcing of supplies that create local multipliers
  - Regional protection to encourage scale and competition, but beware reintroducing sub-optimal scale plants (Kaplinsky, 2008)
  - Mineral-supply linked to investment in beneficiation
  - Collaboration, services value-chain?
  - NTBs, trade facilitation, customs procedures

Thank you!