



Africa & Asia

Trade & capital flows

Global Markets Research
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Developing Asia's emergence as a global force

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- Developing Asia's share in global trade and global GDP has grown exponentially. Dev. Asia's share in global trade rose from 9.3% in 2001 to 12.6% in 2006, while the region's share in global GDP (PPP) has risen to 27% in 2006 from 22% in 2001
- Over the same period Africa's share in global GDP rose marginally from 3.2% to 3.4% and its share in global trade from 2.0% to 2.5%
- China has become the largest consumer of industrial commodities and second-largest consumer of oil in the world
- China has also emerged as a major provider of aid and investment flows to lesser developed economies — particularly in Africa

Why Asia (and particularly China) is interested in Africa

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- Asia's strong growth requires vast inputs — part of these inputs are commodities which Africa has in abundance
- Asia is also interested in expanding the markets for its manufactured products — while individual countries are relatively small, Africa has a combined population of around 800 million

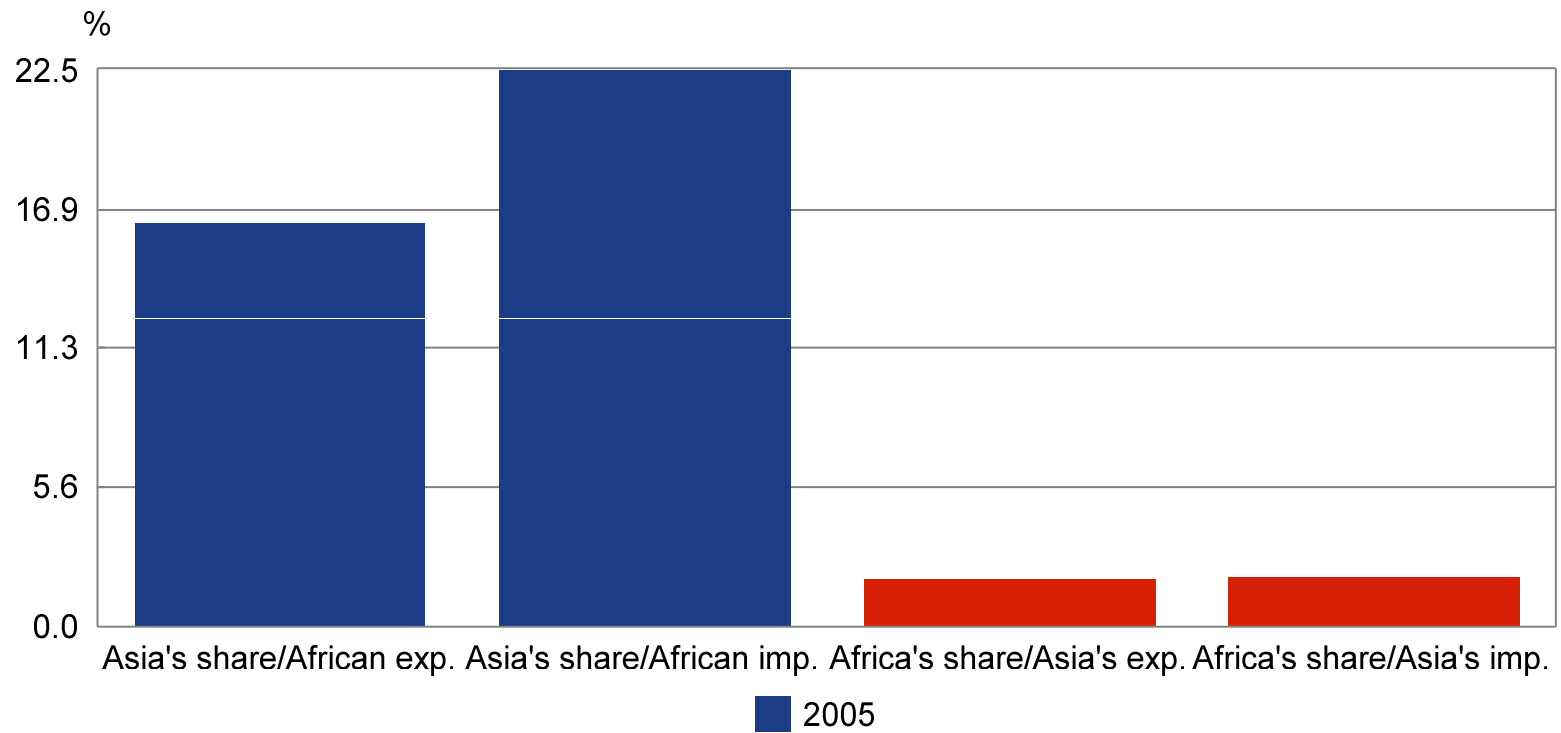
What are the benefits for Africa?

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- Short term
 - Asia's growing demand for commodities have seen prices rising, which has resulted in increased African exports (both in volume and value terms)
 - This has resulted in growing foreign exchange reserves and greater stability in African currencies
- Longer term
 - Asia has generally adopted a holistic approach to its relationship with Africa — including aid, debt relief and co-operation on various levels
 - To secure a steady flow of inputs, Asia has invested in the commodity extraction process in Africa — with positive implications for investment flows, job creation and skills transfer
 - Asian investment in Africa has stretched beyond commodities — strong focus on infrastructural development, health and education — all these are important for economic diversification and sustainable growth

Trade with Asia is more important for Africa

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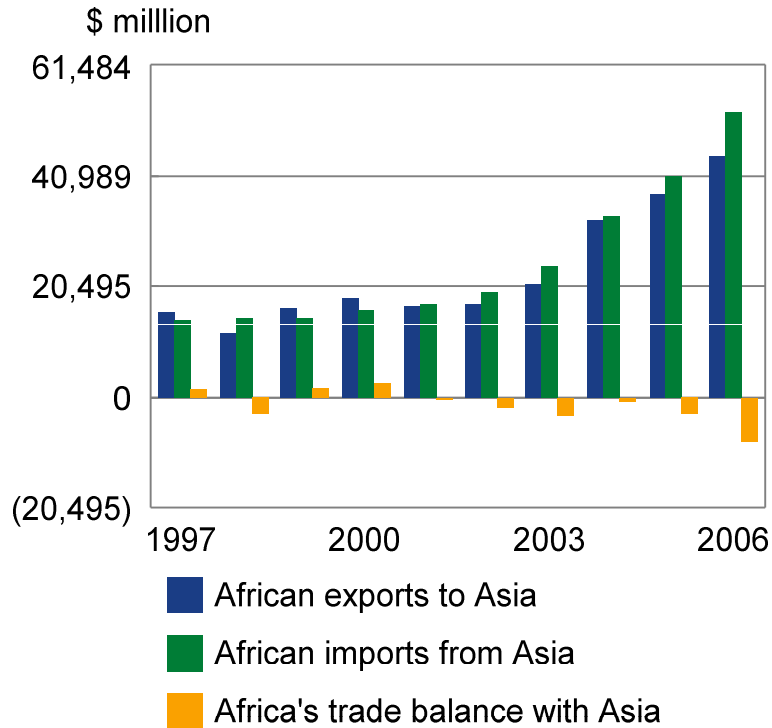


Source: IMF Direction of Trade Statistics

The balance of trade is tilted in Asia's favour

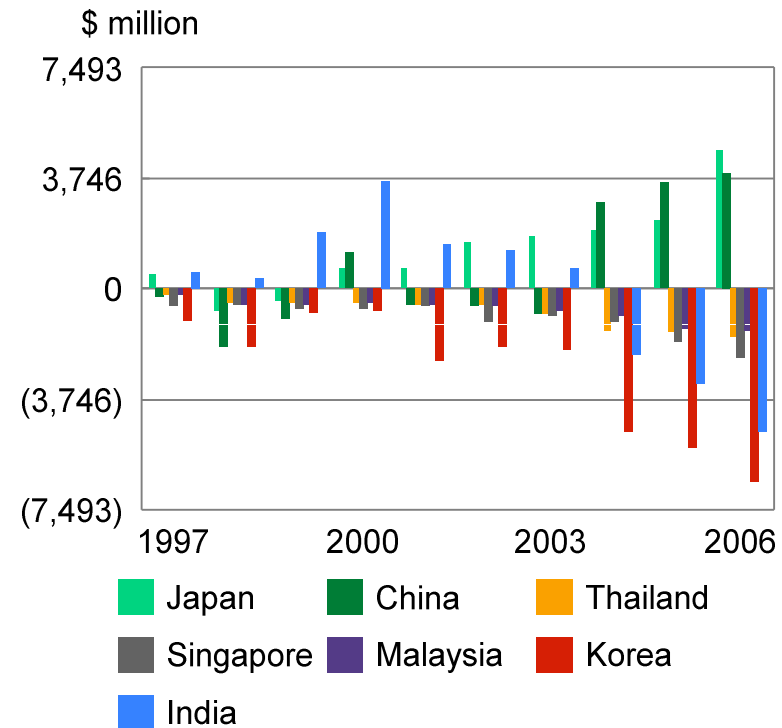
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Africa's trade with Asia



Source: IMF Direction of Trade Statistics

Africa's trade balance with selected Asian trading partners



Source: IMF Direction of Trade Statistics

What are the concerns for the Asia/Africa relationship?

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- Trade benefits for most African countries are being eroded by the simultaneous rise in energy and non-energy commodity prices
- Asia's manufactured exports to Africa are hampering the development of domestic manufacturing industries — a focus area for economic diversification for many African countries
- Asia's relationship with Africa is not prescriptive and unconditional — concerns that “bad governments” in Africa will survive for longer

What can Asia do to level the playing field in its trade with Africa?

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- Further progress is needed in lowering (or dismantling) the import tariffs on African imports (especially value-added to primary commodities)
- Be a little more sensitive to the development of Africa's fragile manufacturing sector
- Use more local content (products and labour) in African-based operations

What can Africa do to level the playing field in its trade with Asia?

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- Continuation of sensible policies to attract FDI and stimulate the domestic business environment — strong link between FDI and trade (in China for example more than half of exports are produced by foreign firms)
- Focus on education and skills development
- Greater labour market flexibility
- Remove bureaucratic obstacles to creating new businesses
- Increase domestic savings
- Improve access to domestic finance
- Lower transport and communication costs
- Develop infrastructure (ports, roads, railways, water, electricity, communication etc.)

What can Africa do to level the playing field in its trade with Asia? (Cont)

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- Fight corruption and crime
- Improve institutional capacity and remove red-tape
- Adhere to international product standards
- Encourage domestic and foreign competition — will deliver more globally competitive companies
- Stimulate Asia/Africa tourism — positive spin-offs for transport costs which will also benefit trade in goods
- Higher levels of domestic value-added — diamond polishing, jewellery design and manufacturing, hide processing, food processing etc.
- Regional approach — economies of scale

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