The New Global Challenges and Regionalism:
China, India and Africa

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Surprise! The power of the emerging world A 24-page special report on the world economy

The new colonialists A 14-page special report on China’s thirst for resources

America’s fear of China

Lessons from Hewlett-Packard
Kofu’s legacy in Japan
American: Geo’s own foreign policy?
How to finance your start-up
Tony Blair’s long goodbye

London v Paris
The Fed and the credit crunch
Elliot Spitzer and the ‘hypocrites’ club
Economics and the rule of law
How to shrink traffic jams

Why the smart money is on Hillary
Pakistan, on the edge
Chryslers: the great used-car sale
Will Russia ever be a friend?
Time to get rid of a few species
- 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:

![Graph showing rising trade in the East](image-url)
Impressive scale and pace of trade/investment between SSA, India and China:

- 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?)
ANOTHER ASIAN TSUNAMI!!
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!