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BRIDGES AFRICA

Trade and Sustainable Development News and Analysis on Africa

VOLUME 5, ISSUE 7 – SEPTEMBER 2016



Engaging with the emerging economies

EMERGING ECONOMIES

Can emerging economies help foster African integration and development?

CHINA

Implications of China's One Belt, One Road initiative for the continent

INDIA

Exploring India-Africa investment ties



International Centre for Trade
and Sustainable Development

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Engaging with the emerging economies



Over the last decade, the deepening footprint of emerging economies in Africa has been subject to substantial and lively debate, with much attention dedicated to China in particular. As a matter of fact, numbers reflect the Asian giant's growing economic relations with African economies in an impressive way. The share of China in sub-Saharan Africa's total trade has jumped from around 3 percent in the late 1990's to roughly one quarter in recent years, with aid and investment following similarly spectacular upward trends. Despite China continuing to lead the pack today, other emerging partners – such as Brazil, India, Korea, Singapore, or Turkey, among others – are also developing significant aid, trade, and investment ties with the continent.

While some analysts have highlighted the potential of those burgeoning economic relations with emerging countries to support African development, others have shown more cautious, emphasising possible risks for African economies. Today, no matter what view one has on this specific question, examining the opportunities and challenges stemming from emerging economies' growing presence on the continent has become an indispensable part of any serious reflection on African development prospects.

Against this backdrop, many questions are worth exploring to better grasp the dynamics at play and formulate appropriate policy recommendations. What is the exact scope and nature of emerging partners' economic links with Africa? Which of the recent initiatives from these partners should African governments and stakeholders be paying attention to? How could relations with emerging economies be leveraged to support both African regional integration and development?

In the lead article of this issue, Vinay Ancharaz provides a general overview of emerging countries' engagement with the continent. By looking, in turn, at trade, investment, and aid, the article provides recommendations on how Africa could capitalise on those intensifying ties to foster economic diversification and development. This piece is complemented by another contribution by Memory Dube, in which the author examines the potential role that emerging economies could play in order to encourage African regional integration.

This issue also contains three articles which focus on specific emerging countries or regions. While Lauren Johnston's piece investigates the implications of China's One Belt, One Road initiative for Africa, Alioune Ndiaye's article explores the budding investment relations between the continent and India. In the last article, Florencia Rubiolo looks at Southeast Asian emerging economies' recent interest in the continent and the prospects for African development in this rapprochement.

As usual, we welcome your substantive feedback and contributions. Write to us at bridgesafrica@ictsd.ch.

EMERGING ECONOMIES

Leveraging engagement with emerging partners to boost Africa's economic development

Vinaye Ancharaz

The scramble for Africa by emerging economies, and the response by traditional partners, is all to Africa's benefit. How can Africa leverage its growing ties with the South to boost industrial diversification and economic development?

Africa has witnessed a major shift in its development relations since the turn of the century, away from its traditional partners (the EU and the US) and towards emerging economies – a wide range of South partners, including in particular the BRIC economies (Brazil, Russian Federation, India, and China). This eastward shift of the “center of gravity” has spawned a large and growing literature on the emerging economies' engagement with Africa, much of it focusing on China. Following Jenkins and Edwards¹, it has become conventional to analyse Africa's relations with its emerging partners in terms of three vectors of influence, namely trade, investment, and aid.

How deep is Africa's engagement with emerging partners?

Trade

The rise of South-South trade is not a trivial happenstance, considering the speed and intensity with which it occurred, and its potential to permanently alter the dynamics of global trade. Some critics have argued that the increased trade between developing countries is mainly a China story. Indeed, China alone accounted for over 70 percent of the market share gains by developing countries in both industrial and developing countries during the 2000s, and the Asian giant is now Africa's second most important export destination behind the EU. Recent evidence suggests that a 1 percentage-point increase in China's domestic investment is associated with a 0.6 percentage-point increase in export growth from Africa.²

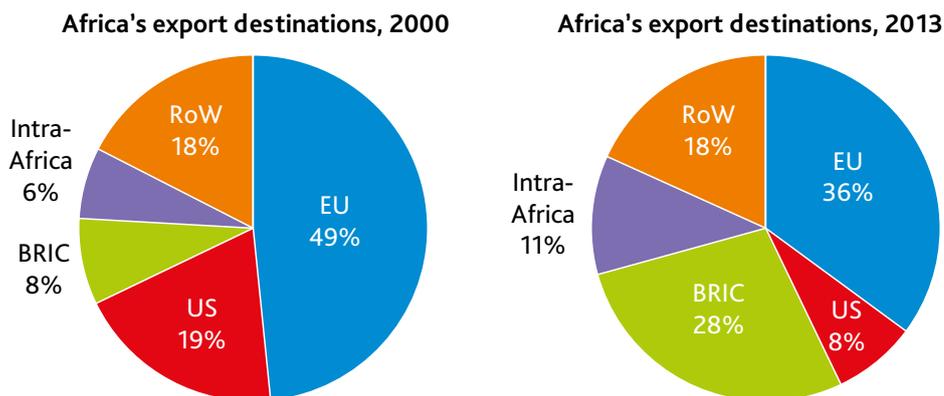
However, several other emerging economies – notably Brazil, India, Korea, Turkey, and the United Arab Emirates – have also become key trade partners for Africa. Developing countries, in the aggregate, accounted for 56 percent of Africa's exports in 2013, up from 51 percent in 2000 (Figure 1). The BRIC group of countries saw the largest increase in export share, from 8 percent to 28 percent, over the period. China alone accounts for two-thirds of Africa's exports to BRIC. India has surpassed the US to become Africa's third largest export destination.

Emerging economies have also become significant suppliers to Africa, with the BRIC group alone accounting for 27 percent of the continent's imports in 2013. China's exports to Africa crossed the US\$100 billion mark in 2014 as a result of steady growth since 2009. India is trailing just behind the US, whose exports to Africa have progressed slowly in recent years. At current trends, the US is likely to cede its third place to India. However, even as the increase in South-South trade continues to squeeze traditional partners' share in Africa, the EU remains by far Africa's dominant trade partner and the recently concluded Economic Partnership Agreements could further strengthen this position in the future.

Investment

Foreign direct investment (FDI) flows to Africa have increased almost six-fold, from USD 9.6 billion in 2000 to USD 54 billion in 2014 (UNCTAD, 2015). Although, in recent years, FDI to the continent seems to have levelled off after bouncing back from a low point in 2010 (Figure 2), greenfield investment has continued to grow, reaching US\$87 billion – at a time of sluggish growth in global FDI flows. Much of the investment is market-oriented, with multinationals seeking to get a bite of Africa's emerging middle class³ in sectors like real estate and communications.

Figure 1: Africa's main export destinations, 2000 and 2013



Source: UN Comtrade

Figure 2: FDI flows to Africa, 2000-2014



Source: UNCTAD FDI/TNC database

A significant share of this FDI is resource-seeking: 38 percent of investment flows in 2014 targeted the coal, oil, and natural gas sector. Concomitantly, announced FDI projects in the manufacturing sector have doubled in value relative to the previous year, with major investments in food and beverages as well as in textiles and clothing. Driven primarily by financial services and construction, the services sector continues to attract the largest FDI flows, accounting for 42.5 percent of greenfield FDI in 2014 and 48 percent of Africa's inward FDI stock in 2012. Unfortunately, business services as well as transport and communications have witnessed sharp declines in new investment in 2014. ⁴

Emerging partners' investment activity in Africa has raised many questions – and some controversy. The questions arise presumably because of a lack of transparency around FDI projects, fueled by China's opaque practices as one of the major investors on the continent. To date, however, poor data and patchy information have impeded research on the developmental impacts of investment.

Arguably, the hype about Chinese investment in Africa is overblown – for several reasons. First, China is far behind the top investors in Africa. While greenfield investment by China shot up to US\$6.1 billion in 2014, placing the country third on the investors league, that was rather exceptional given that FDI the previous year was a mere US\$289 million. A more reliable picture is presented by the FDI stock in Africa, which was estimated at US\$655.3 billion at the end of 2013. China, a late entrant into Africa's investment field, accounted for a mere 7.3 percent of this stock. The BRIC economies' share stood at 17.6 percent, much of it attributed to India's 10 percent stake. Brazil's FDI presence is small, and has grown slowly in recent years, partly due to divestures. The Russian Federation's investment activity is negligible.

Second, there is a perception that Chinese investment in Africa is predominantly concentrated in the oil and mineral sectors. Yet, a 2011 IMF study found that mining projects accounted for a mere 29 percent of Chinese FDI flows. Smaller investment projects, and those that do not require the blessing of Chinese authorities, often go unrecorded. This points to significant investment opportunities outside of the extractive sector. However, recent data suggests that Chinese non-mining investment is particularly sensitive to the country's economic fortunes.

Moreover, critics have often confused aid for infrastructure investment with FDI per se, leading to erroneous analysis and unjustified criticism. This confusion derives from a loose definition of investment, which does not distinguish financing from ownership and control. The distinctive feature of FDI is that it gives the investor a degree of control over the project's management and revenues. China's so-called "investments" in African infrastructure projects, such as roads, railways, and ports, typically do not give the Chinese any ownership of the projects. The Chinese are simply financing these projects, not investing in them.

As we discuss below, Chinese and other emerging economies' investments in Africa can do much to build productive capacity, transfer knowledge to the benefit of indigenous firms, and ultimately boost trade, both internationally and regionally.

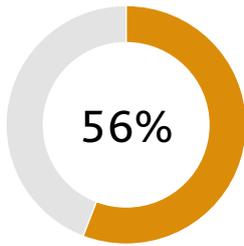
Aid

Aid is the third channel through which emerging partners are engaging with Africa. Aid flows to Africa from the South have increased massively alongside trade and investment. However, since such aid occurs outside of the OECD Development Assistance Committee (DAC) framework, it has proved difficult to measure it accurately. There is also an issue about whether South aid is aid in the conventional sense. While it is usual to refer to it as "aid" in a blanket way, much of the financial assistance provided by the emerging economies to their African partners may not meet the minimum threshold of 25 percent grant element to qualify officially as aid. There is little doubt that technical assistance, capacity building, and scholarships constitute aid as commonly understood; but the same cannot be said of financial aid.

It appears that a significant portion of financial aid flows from emerging economies to Africa is in the form of lines of credit and other non-concessional loans that, strictly speaking, are not aid. Both China and India have provided large amounts of financing in this form. Under the first India-Africa Forum Summit, for example, India offered lines of credit worth US\$7.4 billion to 41 African countries. China has used a range of ingenious alternative financing instruments, including export credits, natural resource-backed loans, and mixed credits (in which concessional and market-rate loans are combined), that have eluded any attempt to measure their aid component.

However, it would be wrong to say that emerging partners' aid activity in Africa has been limited to loans, concessional or not. China's aid, for example, spans across eight types, including technical cooperation, medical assistance, humanitarian aid, and debt relief,⁵ but these are often left in the shadow of bigger financial deals partly because they are difficult to summarise in statistics. Where data is available, the scale of aid is significant. For example, by the end of 2009, China had provided a cumulative total of US\$37.7 billion in aid globally, of which US\$15.6 billion (or 41.4 percent) in the form of grants, US\$11.25 billion as zero-interest loans, and US\$10.8 billion as concessional loans.⁶

In other cases, data is not readily available, but this does not mean that the aid was less significant. At the UN Sustainable Development Summit in September 2015, for example, China's pledge to set up a US\$2 billion fund to assist poor countries in the areas of education, health, and economic development received a great deal of attention. The Chinese premier also vowed to write off an undisclosed amount of debt due to be paid in 2015 by least developed countries (LDCs) and small island economies. This offer of debt relief is of critical importance to a number of debt-saddled poor countries, but the fact that no official amount was announced made it less visible in the media.



In 2013, 56 percent of Africa's exports were directed to developing countries, with 28 percent to the BRIC countries.

A key distinction between traditional and emerging partners' aid to Africa is the direction of the resource flows. Whereas large doses of aid from traditional partners have been directed to the social and productive sectors, aid from emerging economies has specifically targeted infrastructure projects. Given the visibility and importance of such large-scale projects, African politicians have welcomed aid from South partners. This has created the impression that emerging partners' aid is more "effective" than official development assistance (ODA) from developed countries.

A number of critics, especially from the press, have claimed that Africa's engagement with the South is shrouded in opacity and that it might harm good governance on the continent. This is partly due to the fact that Africa's financial deals with emerging economies have not been subject to the same scrutiny as ODA from OECD donors. The lack of conditionality on loans as well as the growing popularity of oil-for-infrastructure deals, notoriously linked to Angola – even though the model is more widespread –, have been additional factors. China has specifically been singled out by traditional partners for its burgeoning relations with resource-rich African countries. Although the evidence does not support this view, China's dominance in Africa will remain in the spotlight for years to come.

Impact on African economic development

Each of the three vectors of influence discussed above can have an important impact on economic development in Africa.

Trade

Africa's trade with the South is skewed towards commodity exports whereas intra-Africa exports show a higher concentration in manufactures. Whether this suggests any pattern or causality is yet to be established. Perhaps it is symptomatic of a pattern of regional specialisation determined by differences in demand. But whatever may be the reason for the underlying correlation, if maintained over time, it can be a boon for industrialisation in Africa: as the continent's trade with the South continues to increase, so also might its regional trade in manufactures.

An important development following the WTO ministerial conference in 2005 has been the offer of trade preferences by some emerging economies to LDCs. India launched its duty-free tariff preference scheme in August 2008, and published a revised scheme in April 2014. The current scheme provides preferential tariffs on 98 percent of Indian tariffs, including a number of products of key export interest to African LDCs. A series of country studies by ICTSD found that the initial scheme had limited impact on African exporters, mainly because of a lack of awareness among exporters and critical product exclusions. The revised scheme and greater initiative on the part of the Indian government to promote the scheme should, in principle, address these flaws.

China also came up with a preferential scheme in 2010, with an initial duty-free treatment on 60 percent of tariff lines, to be extended eventually to 97 percent. At the Asian-African Summit held in April 2015, China announced that the promise of a duty-free quota-free scheme would be fulfilled by the end of the year. Besides China, India, and Korea, no other emerging economy has proposed any meaningful trade preferences to LDCs. The pressure is currently on Brazil to follow the example set by its peers, but its domestic economic woes make this development unlikely any time soon.

Finally, it is often assumed that the imports of capital goods and technology-intensive products from a country can facilitate the transfer of technology from that country to the importing partner and its firms. The evidence suggests that Africa's imports from the emerging economies, notably China and India, have been mainly in manufactured goods, including motor vehicles, machinery, and equipment. To the extent that these products can be sourced at lower cost from the South, African countries can afford to import more of them, leading to greater productive capacity and, ultimately, increased trade.

Investment

Foreign investment can contribute to building a country's productive capacity – both directly and through knowledge spillovers. Where FDI is export-oriented, the impact on exports, employment, and economic growth could be significant, as illustrated by Ethiopia's recent experience.

China's investment abroad is bound to increase as Chinese labour-intensive industries seek cheaper production sites abroad. Already, some African countries – like Ethiopia – are welcoming large spurts of FDI as China carries out the initial phase of its plan of building nine special economic zones in seven countries.⁷ These industrial zones are designed to succeed where Africa's previous attempts have failed. Although the developmental impacts of the zones on the host economies are debatable, if they generated technological spillovers, cultivated backward and forward linkages in the host country or with other regional economies, or boosted regional exports, then the impact on African development could be significant.

Emerging evidence from Africa suggests that South partners' investments in Africa are helping build domestic productive capacity and regional value chains. For example, a Taiwanese textile firm based in Lesotho sources 95 percent of its cotton from southern Africa, and does all of its packaging in the region. Chinese firms in Ethiopia are growing some of their cotton requirements in the country itself.

Indian investments in Africa can be of added benefit to African firms because of India's reputation for transferring state-of-the-art technology and knowhow to host countries. A number of Indian companies – in sectors such as pharmaceuticals, automobiles, telecommunications, IT, and power – are already seizing emerging business opportunities in Africa. The third India-Africa Summit, held in October 2015, promised to energise Africa-India relations.

Aid

There has been a flurry of research recently on the developmental impacts of aid, particularly aid for trade (AFT). The evidence is at best mixed. Ancharaz, Ghisu, and Bellmann have argued that the best way to measure the effectiveness of aid is at the project level.⁸ Using this approach, and drawing on a series of country-level case studies, they conclude that AFT generally works when a set of conditions – reminiscent of the Paris principles of aid effectiveness – are present.

There is much less evidence on the impact of emerging economies' AFT flows on Africa's export growth. One reason could be data issues and the definition of AFT. However, if the financing of infrastructure, whether hard or soft, includes a component of aid, then it is not hard to see that such aid can facilitate intra-Africa trade and development by reducing the cost of trading across borders. Aid in other areas, including technical assistance and technological collaboration, could also boost productive capacity and trade competitiveness over the long term.

Leveraging emerging partners to boost Africa's economic development

African countries can take several concrete steps to leverage their budding partnership with emerging economies. First, while India and China have dedicated institutional structures through which they interact with their African partners, there is an absence of such mechanisms on Africa's part. This gap can be filled by a simple extension of the African Union Commission's (AUC) role. For example, the AUC could work with the emerging economies to promote their trade preference schemes more widely while advocating for less stringent non-tariff measures.

A similar mechanism can help streamline Africa's investment deals with the emerging economies and thus avoid a race to the bottom as African countries, desirous of attracting investments of any size and type, are rushing to offer the most generous concessions, at significant opportunity cost to the government. Finally, an AU-based pan-African institution that takes care of Africa's aid relations with emerging economies (as well as

traditional partners) can go a long way in ensuring that aid makes a greater impact on Africa's development.

Second, African countries can individually, or at the regional level, take a number of measures to get the most out of their partnership with emerging economies. They must continuously reform their investment regimes, improve the local business environment, and provide efficiency-enhancing advantages, such as a trained workforce, infrastructure, and logistics. Moreover, African economies must ensure that FDI flows to sectors with significant potential for industrial development. Promising sectors include agro-processing, textiles, and light manufacturing, among others. Unfortunately, the recent trend of leasing out large tracts of agricultural land to foreign investors does not bring much economic value to the host countries. They must negotiate better terms with their partners, insisting on greater local content, domestic linkages, and technology transfer.

Third, there is a critical need for transparency to ensure that economic prosperity is shared as broadly as possible. In a number of resource-rich countries, deals have been concluded with emerging economies (especially, but only, China) under opaque conditions. Even in a country like Mauritius, which boasts a strong democratic tradition, the terms on which the Chinese Jin Fei project was awarded was kept a state secret. One way in which this could be done is for all African countries to sign on to the Extractive Industries Transparency Initiative, and for a pan-African institution like the AUC to monitor such commitment.

Finally, African economies can leverage financing for development from emerging economies. While a significant amount of funding, whether as lines of credit or concessional loans, have already flowed to African countries, most of it has been for national infrastructure projects. Financing for regional infrastructure has been limited. It is hoped that the New Development Bank, which announced its first set of loans in April 2016, would help fill Africa's huge infrastructure deficit, both at the level of individual countries and across regional partners.

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REGIONAL INTEGRATION

Could emerging economies accelerate regional integration in Africa?

Memory Dube

As the regional integration agenda in Africa gains speed, is the economic engagement of emerging economies on the continent contributing to that agenda? If so, how? If not, can it be leveraged to contribute?

After 2009, in the aftermath of the global economic meltdown, Africa has witnessed growth in trade and economic relations with emerging economies. This trend was driven partly by the resultant economic slump in the developed world and the fact that emerging economies, such as China, buffered African economies during the crisis by providing welcome alternative export markets, thus diminishing the effects of the crisis. While this relationship had already been steadily growing after the year 2000, from 2009 onwards a marked shift in relations between emerging economies and Africa took place, particularly as seen through the lens of China and India's engagement in Africa.❶

These developments have also taken place parallel to a regional integration discourse that has been gaining momentum in Africa. It was in 2008 also that the Common Market for Eastern and Southern Africa, the East African Community, and the Southern African Development Community agreed to negotiate the Tripartite Free Trade Area, which was signed in June 2015. At the same time, in February 2016, negotiations towards the establishment of the Continental Free Trade Area (CFTA) were launched, with the aim of having the CFTA in place by 2017. Both agreements are expected to provide the legal and policy framework to support and boost intra-regional trade.

While Africa's economic engagement with European countries has undergone several changes over the years, its features are well known and understood. The economic relations between Africa and emerging economies are framed by relations that are still fluid and dynamic, thereby creating much scope to leverage and influence the regional integration agenda in Africa.

Context and background

Africa's growing relationship with the emerging economies takes place within the context of changing and fluid global geopolitical dynamics. Within that frame, Africa has also become a battleground for economic influence between East and West, manifest in the myriad of "Africa" forums hosted by major developed and emerging economies that seek to strengthen political and economic ties.

On the trade front, it is necessary to factor in the Economic Partnership Agreements (EPAs) negotiations with the EU and the renewal of the African Growth and Opportunity Act (AGOA) by the US. While the EPAs are reciprocal free trade agreements, AGOA is a trade preference scheme, but all indications are that this latest renewal is the last iteration of AGOA. China and India also offer preferential trading arrangements to African countries through the Generalized System of Preferences (GSP) by offering duty free quota free access to their markets for least developed countries.

These developments also have to be considered within the context of an evolving global trade architecture, defined by the rise and spread of global value chains (GVCs) in modern day commerce, as well as the emergence of the so-called mega-regional trade negotiations, most exemplified by the Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP).

Such developments are also taking place at a time when Africa, despite the end of the global commodities super cycle, is still experiencing a significant level of growth and remains an attractive investment destination, in addition to a large consumer market. This is notwithstanding the fact that Africa's further growth potential is limited by a number of factors, including the undiversified nature of African economies, poor and inadequate infrastructure (both hard and soft infrastructure), as well as chronic supply-side deficiencies, which severely constrain African markets' capacity to produce and supply goods and services to domestic, regional, and international markets.

In an era where the GVC structure is the norm, this has significant implications for regional integration in Africa and, indeed, future growth potential. Africa's main preoccupation therefore, even from a regional integration perspective, has mostly been with industrialisation and infrastructure development, with the objective of facilitating the structural transformation of Africa's economies, ensuring competitiveness of African-produced goods, as well as boosting intra-regional trade and facilitating integration into GVCs. The discourse on regional integration in Africa, which has been gaining momentum in recent years, frames all of the above.

Emerging economies and regional integration in Africa

It must be stressed from the onset that, to date, emerging economies' influence on African regional integration has not been the result of targeted intervention. Instead, it consists of what observers can perceive by making connections and creating links between their trade, investment, and development aid interventions, where such interventions have regional implications. This, of course, is distinct from speeches or forum declarations where commitments to regional integration are made without specific allusion to any particular project. Emerging economies tend to have a bilateral, project-based approach to their engagement with African countries that, at cursory glance, cannot be said to speak to regional integration.

Africa's "traditional" partners (mainly EU countries), on the other hand, have long supported African regional integration efforts through trade-related development aid, with well-established technical support structures and capacity building initiatives.

In considering the current role of emerging economies in regional integration, there are three avenues that can be considered: trade, investment, and development aid. Firstly, trade between Africa and emerging economies still remains significant, with China being Africa's largest trading partner despite a 21 percent year-on-year decline in 2015, while trade between India and Africa also remains buoyant.❶ Other emerging economies, which have significant trade ties with Africa, include Saudi Arabia, South Africa, South Korea, Turkey, and the United Arab Emirates.

Secondly, on the investment front, while traditional partners remain the largest investors in Africa, three of the top ten investors are emerging economies: China, India, and South Africa.❷ Emerging economies are an important source of foreign direct investment (FDI) for Africa, although resource-rich countries – which are largely focused on – still get the lion's share of this FDI.

Thirdly, emerging economies are also significantly involved through development assistance initiatives in Africa, which have also been growing in scope and coverage over the years. Development assistance from emerging economies, particularly China and India, tends to be presented as a package that bundles aid, trade, and investment initiatives, making it hard to distinguish one from the other. This is a strategic approach that speaks to the particular national economic interests of the emerging economies in Africa, and the Chinese "Angola" model is a particular case in point. The picture of development aid should, however, change when other emerging economies are considered.

As mentioned above, there is no institutionalised emerging economies approach to regional integration in Africa, as distinct from various vehicles created and employed by traditional partners to foster African regional integration and other objectives. Any

New Development Bank

The New Development Bank is a multilateral development bank, established by the BRICS countries, which is headquartered in Shanghai, China. In 2016, the bank approved its first set of loans for a total of US\$ 911 million.

reference to an institutionalised "Africa" agenda on the part of emerging economies, would, at most, address the South African initiative at the fifth BRICS (Brazil, Russia, India, China and South Africa) Summit in Durban in 2013. As Summit host, South Africa made BRICS-Africa engagement the core of the summit under the theme "BRICS and Africa: Partnership for Development, Integration and Industrialisation." BRICS leaders also held a retreat with African leaders after the summit, creating an opportunity for both parties to engage beyond the bilateral level.

One of the key outcomes of the summit was the commitment to establish the BRICS Development Bank, now called the New Development Bank (NDB). The NDB is in the process of being established and could potentially play a very important role in regional integration in Africa by plugging some of the funding gaps that exist in infrastructure development and other priorities on the continent.

Clearly, while there is plenty of scope to shape the current and future engagement of emerging economies on the continent, the parameters are not yet set and it is in Africa's interest to define them. Africa's response to the emerging economies has been muted in terms of strategy, with countries more concerned with their own individual engagement with emerging partners. As industrialisation and infrastructure development tend to be priorities at national and regional levels, there is a need for both the harmonisation of the emerging economies' individual engagements in Africa and a strategic response from African countries.

This should be pursued, however, in a manner that satisfies three primary objectives on the part of Africa: reducing barriers to trade and facilitating intra-regional trade; supporting the structural transformation of Africa's economies, including through better integration and participation in GVCs; as well as expanding not only the export product basket, but also the means of production, for which infrastructure development is critical.

To achieve this, the regional integration approach that focuses primarily on market access has to shift and also concentrate on "behind the border" regulatory issues. This is especially important in light of the fact that African countries have to compete for investment in a world of GVCs and mega-regional trading arrangements. The world of commerce has changed so much that any active participation in the global economy demands that a country be plugged into GVCs. The facilitation of such participation bears on multiple issues, such as infrastructure development, industrialisation, investment regimes, and trade facilitation, among others. This brings to mind the mega-regional initiatives led by the US and the EU, TPP and TTIP, and the major elements of those negotiations. While it is understood that African countries are wary of committing themselves on such issues as intellectual property, investment, government procurement, and a host of other "behind the border" regulatory issues that these mega-regional initiatives are negotiating, it is also true that these are the same kind of issues that will partly determine the attractiveness of Africa as an investment destination and its ability to plug into GVCs.

Leveraging emerging economies for regional integration

Leveraging emerging economies' engagement in Africa to strengthen regional integration can be based on a three-pronged approach:

- an African strategy for regional integration and associated priorities such as infrastructure development and industrialisation;
- a joint strategic African approach and response to emerging economies and their engagement on the continent;
- a full recognition of the role played by Africa's traditional partners in regional integration so as to create opportunities for complementarities.

Regional integration is not a new phenomenon in Africa, as is the subject of emerging economies and their engagement on the continent. There are also plenty of research studies, projects, and programmes involving the regional economic communities, the African Union, African countries, as well as various stakeholders – both regional and

domestic – on the subject of regional integration and how best to leverage on development partners. Efforts should be made, at the continental level, to integrate the various plans that have been adopted and are in motion, and compile a single living strategic plan that can be amended as circumstances demand but still addresses regional integration issues in a holistic manner, combining the various dots that currently exist in silos. Such a document should also engage with institutions such as the New Economic Partnership for African Development (NEPAD), the United Nations Economic Commission for Africa (UNECA), as well as the African Development Bank (AfDB), and be used as a blueprint for regional integration, infrastructure development, and industrialisation.

The document referred to above could then be used as the basis for crafting a strategic plan or approach for engaging with emerging economies on the continent. FDI-seeking initiatives targeting emerging economies, particularly when they speak to projects that could potentially have regional spillover effects, should be based on a common regional integration template. For example, such a template could take a form similar to the Programme for Infrastructure Development in Africa (PIDA). This is especially important when considering the fact that most of the emerging economies' engagement on the continent tends to be bilateral in nature. The responsibility to ensure the regional compatibility of projects, therefore, does not lie with the investing country but more with the recipient country.

Lastly, there should be recognition by African countries that the roles played by traditional partners and emerging economies on the continent do not have to be mutually exclusive. There are many areas where both could potentially work together, and should work together, particularly when it comes to programmes designed to foster economic growth and development – and eventually enhance regional integration – in Africa. Using infrastructure as an example, while emerging economies tend to focus on hard infrastructure projects, traditional partners tend to focus on both hard and soft infrastructure, going into the regulatory issues beyond the border.

The two approaches are compatible and can work together to Africa's advantage. The same approach could be used with regard to trade and investment. For instance, on the trade front, the US' AGOA presents an opportunity for value chain entry in various sectors such as automotive, clothing, and textiles, thus supporting the process to promote diversification. China, on the other hand, has been establishing industrial zones or "special economic zones" (SEZs) designed to foster investment. One idea to improve complementarity between the US and China's efforts would be to ensure that these SEZs are also geared towards AGOA and allow for the production of goods or components that can be exported to the US under AGOA.

Conclusion

The rise of the emerging economies and their economic influence in Africa has led to competition between traditional and emerging partners to increase their scope of influence on the continent. This should be utilised as an opportunity for Africa to bargain for greater benefits as well as more ownership of its own development agenda and any support provided for this agenda. However, such a process, as outlined above, has to be led by Africa, otherwise the role of emerging economies and their contribution to regional integration will remain haphazard and unstructured.



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- ❶ Definitions of "emerging economies" are many and varied, but, for the purposes of this article, emphasis will be on China and India who have been particularly active in Africa, although it is acknowledged that there are other emerging economies engaging with the continent.
- ❷ S. Freemantle, "BRICS-Africa: the hype is gone, but much remains," Standard Bank, *Insight and Strategy*, 8 June 2016.
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CHINA

Africa, and China's One Belt, One Road initiative: Why now and what next?

Lauren A. Johnston

China's growing outbound investment ambitions could be as transformative for today's poor countries as inbound investment was for China. This will depend upon how recipient developing economies, in particular in Africa, utilise China's investor interest for their own sustainable development.

Aid, trade, and investment flows between China and Africa are among external catalysts of the latter's nascent integration into global value chains. This proceeded from changes in the mid-1990s, for example in apartheid having then ended in South Africa and China having become a net energy importer. For China, greater outreach to Africa was part of an official push to secure access to energy resources in exchange for more aid, trade, and investment. Related policies included extended trade preferences for least developed countries and financial support for selective special economic zones. Two-decades of explosive growth in trade ties ensued, with China becoming Africa's largest trade partner by 2009. Trade flows, however, were broadly characterised by China buying resources from Africa, and selling manufactures back – a contentious historical pattern of exchange for Africa. Investment too flowed largely to secure those resources.

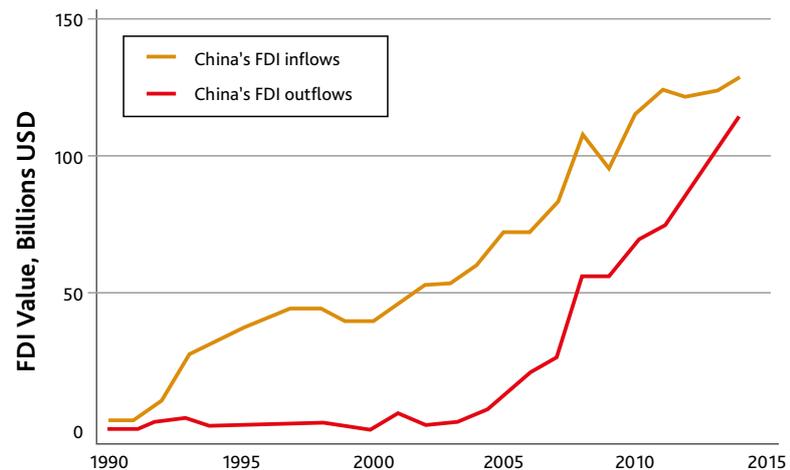
The striking drop-off in demand for China's exports following the global financial crisis helps explain why China's demand for commodities has since fallen. The consequential slowing of China's GDP growth is forcing Chinese policymakers to search for economic life beyond the low value-added labour-intensive manufacturing export-led model. China being home to both a high level and rate of savings and a rapidly ageing population is among reasons why Chinese policymakers are increasingly looking for outbound investment opportunities (Figure 1). This piece elaborates the economic logic and emerging development finance alternatives that loosely fall under a related umbrella framework, the One Belt, One Road (OBOR) initiative. The focus here is OBOR's link to Africa, the world's least-economically-developed region and home to abundant untapped human and natural resource wealth.

The economic drivers of the One Belt, One Road (OBOR) initiative

After three decades of being mostly a recipient of foreign direct investment (FDI), China is emerging as an important overseas investor. Figure 1 illustrates the steady convergence of inbound and outbound investment. ❶ Outbound investment first came into policy focus in the late 1990s when China launched the "Going Out" policy, which selectively incentivised outbound investment. Acquisition of natural resources; capture of foreign market share; building global Chinese brand names; and acquisition of foreign technologies were then among the drivers of the policy. China's high foreign reserves that had been accumulated since the Asian currency crisis of the late 1990s also played a role. Not only was the preferred investment, US government debt instruments, offering a low return, but this also presented a currency risk. After the global financial crisis, America's demand for imports from China also began to diminish, adding to China's reasons to diversify its interests.

Another factor is demography. Strict family planning policies mean that the share of youth in China's population has fallen dramatically in recent decades. This produced a period of "demographic dividend" – a large share of the population being of working age and providing a boost to output per capita of the total population. That workforce share in China, however, is now falling, putting upward pressure on wages and downward pressure on total productivity. To retain the same level of output per capita, China must now produce more output per worker than during the period of demographic dividend. One way China aims to achieve this is via shifting domestic low-cost labour-intensive production abroad and moving into higher value-added industries and services. Wage

Figure 1: China's inbound and outbound investment levels, 1990-2014



Source: Johnston (forthcoming, 2017).

comparison between one of China's labour-intensive manufacturing hubs, Guangdong province, and those of an emerging industrial park in Ethiopia tells the story of why Africa is in focus for realising the former objective. The *minimum wage* in 2016 in Guangdong is some US\$300. In Ethiopia's Hawassa Industrial Park, due to open in October 2016, the *average wage* is expected to be some US\$50 monthly. Moreover, and in general, sub-Saharan Africa sits on the edge of the potential of its own period of demographic dividend – akin to the demographic and developmental curve at which China sat some three decades earlier.

Successful outsourcing of labour-intensive manufacturing will also help to generate concurrent demand for some of China's now excess industrial capacity. Falls in demand for China's exports and earlier disproportionate capital investment growth mean that China is now home to excess capacities across a swathe of its industrial sub-sectors, especially for example in steel. Africa's under-realised industrial capacity and substantial opportunity for Chinese firms in African construction sectors have instigated a steady stream of investments in African steel and iron ore.² Of the US\$60 billion of lending China promised to African countries in late-2015 at the FOCAC summit in Johannesburg, more than half will be spent on building infrastructure. China is committed to dozens of large-scale infrastructure investments in Africa, in the power generation sector and also in transportation. Table 1 identifies a selection of some of the larger such projects, and conveys some of the geographic and sectoral depth of China's infrastructure-related investments in Africa.³ The flagship project among those is most probably the Standard Gauge Railway project in Kenya. This significance is explained by both economics and politics, and in particular by China's OBOR and "Maritime Silk Road" initiative.

The OBOR initiative

In 2013, on a visit to Kazakhstan, Chinese President Xi Jinping announced a proposal for a "Silk Road Economic Belt." In South East Asia later that year, Xi proposed a "21-Century Maritime Silk Road." The combination is now commonly known as the OBOR initiative. The idea harks back to the fact that for more than a millennium the Silk Road served as the world's first "trade super highway." Formally, OBOR emphasises five areas of cooperation: (1) coordinating development policies; (2) forging infrastructure and facilities networks; (3) strengthening investment and trade relations; (4) enhancing financial cooperation; and (5) deepening social and cultural exchanges.

The most direct historical link to Africa relates to China's 14th century maritime fleets, which reached Africa's east coast, specifically an area that is part of modern Kenya. This helps explain why Kenya is China's nominated African hub for the OBOR initiative. As a relatively large regional and coastal economy with a port of East African importance (in Mombasa), Kenya is also important for reasons of economic geography.⁴ Chinese-invested rail plans intend to better connect Kenya and its ports to a number of proximate

Figure 1: China's inbound and outbound investment levels, 1990-2014

Country	Project	Description	Value (\$bn)
Nigeria	Coastal railway	1,402-km railway to link Lagos with Calabar (to east), passing through 10 states and linking cities with oil-rich Niger Delta state.	12
Tanzania	Bagamoyo Port	20 million (annual) container port, which would be largest East African port. This would be linked to a railway corridor and sit next to a new industrial zone. Shrouded in uncertainty.	7
South Africa	Modderfontein New City Project	A housing and entertainment precinct being built in outer Johannesburg, South Africa's largest city.	7
Kenya	Standard Gauge Railway	A 609-km railway connecting Mombasa's port the capital Nairobi (set for completion at end-2017).	3.8
Congo DRC	Infrastructure for Mines barter deal	The deal was to develop the mine fields in Mashamba and Dima basins and Kolwezi.	6
Chad	Chad-Sudan Railway	A 1,344-km railway being constructed in three phases and will also link the two nations with Cameroon.	5.6
Nigeria	Dangote Cement Plc Expansion	Dangote Cement Plc expansion in Nigeria, and into Ethiopia, Kenya, Zambia, Senegal, Mali, Cameroon and Ivory Coast. A boost to cement production of 25mn tonnes and taking total production to more than 70mn tonnes/year.	4.34
Mozambique	Mphanda Nkuwa Dam and Hydroelectric station project	Provide 1,500 megawatts of power to national electricity grid, and includes construction of Moamba-Major Dam to supply drinking water to residents of Maputo	3.1
Malawi	Infrastructure Projects	A 300-megawatts coal-powered station; reconstruction of Chileka International Airport; 140km Tsangano-Mwanza (in Tanzania) road construction; upgrading of Phombeya-Makanjira-Nkhotakota-Chatoloma 220 kV power line; construction of the Blantyre District Hospital and Cancer Centre.	1.7
Sudan	Port Sudan-Khartoum Railway	The project was completed in 2012 and connects Port Sudan to the country's capital, Khartoum in a 762 km of rail network.	1.3

Source: *Mail and Guardian* (2015).

landlocked economies, including Uganda, South Sudan, Rwanda, and Burundi, unlocking intra-Africa as well as broader international trade opportunities in the process. In July 2016, neighbouring and coastal Tanzania also signed a US\$7.6 billion loan agreement with the Export-Import Bank of China (China EXIM Bank). The loan is for the construction of a standard gauge rail corridor that will similarly link Tanzania with regional neighbours Uganda, Rwanda, Burundi, and Congo.

Such in fact is the scale of Africa's need for infrastructure and innovative funding for it – and China's capacity and willingness to deliver it – that a former chief economist of the World Bank and Peking University professor, Justin Lin, has argued the OBOR initiative should evolve into the "One Belt, One Road, and One Continent" initiative. China has already officially promised to help Africa, via the African Union, to build the foundations of a comprehensive transportation network. It is heavily involved in enhancing Africa's power generation capacities also (see Table 1 for some examples). According to World Bank estimates, Africa's infrastructure financing requirement is some US\$38 billion annually, with a further US\$37 billion required annually in operations and maintenance. This is equivalent to some 12 percent of Africa's GDP, the funding gap being estimated at some US\$35 billion.

In parallel, and in line with the broader set of goals comprising the OBOR initiative, China is instigating a dizzying array of new development financial institutions and funding pots. Most prominently, China led the establishment of the Beijing-based multilateral Asian Infrastructure Investment Bank and the Shanghai-based BRICS Development Bank. The former has many developed country members, while the latter's membership

is exclusive to developing countries. In addition, a US\$40 billion Silk Road Fund was established in 2014 to foster development along China's new Silk Road project that broadly sweeps across Asia and the Indian Ocean. A South-South Climate Cooperation Fund with some US\$3 billion in funds was also announced in 2015 to provide assistance to developing countries on climate issues. In a sign of greater localisation of its earlier bilateral investment park creation, in August 2016, China EXIM Bank agreed a US\$1 billion industrialisation programme with the African Export-Import Bank. The funds are to be targeted at the construction of industrial parks and special economic zones, with a focus on light manufacturing and processing of raw materials and commodities – just the type of investment projects being intended by OBOR.

China has also worked bilaterally to agree fundamental bilateral policies with African countries. For example, China has concluded double taxation treaties with Ethiopia, Mauritius, Morocco, Nigeria, Seychelles, South Africa, Tunisia, and Zambia, as well as bilateral investment treaties with selective others. Similarly, in support of the internationalisation of its currency, the Renminbi (RMB), China is signing settlement currency agreements with an ever-greater number of African countries and organisations. Most recently, COMESA agreed to include the RMB among its official settlement currencies.

Back to the future in Africa

On his first visit to Africa as president in early 2013, speaking in Tanzania, China's President Xi Jinping called for China and Africa together to realise a fast track of "comprehensive development." Since then, growth in China has slowed, increasing the importance of outbound growth to China's own economic transformation. This piece has provided an overview of the logic of broad economic complementarity that underpins OBOR in Africa: that of a large per-capita-resources-scarce developing economy with an old population and that of a large resource-rich developing continent with a mostly young population; and between a country with excessive savings and infrastructure capacity, and a continent which in aggregate relatively lacks both. The OBOR initiative represents an agenda that broadly seeks to take "win-win" advantage of that complementarity.

The One Belt, One Road initiative builds upon two decades of intensifying China-Africa economic ties. This ambitious plan, alongside Africa's independent growth performance, is drawing worldwide attention to the continent's vast development promise. And since most OECD members and even those of the G20 are home to ageing populations, increasingly not only China is awake to the benefits of investing in the untapped potential of lesser-developed and youth-filled economies, including in Africa.

For African policymakers and entrepreneurs, whether China or another investor supports the development of local infrastructure or opens a textile factory ultimately may prove less important than the fact of negotiating the best and most transformative deal for local development – as China itself has so powerfully demonstrated over recent decades. In exploring ways to best utilise OBOR's immense offerings and those of other investors, African governments should be hard-nosed, and oriented towards implementation and sustainable development in first identifying and then agreeing the best policy mix and governance structures for realising African wins.



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INDIA

India's investment in Africa: Feeding up an ambitious elephant

Alioune Ndiaye

Economic relations between India and the African continent have increased tremendously since the turn of the century. This article provides a snapshot of Indian investment in Africa.

One of the key features of India's foreign policy in the post-cold war era is New Delhi's ambition to emerge as an important global player. This role, India intends to achieve it primarily by building a strong economy. As the prominent essayist and adviser to former Prime Minister Singh, Sanjay Baru, put it in his ground-breaking book *Strategic Consequences of India's Economic Performance*, "in recent years, nothing has defined India's place in the world more importantly than the new profile India's economy has acquired."¹ According to Baru, "the time has come when trade has to raise the flag rather than just follow it."

Africa has not been an exception to this foreign policy shift, as its economic relations with India have recorded a tremendous growth in this time frame, especially during what some have called the "Indian Decade" between 2000 and 2010. Both trade and investment between India and Africa have skyrocketed, reaching unprecedented levels.

This article undertakes to provide a snapshot of Indian investment in Africa by shedding some light on the actors involved, the role of private and state-owned businesses, as well as the main sectors where Indian investment is funneled.

Mauritius: A key player

As of 2013, Africa accounted for 16 percent of India's foreign direct investment (FDI) stock for a total of US\$13.6 billion. Surprisingly enough, Africa's FDI stock in India is five times higher, amounting to US\$65.4 billion in the same year, which represents 26 percent of the country's total inward FDI stock.² One should mention, however, that a large part of this FDI is done through Mauritius. The double taxation avoidance agreement (DTAA) signed between India and Mauritius makes it very attractive for investors to funnel their investment through the island. Outward Indian FDI into Africa follows the same logic, as seen in the table below. Even though the actual investment is often taking place in a different country, it is always funnelled through a head office that is registered in Mauritius.³

Table 1: Top 5 African countries recipient of Indian FDI in 2012

Country	Percentage of outward FDI
Mauritius	95.42
Nigeria	1.43
South Africa	1.39
Morocco	0.89
Libya	0.88

Source: UNCTAD bilateral FDI statistics.

Investment in the energy sector: a public-private synergy

India's engagement with Africa is largely driven by energy, with the Asian giant seeking to secure oil resources from the continent. Therefore, a large part of India's investment in Africa is done in the energy sector. ONGC Videsh Limited (OVL), which is the division of the national Oil and Natural Gas Corporation dealing with foreign assets, has been

very active in the African energy sector, with investments both in the upstream and downstream sectors. In Sudan for instance, OVL has invested about US\$2.5 billion both for exploration and production. It has also secured prospection rights in Gabon, Ghana, and Ivory Coast to name but a few.

In securing energy assets in Africa, India is facing fierce competition from China. During a bid that was launched in Angola in 2004 for an exploration block, the China National Petroleum Corporation offered US\$2.3 billion, whereas ONGC could only offer an insignificant US\$200 million. In order to match Chinese companies' deep pockets, Indian state-owned businesses seek to enter in joint ventures with private companies, which helps them increase their capacity. This has been the case in Nigeria in 2006 where OMEL, a joint venture between OVL and Mittal Energy Limited, offered 6 billion dollars for two exploration blocks. Table 2 outlines a small number of investments by Indian companies in the African oil and gas sector.④

Table 2: Select Indian investments in the African oil and gas sector

Country	Company	Operation
Gabon	ONGC in association with other Indian companies	Prospecting permit for the Shakthi field (3 760 km ²)
Mauritius	ONGC	Exploration of hydrocarbons in Mauritius' EEZ
Ghana	ONGC	Exploration on Ghana's coastline, after agreement with Ghana National Petroleum Corporation (GNPC)
Nigeria and São Tomé and Príncipe	ONGC with British company Equator	Exploration rights on Bloc 2 in the Joint Development Zone (692 km ²)
Mozambique	Bharat Petro Resources Ltd	Investment of US\$75 million for 10 percent on a off-shore block
Egypt	Hindustan Petroleum and Oil India Ltd	Production sharing plan on 2 oil blocks (Bloc-3 in Quseir and Bloc-4 in South-Sinaï.)
Libya	Oil India Ltd	Bloc 102/47 in Sirte

Source: Ndiaye, 2013.

Exim bank of India's lines of credit: An effective market penetration tool

A major conditionality that is tied to the Exim Bank of India's lines of credit is the 85 percent Indian procurement.⑤ This has proven to be a key factor in increasing Indian investment in Africa and an effective market penetration tool for Indian companies. A firm like Tata has been able to open a number of assembly plants for its buses and trucks through the lines of credit the Exim Bank of India extended to African countries in the framework of their urban mobility programmes.

Important public infrastructure and power projects in Africa funded totally or in part by India's lines of credit have also made it possible for state-owned companies to extend their footprint in African economies. The railway companies RITES and IRCON, for example, have increased their presence in Africa in countries like Kenya, Mozambique, Senegal, and Sudan.

As a result of these lines of credit, the Exim Bank of India has become a major player in New Delhi's Africa policy. They are extended through programs such as Focus Africa, or Team 9. India has been increasing their volume since the first Indo-Africa Forum Summit (IAFS) in 2008, where a total of US\$5 billion was announced by then-Prime Minister Manmohan Singh. During last year's summit, Prime Minister Modi announced US\$10 billion in concessional credits to Africa for the upcoming five-year period.

Agriculture, pharmaceuticals, telecommunications, and mining

Whereas state-owned companies are very present in highly strategic sectors such as infrastructure, energy, and power, Indian private companies, in what seems to be a division of labour, have been very active in sectors such as agriculture, pharmaceuticals, telecommunications, and mining.

In what has been the second most important takeover made by an Indian company overseas, Bharti Airtel has acquired in 2010 a license from the Kuwaiti telecom company Zain, which allows it to operate in a dozen African countries, hence competing with major western companies. Ever since, Airtel has increased its presence on the continent by adding more countries to its area of coverage.

The Indian pharmaceutical industry is also very active in Africa, and has recorded tremendous success especially thanks to the antiretroviral (ARV) drugs. CIPLA, which is a major actor in this industry, has helped reduce the cost of antiretroviral therapy from US\$10,000 to less than US\$400 per patient.⁶ Combined with other companies providing the same type of low-cost medication, the volume of patients receiving ARV treatment in Africa has grown from 2 percent in 2003 to 37 percent in 2009. Overall, Africa accounts for about 15 percent of Indian pharmaceutical exports.

Indian pharmaceutical companies' strategy consists of entering into joint ventures with their African counterparts, which makes the local production of drugs possible. In some cases, however, they also open subsidiaries or enter into distribution agreements with local companies. In Uganda, for instance, CIPLA has entered into a joint venture with Quality Chemicals Industries Ltd. in 2008, opening a production unit for anti-malaria drugs. Ranbaxy, another Indian firm, does business in South Africa under the name of Sonke, whereas Lupin's and CIPLA's South African subsidiaries are respectively known as Pharma Dynamics and CIPLA Medpro.

Agriculture also drives an important part of Indian investment in Africa. Based on data provided by the governments of some African countries, nearly 80 Indian companies have invested about US\$2.5 billion in Africa's agricultural sector.⁷ Indian agricultural investment in Africa can be linked to three major factors. The first one is the quest for food security, due to the fact that the growth of its population is not paired with an increase in its production. The second reason is the depletion of water resources, which represents a tremendous challenge to its agriculture. The third reason is the high rate of return of the investments made in Africa, which is related to the low cost of the factors of production.

India has built up a clear African strategy which is unfolding to its benefit. One cannot say as much about Africa, which seems to be a spectator more than an actor in this relationship.

Investment in the mining sector is also significant, especially in diamonds, where India has become a major cutting and polishing centre. Some analysts are linking this new role to the investments made in Africa to secure diamond resources. Surat Rough Diamond Sourcing India Ltd has entered in an agreement with the Zimbabwean government for US\$1.2 billion worth of rough diamonds. It has also signed an agreement with the Angolan company Endiama.

Building an African agenda

India has built up a clear African strategy which is unfolding to its benefit. Investment in Africa is designed to help realise the country's ambition of rising to global power status. One cannot say as much about Africa, which seems to be a spectator more than an actor in this relationship. Indian investment in African agriculture, for example, is tailored to the country's needs and to its re-exportation industry. African countries should look into ways to leverage this investment to support their local food security programs and help them move up the value chain through processing of agricultural goods.

African countries should also push for a broader access to the Indian market. This could be made easier by the expansion of India's duty-free market access scheme to cover the

products which are of interest to African producers. Even though it was already expanded to cover 98 percent of Indian tariff lines, the scheme does not include commodities such as coffee, tea, vegetables, and spices. India is competing with Africa in these products, and therefore needs to protect its local producers. Given the weight of rural and agricultural areas in domestic politics, this could have a direct impact on elections in India. It is also worth mentioning that India has an interest in most of the products covered under the duty-free market access scheme, including cashew nuts and aluminium ore, because the country processes and re-exports them to developed countries.³

African countries should insist more on technology transfer in order to move up the value chains and extract more added value from their resources. As the former Ghanaian president John Kufuor put it in a very lyric yet powerful way, Africa's strategy should consist of "marrying African resources with Indian technology." The establishment of the India-Africa Diamond Institute will be an important step in such a strategy, whereby capacity building and technology transfer will help African countries to engage in diamond cutting and polishing.

Indian investment in Africa is designed to feed up an ambitious elephant that is playing catch up with the dragon. As a result of its foreign policy shift in the post-cold war era, India is trying to build, project, and protect its power through its African policy. Investment and trade have become a major component of its strategy. For Africa, this foreign policy shift brings about opportunities and threats which needs to be addressed mainly through more technology transfer and a broader access to the Indian market.

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SOUTH-SOUTH TRADE

Southeast Asia in Africa: A partner for development?

Florenca Rubiolo

Southeast Asian emerging economies are stepping in the African continent searching for natural resources, markets for their products, and opportunities for investment. What are the prospects for African countries' development in this rapprochement?

From the turn of the century onwards, Africa has been placed in the centre of the debate over emerging economies in the South. The continent has also been going through a period of economic growth starting from the beginning of the 21st century. Despite such a general trend, this observation should not be extended to every country in the continent, since there are different levels of growth among them.

Attached to the processes of economic growth in the African continent, the emergence of new international partners must be highlighted. The not-so-emergent presence of China in various African economies has become the outstanding feature of any economic analysis focusing on the continent and its relaunched relations with Asia. Beijing has implemented an assertive foreign policy towards resource-rich countries, and developed dynamic trade relations, exchanging natural resources (mainly oil, but also metals, iron ore, and wood) for Chinese industrial manufacture. Chinese enterprises have also embarked on large foreign direct investment (FDI) projects, directed mostly to the oil industry. According to UNCTAD's World Investment Report 2016, China's FDI stock increased more than three times from 2009 to 2014, jumping from US\$3.6 billion to US\$13.3 billion. The main host economies in 2014 were fuel- and mineral-exporting countries: the Democratic Republic of the Congo, Sudan, and Zambia. Despite the drop in oil prices, FDI flows to Africa from China are expected to increase in 2016, along with trade flows.

Although China is the main trade partner and FDI origin for Africa among developing countries, there are other countries and regions in Asia that are emerging as strong actors on the African continent. Southeast Asian economies are among them, and are increasing their presence in different economic sectors through diverse strategies and diplomatic practices.

Southeast Asian trade and investment in Africa

The diplomatic ties between Africa and Southeast Asia have historically been sporadic and erratic. The only country from the region that maintained a relatively closer link to some African countries in the first decades after independence was Indonesia. Today, trade has gained momentum – the largest trading partners of ASEAN in Africa being Egypt, Nigeria, and South Africa – thanks to the growth rates of emerging countries in both regions.❶

Among the Southeast Asian economies, the ones showing an increasing presence in Africa are Indonesia, Malaysia, Singapore, and Thailand. Trade is underpinning these relations, with Thailand and Singapore being the most important trading partners from the region. According to UN Comtrade, Singapore's main destination markets in Africa in 2015 were Liberia and South Africa, while for Thailand the main export markets were Egypt and South Africa. Exports to African economies from Southeast Asia mainly consist of vehicles and their parts, electronic equipment, refined petroleum, chemicals, rubber, rice, and metals.

It must be highlighted that the wealthiest African countries are becoming a main target for Southeast Asian economies seeking to expand their export markets to new horizons. South Africa and Egypt are the two main receptors of these exports and are gaining relevance in Southeast Asian countries' trade strategies. Thailand's identification of South Africa as a strategic partner and gateway to Southern Africa clearly indicates this.

US\$4.6 billion

In 2014, Indonesia was Africa's most important export destination in Southeast Asia, with total exports reaching US\$4.6 billion.

Indonesia's ties with Nigeria – including the presidential visit in 2013, the signing of a MoU for bilateral cooperation in 2010, and the creation of the Africa Trade Association – are also intended to help create new African markets for Asian exports.

Regarding Southeast Asian imports, the main destinations for African products in 2014 were Indonesia (US\$4.6 billion) and Thailand (US\$3.7 billion). South Africa and Nigeria were the main origin markets, followed by Algeria and Angola. In 2014, Nigeria was Africa's main exporter to Southeast Asia with a total of US\$5.6 billion. South Africa was in second place by far with US\$2.5 billion in exports. Indonesia and Thailand were Nigeria's main destinations in the Asian region. Nigeria's consolidation as Southeast Asia's main import market is directly related to oil exports. Above 90 percent of Nigeria's exports to Indonesia and Thailand are crude and refined petroleum, as well as petroleum gas.

Asian countries such as Indonesia and Thailand became alternative destinations for Nigeria's oil exports, particularly since 2011-12 when exports to the United States fell, from US\$21.7 billion in 2011 to US\$2.5 billion in 2014. In this context, Southeast Asian markets are consolidating as emerging trade partners for Africa's biggest economy. This trend will probably deepen in the coming years, along with an increasing energy demand from Asian countries and a persistent unstable environment in major oil exporting regions, such as the Middle East.

Among the Southeast Asian economies, the ones showing an increasing presence in Africa are Indonesia, Malaysia, Singapore, and Thailand.

Investments are also becoming a relevant dimension of bilateral relations between Africa and Southeast Asia. The main Asian investor in the continent in 2011 was Malaysia, surpassing Chinese and Indian investments. Malaysian FDI stock in Africa was worth US\$19 billion in 2011, covering a wide range of economic sectors in different parts of the continent. The principal destination for Malaysian and Singaporean FDI stock in Africa – Singapore being another important investor country – is the financial sector, and the main partner is Mauritius. This island has become the third FDI destination for Malaysian investments, with companies benefiting from a particularly favourable taxation environment.

Besides this speculative activity, Malaysian investments have diversified to several sectors, with the oil industry being the main productive sector for Malaysian investment. Among the companies involved on the continent, Petronas has a central role. The state-owned oil company has significant investments in Sudan and South Sudan, and a refinery in Durban, South Africa.

Another sector in which Malaysian and Singaporean companies are focusing on for investment is the palm oil industry. The oil palm is native to Africa, and the market for palm oil is expanding within the continent, while production is falling mostly due to the lack of investment and infrastructure in the sector. Given these conditions, some governments in West Africa – the main palm oil plantation region in the continent – opened up attractive opportunities for investment, lowering limitations for land concessions and lessening labour and environmental requisites.

The first initiative in this framework was taken by the Singaporean joint venture Nauvu Investment (Wilmar and Olam) in Côte d'Ivoire in 2007. The presence of both companies then extended to Ghana, Nigeria, and Gabon. Similarly, in 2009, Sime Darby – the Malaysian world-known palm oil company – signed a concession agreement with the Liberian government. The company obtained 220,000 hectares of land, on a 63-year lease to develop palm oil and rubber plantations. These are emergent investments that will certainly continue to multiply across the region, considering the favourable African

context (i.e. lower export taxes to Europe, cheaper land acquisition costs, cheaper and less regulated labour conditions, extensive oil palm plantations, and increasing demand).

Indonesia is also increasing its presence on the continent through investments from local companies and joint ventures, the bulk of which is concentrated in Nigeria. There are several Indonesian companies which have invested in Nigeria, particularly in the local natural resources industry, but also in the distribution and marketing of Indonesian products, such as paper, pharmaceuticals, electronic equipment, household equipment, and food and beverages.

The Indonesian company Bakrie Group, through a joint venture with Nigerian and British capitals, Bakrie Delano Africa, signed a memorandum in 2011 with the Nigerian government for investment in the country worth a billion US dollars. Most of the amount committed is being directed to the palm oil sector and rubber plantations.

So far, investment from Southeast Asia to the African continent has two main objectives: to develop new sources for an increasing demand for natural resources (crude oil and palm oil); and to find new markets for their products (mainly industrial manufactures). A third objective is also emerging: to broaden investment opportunities for Southeast Asian companies that are growing, with the support from the state and an active foreign policy in Africa. The last one is particularly true for Malaysia.

Potential, prospects, and challenges

Both in terms of trade and investment, there are still many fields to be explored and developed in the interregional arena. Telecommunications and information technologies are underdeveloped sectors on the continent and represent an outstanding opportunity for Asian investors. In this regard, Kenya and Rwanda are emerging as technology hubs in East Africa, and they have started to be explored by Singapore through the International Enterprise (IE) governmental agency, focused on fostering relations between African and Singaporean companies. Singapore's involvement in East Africa has grown during the last decade, concentrating on the region's potential in the following sectors: oil and gas services, transportation and logistics, public sector capacity building, agri-business, technology, and education.

Infrastructure is also an underdeveloped sector in Africa, which presents Southeast Asian investors with a wide range of opportunities. Investment in infrastructure sectors and services – such as energy, transport, communication systems, sanitation, and housing – is key to African development, as the lack of appropriate infrastructure in vast parts of Africa is slowing down economic growth and cutting business productivity. Africa is, in fact, the region with the lowest productivity levels in the world. More than 50 percent of African roads are unpaved, isolating thousands from access to education, health services, economic corridors, and trade hubs. This has a negative impact on intra-African trade, which could be boosted by improving transport infrastructure and consequentially reducing logistics costs, favouring private sector development opportunities, and generating, in turn, a more reliable investment environment.

Thus, the role of foreign investment in these sectors could be highly beneficial to African economies in terms of economic development. Singapore is leading Southeast Asian investment projects in this field. The Democratic Republic of Congo, Gabon, Ghana, Kenya, and Rwanda are among the countries in which Singaporean urbanisation companies – such as Surbana – have secured contracts to invest in urban infrastructure.

Islamic finance and the halal industry are also a traditional aspect of Malaysian and, to a lesser extent, Indonesian external relations. With a high percentage of the world's Muslims (about 35 percent) on the continent, and the fastest-growing middle class in the world, as well as the highest prospect of population growth for the next 30 years, Africa has become the next frontier for Islamic finance and halal products. Given its expanding population, Egypt constitutes the largest market for halal food on the continent, followed

by Nigeria. Other potential markets are Burkina Faso, Guinea, Mali, Niger, and Senegal, all of which are Muslim-majority countries.

The initiatives and approaches presented above offer just a glimpse of a set of emerging relations that are constantly evolving in a changing international context. Southeast Asian countries' rapprochement with Africa has a strong potential to underpin the continent's development through less asymmetric bilateral links in comparison with those maintained with Western European countries, the United States, and China. The growing presence of Asian companies, investments, and loans are promising, as well as the prospects for the future.

Nevertheless, some trends could lead to a reproduction of the dependency and asymmetries that already characterise Africa's economic relations with other partners, while also contributing to increased inequality within Africa, thereby hampering sustainable and inclusive development on the continent. In terms of bilateral trade, Africa's exports to Southeast Asia are increasingly concentrating in raw materials, particularly crude oil. There are deep implications of this trend: it reproduces a trade relation focused on the extractive sector, as is already the case between Africa and developed partners, and thus deepens Africa's dependency on primary exports, which are more vulnerable to external changes such as international prices. In this respect, the plunge of oil prices in the last years has become a major issue for oil-producing countries, and a challenge to overcome by exploring diversification options in terms of exports and investment.

There is certainly room to believe that Southeast Asian presence in Africa can be an opportunity to complement other partners in a comprehensive development strategy on the continent.

Regarding investments, although there is a growing interest among Southeast Asian companies to explore opportunities in Africa, the amount of FDI is still at a low level. The main reasons behind this are the following: (1) the technological constraints in complex manufacturing activities and advanced services (such as infrastructure development, communications, merchant banking, or the media) that some Asian firms still face; (2) the various barriers that Asian investors need to overcome in Africa (culture, information costs and transaction, market knowledge); (3) the tendency for Asian FDI to remain mainly intraregional, investors looking for geographically closer opportunities; (4) the fact that market seeking FDI is the most common form of direct investment, while Africa does not generally have the types of markets most Asian firms are orientated to; and (5) the constraints imposed on FDI by regulatory frameworks both in host and home countries.

As a final remark, there is certainly room to believe that Southeast Asian presence in Africa can be an opportunity to complement other partners in a comprehensive development strategy on the continent. Notwithstanding this, looking at the actual numbers, it seems that, unless there is a regional consensus in African countries about redistribution of gains and consequences, it is highly probable that these relations will also contribute to broaden economic inequalities within the continent and deepen asymmetries between African countries and their Southeast Asian partners.



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❶ Some of the perspectives and ideas in this article have been developed on the basis of the following article: Rubiolo, Florencia. "Emergents in the African scenario: A South-South approach to Southeast Asia diplomatic and trade initiatives in the continent." *Brazilian Journal of International Relations* 5, n°1 (Jan/Apr. 2016).

The newsroom

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Japan announces US\$30 billion financial support for Africa

Japanese and African leaders and delegations met in August in Nairobi for the sixth Tokyo International Conference on African Development (TICAD VI). Japan's Prime Minister Shinzo Abe as well as 34 African heads of state and government attended the summit.

The event, which was held in Africa for the first time, close to 50 Japanese and African companies and organisations sign a total of 73 memoranda of understanding (MoUs). These MoUs cover a variety of sectors, including infrastructure, trade, investment, energy, ICT, education, health, and mining.

During the event, Japan's Prime Minister Shinzo Abe also announced that his country will allocate US\$10 billion for infrastructure development on the continent in the coming three years. When combined with private sector investments, Abe expects the total support from Japan to reach US\$30 billion over the next three years.

WIPO: innovation divide remains between rich and poor countries

Despite innovation becoming more global than it used to be, a significant innovation divide persists between developed and developing countries, according to a new report published last week by the UN World Intellectual Property Organization (WIPO) – the Global Innovation Index 2016.

The report marks the first time a middle-income country, namely China, is included among the 25 most innovative economies of the world. It nonetheless also notes that the innovation divide between developed economies and upper-middle-income countries is large, and a fortiori even greater in relation to developing countries in general. In particular, most countries from sub-Saharan Africa continue to lag behind - among the ten economies with the lowest scores, seven are African.

Singapore signs new agreements with three African countries

Singapore recently inked three new economic agreements with African countries, in a bid to boost its trade and investment ties with the continent. The deals include an avoidance of double taxation agreement (DTA) with Ethiopia, a bilateral investment treaty (BIT) with Mozambique, and a bilateral air services agreement with Nigeria.

The signing took place during the fourth edition of the Africa-Singapore Business Forum, a biennial conference organised by International Enterprise (IE) Singapore, the government agency in charge of promoting international trade. The forum constitutes an important platform of exchange between the Singaporean and African business communities.

International Enterprise (IE) Singapore also announced at the event that it will soon establish its third overseas centre in Africa, due to open in Nairobi in 2017.

G-20 leaders pledge to revitalise growth agenda at Hangzhou summit

Leaders from the G-20 coalition of advanced and emerging economies concluded their high-level meetings in China with a pledge to implement a new "Hangzhou Consensus" – a set of policies aimed at shoring up global economic and trade growth, boosting confidence, and responding to anti-globalisation sentiments that have been on the rise in some countries.

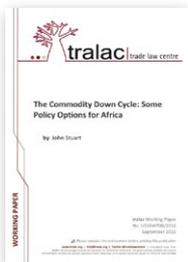
"We met at a time when the global economic recovery is progressing, resilience is improved in some economies, and new sources for growth are emerging. But growth is still weaker than desirable," said leaders in the final communiqué. They also noted the "continued shifts and profound transformations" underway throughout the international economy, highlighting both their potential as well as possible risks.

Publications and resources



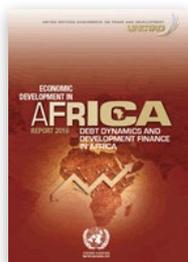
Sand in the Wheels: Non-Tariff Measures and Regional Integration in SADC – UNCTAD – September 2016

This study explores the topic of non-tariff measures (NTMs) – policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade – in the Southern African Development Community (SADC), a regional grouping which comprises 15 countries with the common objective of regional integration. It identifies the most common NTMs in SADC countries and assesses their impact on trade, output, employment, and incomes, by using a global general equilibrium model. <http://bit.ly/2cKui5i>



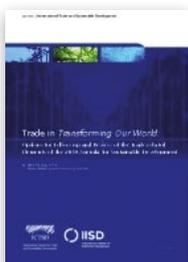
The Commodity Down Cycle: Some Policy Options for Africa – TRALAC – September 2016

This working paper is an extension of a prior TRALAC paper, which examines the extent of the fallout of the commodity price “down cycle” for the countries of Africa, grouped by export specialisation in fuels, mining and agri-food; as well as a fourth group with more diversified exports. In this paper, a selection of five distinct policy instruments are simulated for the same four groups of countries, in order to assess the potential for alleviating some of the economic stress brought about by the price shocks. <http://bit.ly/2cXc2Jy>



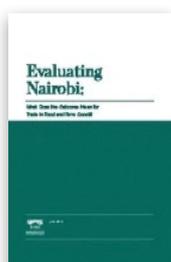
Economic Development in Africa Report 2016: Debt Dynamics and Development Finance in Africa – UNCTAD – July 2016

This year's Economic Development in Africa Report 2016 examines some of the key policy issues that underlie Africa's domestic and external debt, and provides policy guidance on the balance required between financing development alternatives and overall debt sustainability. The report also offers a number of policy recommendations which address the roles that African governments, external partners, and the international community can play in ensuring that Africa's public debt remains sustainable. <http://bit.ly/2ctH8nR>



Trade in Transforming Our World: Options for Follow-up and Review of the Trade-related Elements of the 2030 Agenda for Sustainable Development – ICTSD – June 2016

Trade and trade policy are central to transforming our world, the objective of the 2030 Agenda for Sustainable Development. This paper details how progress towards the trade-related commitments in the 2030 Agenda could be reviewed over the next 15 years. It identifies six clusters of trade-related elements in the agenda and, for each cluster, it identifies options for indicators. <http://bit.ly/1Yp4EpZ>



Evaluating Nairobi: What Does the Outcome Mean for Trade in Food and Farm Goods? – ICTSD – June 2016

This compilation of short pieces intends to provide policy-makers, negotiators, and other stakeholders with an impartial, evidence-based analysis of the potential trade, food security, and rural development implications of the agriculture outcomes of the WTO's Nairobi ministerial conference and to help them situate these in the longer-term systemic context. <http://bit.ly/1On20Py>

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