

Trade and Investment between Africa and Asia

As published in gtnews.com



Munir S Nanji
Global Transaction Services Head
Nigeria and West Africa,
Trade Head Sub-Saharan Africa

This article discusses how the developing countries in Africa and Asia are doing more business with each other and this will increase further in the coming decades. It focuses on six trends in the development of this mutually beneficial relationship.

The world's developing nations are growing more powerful and are having a profound and sustained impact on global trade and investment flows. Their main business may still be with advanced countries, but emerging markets are doing increasing amounts of business with other emerging markets.

The inter-relationship between the continents of Africa and Asia is a case in point. Both are experiencing rapid economic growth, with concomitant increases in trade and investment with the rest of the world - and with each other. Africa is importing finished goods mass produced in Asia, and Asia is importing commodities that Africa possesses in abundance. It's a mutually beneficial state of affairs.

China is Africa's third largest trading partner (after the US and France), with trade between the two reaching US\$55.5bn in 2006. Africa's main imports from China are textiles, machinery and transport equipment, while its main exports to China are oil (mostly from Nigeria), minerals, metals and agricultural products. A similar pattern is repeated between other Asian countries and Africa.

Foreign direct investment (FDI) between Africa and Asia is closely related to these trade patterns. Africa is receiving FDI from Asia, mainly from India and China, not only for the development of its natural resources, but also for the building of infrastructure, such as roads and airports, and for services such as banking. Although FDI volumes from Asia are not high compared with what advanced nations have ploughed into Africa in the last century and a half, the rate of growth is high. There is also a small amount of investment in the other direction, with South African firms beginning to invest in Chinese power, manufacturing and service industries.

Not all countries are benefiting equally, of course. Many countries in both regions are under-performing. In Africa, for instance, about 70% of the continent's total GDP of US\$1 trillion is generated by just five nations: South Africa, Nigeria, Algeria, Morocco and Egypt. This wealth is unlikely to be more evenly distributed in future.

Key trends in Africa and Asia's Symbiotic Relationship

Six trends can be identified that characterise the symbiotic relationship that has emerged between Africa and Asia, and their broader role on the global economic stage.

Trend 1: The commodities and investment boom The rising demand for natural resources, and the corresponding increase in prices, has stimulated the supply of African commodities. At the same time, this demand has encouraged Asian firms to invest in Africa's extractive industries, as well as in infrastructure and construction projects - power stations, roads and railways.

The investment is not just in money, but in a physical presence too, with Chinese and Indian firms running many projects. They have a number of advantages over their western competitors: they have experience in developing their own countries' infrastructure; they have lower material and labour costs; and they have a bigger appetite for risk taking.

Chinese corporate investors in Africa include: Chongqing International Construction, China Civil Engineering Construction, China GEO-Engineering, China National Offshore Oil and ZTE. Indian investors include Tata Africa Holdings, Reliance Security and Bajaj Auto.

Asian companies are investing in other sectors of the African economy as well. For example, the Industrial and Commercial Bank of China paid US\$5.6bn in 2007 for a 20% stake in South Africa's Standard Bank; soon after, China Development Bank struck a partnership deal with Nigeria's United Bank of Africa.

Asian governments, particularly the Chinese, are keen to provide grants and interest-free and low-interest loans to African countries to help them develop their industries and social services, mining and infrastructure. It's not purely altruist because aid of this nature assists Asian firms when bidding for related business.

Some African governments provide financial incentives to foreign investors, such as low tax rates for setting up manufacturing facilities in special zones. Africa's credit risk ratings have improved significantly in the past decade, which has encouraged FDI. In 2000, most African countries were rated below investment grade; now, several have improved investment grade ratings.

The Belinga iron ore mine in Gabon illustrates the mutually beneficial relationship that can exist between a commodities supplier and its investors. The US\$3bn project - which includes a railway, port, dam and power stations - was won by CMEC, a Chinese consortium, with financing provided by Export-Import Bank of China. The mine will commence production in 2010. The benefits for China will be a source of iron ore for China's steel mills; the benefits for Gabon will be a share of the mine's revenue, thousands of jobs and related infrastructure development.

Trend 2: Rising demand for low-priced manufactured products The entire world wants the competitively priced, high quality goods that China, India and other newly industrialising countries in the region produce. Africa, on the whole, is more interested in low price than high quality and Asian manufacturers are able to meet this demand, which has arrived at the same time as demand from advanced countries has slowed down in the face of a possible recession.

Trend 3: Per capita income in Africa and Asia is increasing, driving consumer demand High rates of economic growth in both continents have raised per capita income, boosted individual prosperity and increased consumer demand. Gross domestic product (GDP) per capita in Africa is still low, averaging US\$1,592 across the continent. The richest are Equatorial Guinea, with US\$7,802 per capita income, followed by Botswana (US\$6,869), Gabon (US\$6,527) and South Africa (US\$5,384); while the poorest are Ethiopia (US\$177), Malawi (US\$171), DRC (US\$144) and Burundi (US\$119). Africans have become bigger consumers than they were five years ago, spending mainly on basic items such as everyday household goods and clothes.

As for Asia, GDP per capita across developing Asian countries (i.e. excluding Hong Kong, South Korea, Taiwan, Singapore and Japan) averages US\$3,841, the richest being Brunei (US\$51,004), Malaysia (US\$13,315) and Thailand (US\$7,900) and the poorest being Burma (US\$1,039) and Afghanistan (US\$723). With higher per capita incomes than most Africans, recent consumer demand in developing Asian countries has focused on more sophisticated and expensive items such as cars and white goods.

Trend 4: More trade openness

There is more transparency in trade than five years ago. Many emerging economies have instituted trade reforms and entered into regional agreements to open up their markets to imports, with free trade zones in east Africa, west Africa, southern Africa and southeast Asia. It is also easier to access information on tariffs, import duties and trade rules. Possessing such information used to be a source of competitive advantage, but today it is less so.

However, African and Asian countries still impose many barriers to trade, information on commercial opportunities is limited and the multitude of regional agreements, while bringing benefits to signatories, can be confusing.

Trend 5: More investment from Africa into Asia Developing nations are investing more in other developing nations, rather than in advanced nations, because that is often where they see the greatest growth opportunities. Since 2003, growth in outward FDI from developing countries has outstripped growth in outward FDI from industrialised countries.

East Asia accounts for most of the outward FDI from developing countries, but Russia, South Africa and Brazil are emerging as major sources of FDI. South African firms are investing in Asia, making the most of the lessons they learnt from their activities in poor, complex African countries which has given them an edge over their US and European competitors.

For example, South Africa's Sasol is hoping to construct two coal-to-liquid fuel plants in China, which would make Sasol the largest foreign investor in China; SAB Miller has set up a brewing joint venture with China Resources Enterprise; and Naspers has bought a 9.9% stake in the Beijing Youth Daily and a 46.5% stake in an internet company.

Trend 6: Emerging markets' multinational corporations Emerging markets are creating world class corporations at a rapid rate. There were 18 companies from developing Asian countries in the Datastream and Bloomberg list of Global 1000 Corporations in 2004. This is expected to rise to around 30 by 2010. Similarly, although there were no banks from developing Asian countries among the top 10 global banks in 2004, by 2008 there were three - all from China.

These mega-companies - such as India's Tata and Suzlon and China's leading banks - have used their market successes at home to spring-board onto the world stage, acquiring companies not just in mature markets but in other developing countries as well.

Global Transaction Services
www.transactionservices.citi.com

© 2008 Citibank, N.A. All rights reserved. Citi and Arc Design is a service mark of Citigroup Inc., used and registered throughout the world. The information and materials contained in these pages, and the terms, conditions, and descriptions that appear, are subject to change. Not all products and services are available in all geographic areas. Your eligibility for particular products and services is subject to final determination by Citi and/or its affiliates. Any unauthorised use, duplication or disclosure is prohibited by law and may result in prosecution. Citibank, N.A. is incorporated with limited liability under the National Bank Act of the U.S.A. and has its head office at 399 Park Avenue, New York, NY 10043, U.S.A. Citibank, N.A. London branch is registered in the UK at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, under No. BR001018 and is authorised and regulated by the Financial Services Authority. VAT No. GB 429 6256 29. Ultimately owned by Citi Inc., New York, U.S.A.

