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South-South Partnerships:
An African Recipe For Growth

Steve Booysen

Steve Booysen is chief executive of the ABSA Group and an honorary professor at the University of Pretoria.

Two emerging Asian economic powers, China and India, are at the center of the African-Asian trade and investment explosion. This striking hallmark of the new trend in South-South commercial relations holds great potential for growth and job creation in the poverty-stricken sub-Saharan region.

According to the World Bank, Indian and Chinese foreign direct investment (FDI) has grown considerably, with China's FDI in Africa amounting to $1.18 billion by mid-2006.[1] What is taking place in China, India, and Africa is part of a broader trend in the world of rapidly-growing South-South investment and trade relations among developing countries, evidenced by the formation of initiatives like the India-Brazil-South Africa (IBSA) alliance. Trade with Asia is producing affordable goods that are either being sold in Africa or exported to Asia. India-Africa bilateral trade has risen from $967 million in 1991 to $9.14 billion in 2005. Trade between China and Africa has quadrupled in the last five years to reach $40 billion in 2005.[2]

As World Bank Economic Adviser Harry Broadman aptly said, "This is allowing Africa to enter into this network of more sophisticated third-country global exports."[3] Could this be an opportunity for African countries, which have traditionally looked to the West, to turn to the East? If so, how does Africa become a more equal partner in an interactive developmental relationship, rather than being primarily reliant on development aid?[4]

This article will present a new perspective on South-South partnerships, focusing on what Africa can do for itself by learning from India's development model and how Africa can benefit from Chinese investment. Africa needs to take responsibility and ownership for itself, partnering with other Southern states. This requires establishing a dynamic relationship with countries outside the continent rather than being overly dependent on them for investment in and economic growth of the African continent.

The challenge is for countries in Africa to increase their capacity to attract and make good use of private investors.

China: A Partnership in the Making. Although it is an emerging economic superpower, China continues to portray itself as a developing nation. Chinese media emphasize the quasi-natural convergence of interests between China, "the biggest developing country[,] and Africa, the continent with the largest number of developing countries."[5]

China's increased involvement in Africa over the past decade is one of the most significant developments in the region.[6] Of the wide range of Chinese activities in Africa, economic transactions provide the most powerful evidence of China's growing relationship with the continent. Consequently, the rapid expansion of Chinese-African trade deserves particular attention. Between 1989 and 1997, bilateral trade volume grew by 430 percent and has more than quintupled since then. It reached $24 billion in 2004, amounting to 6.3 percent of the extra-regional trade by states south of the Sahara.[7] By 2005 China had bilateral trade and investment agreements with 75 percent of African countries.[8] In 2005 China overtook the United Kingdom as Africa's third most important trading partner—after the United States and France. Furthermore, China has signaled its willingness to negotiate a free trade zone with southern African states.[9]

In addition to the primarily *commercial* objectives of its export trade with Africa, the *strategic* value of China's imports from the continent stands out, especially when natural resources are considered. China's share of global demand for mineral resources such as aluminum, nickel, and copper varies between 76 and 100 percent.[10] Similarly, China's oil consumption will increase dramatically over the next three decades, as well as its reliance on oil imports, which accounted for 37 percent of its oil consumption in 2003.[11] Africa's resource-rich countries are in a position to provide an ample percentage of China's requirements. Angola, Beijing's most important African oil supplier, exported 117 million barrels to China in 2004, a 60 percent increase from the previous year.[12]

Perhaps the most striking element in recent Sino-African relations is the extent to which China has been welcomed with open arms by many African leaders. By offering their African counterparts a mix of political and economic incentives, the Chinese government is successfully driving home the message that increased Sino-African cooperation will inevitably result in gains for both sides. The power of this argument is enhanced by a subtle discourse which posits China not only as an appealing alternative partner to the West, but also as a better choice for Africa. China's non-intrusive investment policies and approach make it an attractive partner for African governments.[13] Chinese companies are also less risk-averse than their Western counterparts, approaching the challenging political and economic environment in many African states as an economic opportunity.

Although the Chinese conceptualize the emergence of South-South relations as a historic opportunity for African countries to escape the neo-colonial ties to the West, it is not evident that Chinese-African trade differs significantly from trade between Africa and Western partners.[14] The structure of South Africa's trade relations with China thus mirrors the wider problem of Africa's unbalanced trade relations; some 90 percent of its exports to China consist of raw materials: ore ferrochrome, platinum, and diamonds.[15] There is, however, some evidence that the economic activities of Chinese entrepreneurs can make a positive contribution to local development.[16]

African countries need to recognize that trade with China will not have a positive impact on their economies per se. Chinese and African businesses are first and foremost economic contenders for investments and markets—in particular in labor-intensive and export-oriented manufacturing like textiles and clothing. This imbalance has the effect of Africa creating jobs in China while Chinese imports undermine job markets in Africa. While this is the result of legitimate market competition, it contradicts Chinese statements that enhanced Chinese-African interaction always results in win-win situations.[17] That being said, China has taken steps to limit the negative impacts of trade, including its recent self-imposition of textile quotas in an effort to curb job losses in the South African textile industry caused by cheap Chinese textile imports.

India as a role model. Instead of depending on trade with China to improve its fortunes, Africa should look to India and attempt to follow its path to economic success and development. After three post-independence decades of meager progress, India's economy grew at 6 percent per annum in just over two decades and at 7.5 percent per annum from 2002 to 2006—making it one of the world's best-performing economies for a quarter century. In the past two decades, the size of the middle class has quadrupled and 1 percent of the country's poor has left poverty every year. While India has relied on the classic Asian strategy of exporting labor-intensive, low-priced manufactured goods to the West, Indian policymakers have also promoted its domestic market over exports, consumption over investment, services over industry, and high-tech over low-skilled manufacturing. As a result of this unique approach, the Indian economy has been relatively insulated from global downturns, showing an impressive degree of economic and political stability.[18]

India's consumption-driven model is also more people-friendly than other development strategies. Consequently, inequality has increased much less than in other developing nations. Approximately one-third of GDP growth is due to rising productivity—arguably a truer sign of an economy's health and progress than increases in the amount of capital, labor, or direct foreign investment.[19]

Africa is a continent of rich natural and mineral resources where labor is plentiful but underdeveloped. Agriculture accounts for 40 percent of Africa's total exports and 70 percent of its labor force.[20] Developing labor as a valuable resource would lead to an increase in services and the production of goods. The Indian model focuses on promoting domestic market growth, increasing consumption rather than foreign investment, and improving skills and services—all of which raise production. This strategy would lead to an increase in economic growth and infrastructure development. With these developments, African countries would increase domestic consumption and financially empower individuals, thus increasing economic growth both locally and globally. Rather than relying on foreign aid, Africa could develop endogenously. In this process, Africa must do more to mobilize its own financial resources by encouraging personal capital formation among the millions of Africans who are currently outside the financial system.

The improvement in Indians' standard of living is a central element of India's model. India has focused on education—specifically on math and science, which has driven the information technology (IT) boom in India. Indian entrepreneurs have shown vision and unbridled optimism in creating an explosion in the IT sector that is flowing to all parts of the economy.[21] India's development strategy has also been fuelled by sector-specific growth. The wealth created in the IT sector has spawned a number of international players such as Infosys, Tata Consulting Services, and Satyam. These firms are not only leading the way in India but have also contributed significantly to global best practices in the sector.[22]

The presence of these global companies has contributed to the positive evolution of the legislative landscape and government policy. In transforming African economies, policymakers will need to emphasize rooting out corruption, improving education, reducing bureaucratic red tape, strengthening the rule of law, and providing greater protection for intellectual property. The importance of these reforms alongside economic development can be seen by India's steady rise in global competitiveness, witnessed by its position ahead of China in the World Economic Forum's latest Global Competitiveness Report.[23]

The two largest growth opportunities in Africa are infrastructure investment in the short term and retail growth in the long term. Economic growth enables a society to benefit from increases in production, revenue, and profits, and also encourages personal capital accumulation. A society characterized by a strong sense of ownership and property rights is a more stable society and in the long run is less dependent on foreign aid.[24]

The role of businesses and governments in defeating poverty revolves around economic growth through mobilizing capital, encouraging small and medium-sized enterprises, and developing intellectual and physical infrastructure. In addition, successful developing nations such as India have an enviable savings and investment culture among the rapidly growing middle class and even below the middle market. The concept of village banking has been successful in mobilizing the capital of individuals through high volumes of saving and loan activity for small amounts. Ways must be found to encourage savings and investment in Africa as the first step toward creating an ownership society.

If Africa is to develop a robust savings and investment culture, some practical issues will need to be addressed. First, the lack of official identification of millions of African citizens must be overcome. The implementation of the Financial Intelligence Centre Act (FICA) legislation requires banks and other financial system intermediaries to establish and verify the identities of citizens. This is difficult in remote villages and informal settlements where individuals have no proof of identification, no utility bills, and sometimes no street address. While a large number of potential account-holding Africans have income, they do not have a readily identifiable residence, which makes it difficult for banks to accept them as clients under the latest requirements of FICA and other global laws aimed at combating money laundering and terrorist funding.[25] Nevertheless, African consumers must be encouraged to become owners so that financial institutions can mobilize their capital for further development and investment opportunities within the continent.[26]

One of the outcomes tabled at the World Economic Forum on Africa in June 2006 was to improve Africa's role in determining terms of engagement with China. African countries are increasingly moving away from the perception of China as a threat to dialogue, strengthening the partnership and maximizing the opportunities arising from trade and investment with Asian giants.[27] With the right institutions in place, Chinese investment in Africa could be harnessed for the benefit of Africans. China's FDI potentially presents an opportunity for all Africans to develop their own personal capital and empower them to be become financially independent. It also assists Africans extend beyond the development curve of foreign aid and become self-sustaining.

The Chinese and Indian hunger for commodities is an opportunity that could create significant wealth and global champions in the extraction sector. By incorporating new technologies, African companies can differentiate themselves by wiring from the ground up to be more agile, more innovative, and more intelligent than their first-world rivals. Although India built its current boom around sector-specific strategies, particularly IT, Africa needs to develop solutions tailored to its own strengths. This creates a business climate that fosters innovation and growth.

Trade between China and Africa has quadrupled in the last five years.

African countries benefiting from increased demand for their natural resources should invest current profits in long-term priorities; projects focused on education, health care, and infrastructure are necessary for sustainable economic development. While primary school enrollment rates in sub-Saharan Africa increased from 83 percent in 2000 to 95 percent in 2002, the World Bank reports that an estimated 40 million children in the region still do not go to school at all.[28] If Africa invests money earned today in producing engineers and software developers, the same opportunity to generate India-type growth in the IT sector may arise. It is essential for Africa to ensure that the education and skills necessary for other key growth areas are in place.[29]

In addition to educating its future workforce, Africa must also do more to retain current talent in order to sustain economic productivity and development. The "brain drain" from Africa requires immediate attention. Trevor Manuel, South Africa's Minister of Finance, estimates that seventy thousand professionals leave the African continent each year. As part of its efforts to curb the loss of professionals, the South African government has reached an agreement with the UK government that the British health service will not actively recruit South African medical staff. It is important for other African countries to take similar steps if Africa is going to develop itself.[30]

An African Recipe for Growth.

Any plan for creating a uniquely African growth strategy must first recognize forces that will propel change across Africa, such as economic growth, demography, democracy, the external environment, the non-governmental sector, conflict, and the African diaspora.[31] Greater investments in education and health, accompanied by improvements and capacity-building of these services to Africa's most underprivileged societies, are fundamental to African growth. Capable domestic leadership and domestic reforms that encourage FDI, capital accumulation, and endogenous growth will help create the economic environment necessary for managing Africa's many challenges.[32]

African governments need a continual stream of new ideas and dynamism if they are to drive the reform agenda. Africa's private sector, traditionally marginalized, needs the space required to realize its full potential as an engine for growth and job creation.[33] A dynamic private sector is essential for economic growth, serving as a source of energy and innovation and an important link to the international economy.[34] FDI should be encouraged as a way of promoting economic growth through private sector competition. Of a total $135 billion of FDI in 2003, only $9 billion went to sub-Saharan Africa, and half of this went to only three oil-exporting countries.[35] In 2004 Africa attracted about $12 billion in FDI, about 3 percent of the global total.[36] The challenge, therefore, is for countries in Africa to increase their capacity to attract and make good use of private investors.

African countries themselves must drive economic thinking if the continent is to move from crisis management to sustained development.[37] In this effort, the creation of an ownership society and the mobilization of African capital through the encouragement of personal capital accumulation at all levels of African society are undeniable imperatives.[38] Within this framework, financial systems must encourage the right savings habits—even with small amounts of money—so that Africa can develop a culture of savings and investment across classes. If the total volume of all African wealth could be captured in the financial services net, it could help fund other productive assets. In the future, this would allow Africans to fund their own growth and development rather than being increasingly dependent on external sources of funding such as aid.

One way of promoting private sector growth and competing with the massive economies of the South would be for African countries to develop public-private partnerships that promote development. Robust public-private partnerships would demonstrate that African governments no longer distrust the private sector and that they are anxious to promote market forces. Another important step would be for sub-Saharan countries to move closer in their formal economic relations by creating a trade union to facilitate the free flow of goods, services, and people. Finally, and most fundamentally, Africa needs to create productive capacity within African countries.[39]

Learning from the Indian model and benefiting from Chinese investment in Africa, African countries need to realize that growth begins at home. By learning from India's consumption-driven economic growth model, which promotes an ownership society and encourages personal capital formation, Africa can stimulate economic growth within Africa and by Africans. Furthermore, China's investment in infrastructure in Africa will increase production and increase exports, which will further stimulate economic growth and enable Africa to sustain development. The combination of the Indian consumption-driven model and China's investment in infrastructure in Africa provides the African continent with its two biggest growth opportunities for future economic self-reliance.

NOTES

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