

# China and India, the 'Emerging Giants,' and African economic prospects

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## Abstract

China and India, coined as the 'Emerging Giants', are major Asian players in a globalising world. Both powers are forging relationships with diverse regions to pursue their strategic interests. In this context, this essay unfolds key facets of the growing, but controversial ties, between the two nations and Africa; ties which are underpinned by flows of trade and investment. It argues that despite the persistence of historical (colonial) biases in exchange tilted against Africa, there remains the potential to induce structural economic changes that could address current imbalances. This requires African states to bolster their bargaining prowess to tackle challenges stemming from the relationship.

## Policy Implications

- African states should ensure that they use their ties with China and India to break away from historical (colonial) biases in trade and investment, and shift towards sectors, industries, and services which can stimulate domestic and external diversification and structural transformation.
- Africa's trade and investment ties with China and India reveal:
  - (a) in the short term, Africa should use its increased income from 'booms' in 'traditional' exports (eg, commodities and minerals) to invest in basic needs and infrastructure, and enhance its industrial and technological capacity. This can safeguard Africa from fluctuations in prices and demand in the world market for 'traditional' exports, while helping to build its economic capacity and take advantage of shifts in future world demand towards manufactured goods and new services.
  - (b) the urgency of removing trade barriers in Asia to boost exports of African processed goods and infant industries. This could stimulate the growth of such sectors and those which supply inputs to them, thereby enhancing the prospects of structural change
  - (c) the scope in the medium and long term of shifts in the nature of Asian investment in Africa towards new industries and sectors (e.g. agro-industries, SME's, pharmaceuticals, textiles, IT, banking and retail) offers the chance of accelerating diversification and moving from an agricultural to a more industrial and technology-based economy
- African states have to bolster their bargaining strategies vis-a-vis China and India to minimise the risks and harness unique medium and long term opportunities through using national, regional, and international institutions, and ushering in economic development.

## **Globalisation and China and India**

Globalisation is an historical process. It envisages a compression of the world, blurring of national borders, interlocking of nations, and mounting transnational relations, with a shift in emphasis from state to market forces as the drivers of policy. This is the context within which China and India, coined as the 'Emerging Giants' (EG), are reshaping national and global destinies. This makes it critical to investigate more fully the relationships they hold with diverse regions to enhance their strategic interests.

The 're-emerging' powers of China and India account for 40% of the world's population. Viewed together, they controlled around 44% of the world's GDP in the 18th and the 19th century, however, their hold loosened in the 20th century from 16.4% of global GDP in 1913 to 8.7% in 1950, rising to 12.59% (average between 1985 and 1995) and 16.88% (between 1995 and 2003). Forecasts suggest that by 2025-30 there will be resurgence of their power as they once again come to control over 40% of the world's GDP.

Over the recent years, both nations have achieved high growth rates using different 'models' of development; China has functioned within a 'centralised' political structure centred on 'state-led' development that is increasingly embracing the private sector; India has adopted for a 'mixed' (state and market) based economy within a 'democratic' political system.

Over 2006-11 the compound annual growth rate of China has been 10.6 % compared to India's 8.2 %, while the two nations' trade as a percent of global GDP rose from 1.1% in 1990 to 3.6% in 2004. Moreover, they have both been opening up fast with trade as a percent of domestic GDP being 40% in China and 30% in India, while FDI, though currently modest, is expected to rise in the future. Furthermore, it is forecasted that China will be the second largest economy in the world by 2016 and India the third largest by 2035. Poverty, however, is likely to remain a major challenge for both.

Inevitably, the futures of many nations are intrinsically tied to the rise of China and India, making it is critical to assess their exchange with these powers.

## **China, India and Africa: Strategic Shifts**

The ties between China, India and Africa, though growing, have been somewhat controversial and emotional. This has unfolded against a backdrop of a gradual shift in emphasis in the strategic vision of the two Asian nations from a mixture of ideology, politics and economic support to an intensification of economic development spurred by liberalisation. This is set in the context of their global economic ambitions.

China's thinking on Africa has steadily moved from a combination of ideological, political and economic imperatives to a more forceful pursuit of economic development against a backdrop of its drive to liberalise in the late 1970s. Relations between China and Africa over the last five decades can be separated into three epochs. The epochs are related to African nations gaining independence in the 1960s and China winning a permanent seat on the UN Security Council in 1971.

Before 1990, China and Africa shared a common struggle against western hegemony. China assisted Africa in diverse ways: first, supporting nationalist movements with the aim of fighting colonisation; second, by initiating large construction projects (e.g. the Tazura Railway); third, by dispatching medical teams to Africa; and, lastly, by offering scholarships to African students wishing to study in China. In the 1990s, the links between China and Africa started becoming more pragmatic with economic development as the major goal. On the one hand, Africa, with its apparently unlimited resources, was seen as an ideal partner and a potential market for China's low-valued manufactured commodities. While on the other, oil became a key export from Africa to China. Furthermore, the latter's companies began investing in African infrastructure including factories. However, the exchange between the two has been somewhat soured by vehement critiques of China's stand on human rights, the environment and Africa's governance challenges.

The ties between Africa and China climaxed in the major Beijing Summit in November 2006. The summit focused on co-operation and 'mutual development', with its vision captured in the Africa Policy Paper (2006). The six-day event was attended by 40 African Heads of State. For their part, Chinese President Hu Jintao reassured African leaders that 'China will forever be a good friend, good partner, and good brother of Africa.'

This vision was to be implemented through (a) aid, (b) a Development Fund, (c) preferential laws, (d) trade market opening, (e) debt cancellation, (f) training, and (g) building hospitals. Alongside these initiatives it was pledged to bolster China's peacekeeping role in Africa. More recent moves by China to extend its influence on the continent are symbolised by its gift of a new African Union building in Addis Ababa, Ethiopia, at the start of the year.

India has moved at its own pace to enhance its ties with Africa, shifting emphasis from championing movements against colonialism, along with the pursuit of commerce, to placing more stress on economic growth in line with its own thrust to liberalise in the early 1990s.

India's exchange with Africa is rooted in the pre-colonial period with subsequent developments in the colonial and the post-colonial era. In the 18th century the territories were tied through migration and commerce. Indian links with business contacts in East Africa were utilised by traders through imports, exports and shipping. India's later ideological support unfolded through its challenge to racism. This is exemplified by Gandhi's 'Satyagraha' movement in South Africa (1906-14) to fight for the rights of Indians. However, only the future will tell if Gandhi's vision of the relationship will prevail and if "the commerce between India and Africa will be of ideas and services, not of manufactured goods against raw materials after the fashion of western exploiters" (Beri 2003).

The basis of Africa policy by India, after its independence (1947), was laid down by the Prime Minister, Jawaharlal Nehru. This occurred on two fronts: first, the struggle against colonisation and racial discrimination in South Africa; second, to supporting People of Indian Origin (PIO) to confront similar problems. Over the last four decades, India has given more than US \$2 billion in technical assistance to countries in the South, with the bulk going to Africa. In the last decade a number of initiatives have also promoted trade with the African private sector. This coexisted with the public sector. Most of the imports consisted of agricultural products, minerals such as copper, and oil, while exports comprised textiles, pharmaceuticals and engineering products (Beri 2003, Arbab 2008).

India-Africa links climaxed in the India-Africa Delhi Summit held in April 2008 with the participation of

14 African countries. The aim was to reinforce firm partnerships in the core areas of trade, energy and cooperation and on global issues such as the UN reforms, terrorism and climate change. However, India's own interests were made explicit by its Petroleum Minister, Murli Deora, who declared "Africa is pivotal to our energy security and we have decided to have a sustained engagement with them."

The rhetoric within the Delhi Declaration and the Framework for Cooperation, both of which emerged from the summit, set out to enhance mutual development. Firstly, they included a political document covering bilateral, regional and international issues of shared interest (exemplified by UN reforms, climatic change, WTO and international terrorism); secondly, they centred on cooperation in major areas to stimulate development (education, science and technology, agricultural productivity, food security, industrial growth, infrastructure health). India's pledges were reiterated at the second India-Africa Summit in Addis Ababa, Ethiopia in May 2011 with goals of boosting trade from \$45 billion in 2011 to \$70 billion by 2015, providing an additional \$500 million of aid to the \$5.4 billion already promised, and building capacity. Despite these promised engagements India still lags behind China, whose trade with Africa is over \$130 billion.

### **China, India and Africa: trade and investment ties**

Trade and investment have underpinned the ties of China and India with Africa. This can be uncovered through examining recent trends in Asia-Africa economic exchange.<sup>1</sup> It emerges that there are persistent historical biases, rooted in the colonial era, tilted against Africa in terms of the nature of trade and investment. This has led to a dependence on exports of commodities and minerals; the import of manufactured and capital goods; and the overwhelming investment in extractive sectors with the limited creation of employment. However, despite this imbalance, the relationship between the Asian countries and Africa is gradually ushering in new trade and investment

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<sup>1</sup> Asia includes Bangladesh, Cambodia, China (including Hong Kong and Macao), India, Indonesia, Japan, Republic of Korea, Malaysia, Maldives, Mongolia, Nepal, Pakistan, the Philippines, Singapore, Sri Lanka, Taiwan, Thailand and Vietnam.

possibilities with diverse industries and services beginning to emerge. This arouses the hope of inducing structural change in African economies.

Although trade between Asia and Africa has been growing rapidly in recent years, the US and Europe still remain the major trading partners. Thus, while exports from Africa to Asia tripled over the last five years, the latter is only Africa's third largest trading partner (27%) after the European Union (32%) and the US (29%). However, Africa's growth of exports still remains relatively small, accounting for only 1.6% of Asia's global imports. For their part, Asia's exports to Africa are growing fast (about 18% per annum) and are currently higher than any other region including the EU.

Africa's trade structure reveals biases with exports of primary and resource-based goods, and imports of capital and manufactured goods. Exports mainly consist of primary products such as oil, metals, minerals, and lubricants (accounting for 24.9% of total exports in 1996 and rising to 67.3% in 2004). Furthermore, the export of such products is likely to increase as major Asian countries like China are expected to industrialise rapidly over the next decade.

At the same time, African imports of Asian goods (especially from China) show a marked increase from US \$895 million in 1996 to US \$ 7.3 billion in 2005 (a rise of 712%). Imports often consist of intermediate inputs for products assembled in Africa and shifted out to third markets in the EU and the US or capital goods (machinery) and equipment for African manufacturing sectors. There is also a sizable amount of African imports of consumer durables, such as textiles and leather based products from Asia which may compete with Africa's domestically produced products.

Barriers, specifically tariff, non-tariff and tariff escalations, have thwarted trade between Asia and Africa. While Asian countries impose higher import tariff rates on imports from Africa compared to those from US and EU, African nations put high tariffs on Asian imports. Along with inhibiting the export of higher value added processed products from Africa, tariffs affect some of the continent's leading exports to Asia; especially food such as coffee, cocoa beans, and cashews. Lifting such barriers could stimulate growth of new industries in Africa and employment.

Foreign Direct Investment (FDI) is essential to stimulate the Asia-Africa exchange. However, to date, FDI in Africa has been capital intensive, centred on extractive industries with limited cross-sector linkages and employment creation. FDI has also displaced existing producers with limited 'spin off' effects as the linkages are poor. Gradually, however, investment in other sectors is emerging. This includes FDI centred on infrastructure, apparel, agro-processing, power generation, road construction, tourism and telecommunications.

Against the outlined backdrop of Asia-Africa economic exchange, the specific ties between China and India and Africa can be monitored more closely.

Although Africa makes up only 2.3% of China's world trade, trade between China and Africa surged from US \$3 billion in 1995 to US \$32 billion in 2005 and about US \$55 billion in 2007. While China constitutes about 10% of Africa's world trade, for some African nations exports to China are assuming a major share of their export portfolios. For example, in 2005, exports to China constituted about 70% for Sudan from a mere 10% in 1995; in the case of Burkina Faso it went to about 33% from 0% in 1995; and for Ethiopia it was about 13% from a baseline of 0% in 1995.

The pattern of trade is also gradually shifting from the EU, Africa's traditional trading partner, whose share declined from 44% to 32% between 1995 and 2005 to the US which has witnessed an increase in its share from about 11% to 19% over the same period. However, it should not be overlooked that Africa's trade with China is second to the United States (whose trade with Africa amounted to \$140 billion in 2008). Africa's trade rose from \$55 billion in 2006 to around \$107 billion in 2008, accounting for 4.5 per cent of China's total trade and surpassing the \$100 billion trade target set for 2010. China has also been investing heavily in African countries rich in natural resources. This is exemplified by its pledge to invest around \$4 billion in Nigeria in return for oil rights and its offer to Angola of \$4 billion of concessional credit to be paid at a later date in oil (Geda 2008).

FDI from China into Africa has been gradually increasing in recent year. This growth is exemplified by an increase of 77% in the first nine months of 2009 in comparison with the same period in 2008. At the start of Africa's post colonial

era FDI was concentrated in infrastructure (e.g. railways), yet the sectors in which investments were made gradually widened to include oil, gas and mining along with agriculture centred on cotton production. In recent years investments have also been made in telecoms, especially in utilities, in 20 African countries. However, overall investment remains most pervasive in infrastructure including show-piece construction such as government buildings and sports stadiums, while investment in manufacturing has concentrated on labour intensive activities (e.g. garments).

Investments by China have also been growing in small-scale manufacturing enterprises (SME's) in Africa. This marks a shift from a state-led thrust to more emphasis on the private sector. This could stimulate structural change in 'weak' African states with limited finances and logistics. For example, they may turn to SME's to undertake investment in critical manufacturing (including infant industries) and the service sector. In this context debates have raged over the extent to which Chinese investments (and to some extent Indian) can create employment. This stems from controversy over the use of expatriate labour forces which may limit jobs for the local population and arouse hostility (as has been the case in Zambia). However, it is now argued that Chinese projects in Africa, such as in infrastructure construction, may utilise limited amounts of its own labour. In sum, the impact of Chinese and Indian investment on employment in African countries remains inconclusive and has to be tested through empirical case studies.

Chinese aid based on grants, zero-interest loans and concessional or fixed-rate low-interest loans could also buttress African structural change. About 40% of China's aid has been financed through grants. Moreover, zero interest loans are a major feature of its aid, along with government scholarships for African skills, the provision of Chinese medical teams, 'turnkey' projects (i.e. those ready for immediate use), telecommunication networks, infrastructure and technical assistance.

Driven by the "quest for resources, business opportunities, diplomatic initiatives and strategic partnerships", India has also been making inroads into Africa. The country's trade with Africa, as mentioned earlier, is about \$ 45 billion, but it hopes to boost this to US \$70 billion by 2015. However, after losing a series of bids for oil rights and

infrastructure projects to China, India recently embarked on a laudable new approach in Africa centred on blending trade and investment with development.

In terms of FDI, India, with strong historical ties with Eastern and Southern Africa, and a sizable diaspora, has exerted leverage by attracting new investment to Africa. This has been supported by its access to foreign reserves and its decision to lift regulations and controls on firms operating abroad. It has also been investing in new sectors including financial, food processing and light manufacturing. This has coexisted with the aggressive use of state-owned development banks to invest heavily in key sectors in countries like Nigeria and Sudan; a policy that India hopes will secure its strategic economic interests centred on Africa's oil, gas and other natural resource-based industries.

Overall, Indian companies have been making major investments in copper mining, as in Zambia, and iron ore and steel refining, as in Liberia and Nigeria. Investment by Indian companies also extends to infrastructure. To illustrate, state-owned infrastructure and engineering companies RITES and IRCON have supported Africa's rail and road development and its engineering companies. Furthermore, the recent investment pattern in Africa indicates future possibilities in industries-chemicals and pharmaceutical production, iron and steel mining, textiles, transport, banking and the retail sector. This has been led by major private (eg. the Tata Group and Mittal Steel) and public (eg. Rites and Ircon) companies. Moreover, the Indian state has supported the public companies through credit (eg. Exim). The hope of building critical human capital (health and education) has also been aroused by the creation of an Indian pan African e-network to link 53 African countries to Indian universities and hospitals.

The policies of China and India in Africa reveal similarities as well as differences. Although the two Asian nations compete in an implicit and explicit manner, China is ahead of the race on all fronts. On examination, it emerges that India has relied much more on its private sector, albeit with necessary state support (e.g. credit), to drive its engagement with Africa. While China, which also has a history of using its state, is increasingly turning to its private sector to steer its Africa policies. Moreover, it is increasingly apparent that

China's economic investments may be enhanced or constrained by political factors including its ambiguous stand on human rights and its silence on abuses in regions such as Darfur. This largely contrasts with India's lukewarm response to such issues, although it too avoided criticising the Sudanese government on Darfur against a backdrop of the completion of oil contracts and investments, including a \$ 200 million pipeline linking Khartoum and Port Sudan. Both powers, however, have played an important role in peace keeping in African nations beset by inter and intra state conflicts which sadly continue to thwart the continent's overall development.

### **China, India and Africa: economic prospects**

To enhance their economic prospects African states have to cope with unpredictable challenges stemming from the intensification of their relationship with China and India. This challenge is particularly important in the context of a shift in global power towards Asia. It requires bolstering the bargaining prowess of African states, supported by domestic civil society (e.g. NGO's), regional (e.g. African Union, NEPAD) and international institutions (e.g. World Bank, IMF). The thrust should be on tackling any risks and harnessing potentially unique opportunities to diversify and restructure African economies. At the same time, Africa could draw lessons from the contrasting developmental 'models' of China and India. Moreover, African leaders could join forces with the two Asian nations to overcome shared global economic and political obstacles (e.g. reforming international trade and finance). Such strategies, however, are embedded in Africa's domestic 'governance' underscored by basic needs and basic rights.

In short, economic exchange, through flows of trade and investment, could stimulate exports of commodities and enhance trade, provide funds for investment for basic needs and infant industries, especially in 'fragile' states, and enable access to cheap intermediate inputs for industry. However, trade has to be supported by removing mutual barriers such as tariffs. This would serve to increase competitiveness and offer consumers the choice of a range of imported goods and services. Yet it must be recognised that some exports from China and India (i.e. African imports) could lead to a fall in the demand for locally produced goods and

services in Africa, thereby undermining its industrial growth and displacing local labour.

In the medium and long-term much rests on the complementary or competitive nature of trade and investment in sectors which are increasingly attractive to China and India. In this respect, the impact of China and India on African manufacturing, including on the latter's export from third markets, requires monitoring any shifts in comparative advantage from the two countries to Africa. Indeed, there may be opportunities for African countries to increase and diversify their exports by emphasising measures to increase their participation in global networks; develop a range of value-added local industries through forward and backward linkages in resource-based products; enhance sub-regional economic integration; and deepen Chinese and Indian service trade by using Africa as a production base (e.g. for natural resources for overseas markets and construction services for local markets, as well as trade facilitation service providers).

African states, moreover, could strengthen their pursuit of structural change by drawing relevant insights from the diverse and contrasting experience of Chinese and Indian development. Indeed, the two Asian nations have tackled many economic and political obstacles which contemporary African countries confront. In this respect, China, under a 'state-led' economy, offers an impressive history of industrialisation, high savings rate, and marked success in building infrastructure, attracting foreign investment and providing basic needs. India, within a 'mixed' economy, reveals an impressive service sector, a highly skilled workforce proficient in information technology, an agricultural 'green revolution,' and an active private sector. Hence, Africa could harness its growing relationship with China and India to bolster its development strategies.

In summary, the major challenge for African states will be to muster their economic and political strengths to usher in re-structuring of their economies through ties with China and India.

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