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Foresight Africa Podcast

"New trends in Africa-Asia economic relations"

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Episode Summary:

Africa's relationship with Asia has changed dramatically over the last few decades. From little economic integration in the early 1990s to the strong trade partnerships seen today, the regions are now strongly intertwined. The continents also face similar economic and development challenges and share colonial histories and cultural values. Host Landry Signé is joined by Amit Jain from the NTU-SBF Center for African Studies to share insights and lessons the two continents can learn from each other.

[music]

SIGNÉ: Hello, I am Landry Signe, senior fellow in the Global Economy and Development program and the Africa Growth Initiative at the Brookings Institution. Welcome to *Foresight Africa* podcast, where I engage with contributors to our annual *Foresight Africa* report, as well as policymakers, industry leaders, and other key figures. You can learn more about this show and our work at Brookings dot edu slash Foresight Africa podcast.

Today on the podcast. I am pleased to welcome Amit Jain. Amit Jain is the director of the NTU-SBF center for African Studies at the Nanyang Business School in Singapore, from where he joins us today. A warm welcome to Amit Jain.

JAIN: Thank you. Thank you, Landry. That was a fantastic introduction. I am pleased to be on your on your podcast. It's an honor.

SIGNÉ: It is always a pleasure to engage with you, Amit. What drew you to economics and international relations?

[1:30]

JAIN: You know, Landry, for as long as I remember, growing up in the western Indian metropolis of Mumbai, I was obsessed with global affairs. Used to read a lot about international relations, geopolitics, and economy. Perhaps, a little more than my peers in school.

So, India at the time was a much less economically dynamic place as it is today. It was a tightly protected market, regulated by the state. It was a time of austerity where most of us lived in an environment of endless need and very little resources. And so, in some ways, it was like living in splendid isolation. Very few people ever traveled overseas those days. And I'm sure many of your listeners outside the United States who are about my age may relate to that era.

But my dad, who then served the state-run oil corporation, ONGC, as an environmental engineer, would often get to travel overseas on official assignments. And he used to bring in chocolates, toys, slick glossy copies of *Time*, *Newsweek*, and *The Economist* and current affairs publications. So, I'm guessing it is that exposure to such things during my formative years of my life that drew me to the field of economics and international relations.

SIGNÉ: Fabulous, Amit. So, how has your interest in Africa evolved given your prior assignment in Asian countries such as the Philippines, Indonesia, Pakistan?

JAIN: Yeah, sure. Well, I have worked in several emerging markets in Asia as well as Africa. You know, you've mentioned Philippines, Indonesia, and Pakistan. But I've also done projects in places such as Burkina Faso, Somaliland, Myanmar, and Papua New Guinea. And more recently, Nigeria, where I presented a ten-year economic roadmap.

Most of my work has been research and advisory. But to answer your question, my interest in Africa really began when I started to write for the *Cape Times* in South Africa almost 30 years ago. At the time, I was the youngest contributor to the news daily. And it was that work that eventually brought me face-to-face with none other than Nelson Mandela. I once had breakfast with him. That is a story for another day, perhaps, but as a moment of professional high, I do not think I can ever top that. Maybe doing this podcast with you, Landry comes close second.

But, I mean, my interest in Africa really started out with my earliest stint as a columnist. I used to write commentaries on foreign policy, economics, and trade with a certain connection with Asia. Over time, my interests evolved, and I started to write on development issues, policy matters, business, and trade flows.

[4:16]

In respect to how you look at Asia and Africa from Washington, D.C., perhaps as a composite Global South, the essential character of emerging markets remains much the same. The tremendous human spirit and energy; the sheer will to struggle against all odds trying to make a better living; the crummy state of urban infrastructure and public services often heaving and creaking under the weight of an ever-growing population; the informality of the marketplace and in many cases a rent-seeking state that thrives on corruption and plunder of natural resources—these are all hallmarks of frontier markets, as you would agree with me.

So, if you're someone like me, or for that matter, yourself, Landry, who've spent a lifetime doing research and fieldwork in places such as PNG Pakistan, you know, then you're almost equally at home doing the same in Nigeria, Egypt, or Kenya.

SIGNÉ: Amit, you mentioned Nelson Mandela. So, you will understand that I will want you to further elaborate on your encounter with Nelson Mandela.

[5:21]

JAIN: Well, I was at the time, as I said, writing for the Cape Times and I happened to be in the United Kingdom, in Cardiff, where they had the European Summit, where Madiba, as he was very commonly called, admirably called, you know, was invited as a chief guest. And because I represented the South African media, even though I myself am not South African, I was invited by the then Foreign Ministry to come and have breakfast with him in his hotel in Cardiff.

And there you go. I was a young, 20-something Indian journalist in Cardiff attending breakfast with Nelson Mandela as part of the South African press corps. It was a moment that I can barely, you know, I cannot forget. And, you know, he took a special liking to me because, you know, I kind of stood out in that, in that very small gathering. So, so that was it in my, small 20 minutes of fame, I suppose.

SIGNÉ: That is fabulous. The NTU-SBF center is described as a practice-oriented think tank that looks at Africa from a trade, business, and investment perspective. Can you describe the center's work and why the center was created?

[6:45]

JAIN: The, the NTU-SBF Center for African Studies was set up in 2014. So, this year marks the 10th anniversary of our founding. It came about as a private sector-led initiative, when a group of five Singapore-based firms that were long engaged in doing business in Africa, came together and seeded a pool, a fund, for a think tank dedicated to the study of Africa from economic, trade, and investment point of view.

So, this initiative was supported by the Ministry of Trade and Investment of Singapore, as well as the Ministry of Education, who contributed to the pool and helped set it up within the Nanyang Business School, which is part of the Nanyang Technological University, one of the three public universities in Singapore.

Our mission here really is to educate Asian executives, entrepreneurs, investors, and policymakers on the economic transformation taking place across Africa. This we do through articles, seminars, and workshops and other outreach programs, very similar like the work that you do at the Brookings, but with a much smaller budget. Our outreach is through our website and a free monthly newsletter. Anyone can sign up for it. We also provide bespoke advisory services and commissioned research work.

Where we stand out, perhaps as our ability to explain the business landscape of Africa to an Asian audience. In other words, contextualized Africa for Asia. That, I believe, is our unique selling proposition.

SIGNÉ: In your view, why was it important for an Asian institution to have a program focusing on Africa, Amit?

[8:25]

JAIN: Sure, Landry, that's a good question. It is important because of three key reasons, in my view. First, much of the narrative about Africa in the academia or the media world is still dominated by the West. And so, it is no surprise that the popular imagination about what is happening in the continent, even here in Singapore, is very much influenced by how Africa is seen in London or D.C.

And what that really means is that if you're a fund manager or a or a or a venture capitalist sitting somewhere in Shenton Way, which is like the midtown Manhattan of Singapore, the Kingdom of Morocco would be seen as a riskier place to invest than, say, Malaysia. What I'm trying to say is that if Africa needs to get the kind of attention it deserves from Asia, that narrative needs to be adjusted.

Second, Africa and Asia are in some ways kindred spirits. The vast majority of our people in both the countries, in both the continents, share similar development and economic challenges. They share the same colonial experience, similar aspirations, even the outlook on community values, shared prosperity, and a deeply embedded, almost spiritual connection with the natural environment is the same. There is much to learn from each other about each other.

And third, and this is perhaps much more specific to Singapore, Singapore is at the end of the day an international financial center and a global trading hub global trading hub. Its prosperity depends on facilitating the movement of goods, capital, and ideas between the biggest and most dynamic economic centers of the world. How can it afford to ignore Africa? Six of the fastest growing economies this year are African. That is why it was important for an institution in Singapore to have a research center focus on Africa. But we should not be the only one. There is a case to be made for Africa programs in other Asian universities too.

SIGNÉ: I really like how you compare the trends in Africa with the one in Asia. And how have you seen Asian-African economic relations change over time? For example, we have seen trade between China and Africa, and more recently, India and Africa increase significantly.

[10:58]

JAIN: Yes, indeed. If you look at the post-colonial history of the two continents, despite all the talk of solidarity, the new independent nations of Asia and Africa did very little to foster economic ties. What little trade and investment that did take place during that time was driven mostly by the political calculus rather than business. Take, for example, the TAZARA Railway, financed and built by the Chinese as a showpiece project of anti-imperial solidarity. It connected Zambia with the port of Mombasa in Tanzania.

My uncle, who served in the Indian Railways, was sent to Mozambique to build and maintain railway lines there at the height of the civil war. Some trade did take place, but it was marginal and remained mostly unreported. You know, I recall visiting a family-owned retail store called Haribhai and Sons in Durban almost 26 years ago. They had made a fortune smuggling Indian brands of rice, spices, and packaged foods through Swaziland during the height of the apartheid when South Africa was under sanctions. But all that changed after the end of the Cold War when economic pragmatism took primacy over ideology.

[12:15]

Now both India and China are now pursuing national interests in Africa. They have the eyes on its large market as well as natural resources. Since I first set foot on the African soil back in 1998, India-Africa trade has grown more than twenty-fold to over $97 billion. India is the eighth largest investor in Africa. Mauritius is the fourth largest source of foreign investment into India. It is common to see Bajaj tuk tuks in African cities, Tata and Mahindra trucks in Egypt. Kirloskar is a byword for water pump. So, ubiquitous are some of these, these Indian brands in Africa that locals often don't see them as foreign.

Indian engineering firms are carrying out projects in at least 42 African countries. Africa is the second largest destination for refined fuels coming out of India. The continent is one of the largest beneficiaries of concessional lines of credit offered by Exim Bank of India.

But it pales in comparison to China. China-Africa trade tops $200 billion. It is in the order of magnitude greater than almost any other country you can think of. You cannot land in any African capital without noticing the infrastructure improvements brought about by Chinese intervention. The Chinese construction contracts in Africa is $40 billion every year since 2012. And the number of Chinese expatriates living and working in Africa is visible. It's estimated to be 200,000.

Lending to Africa from China has increased almost five folds since 2010 and has dropped dramatically in recent years. Only $2.2 billion as of 2022. So, the bulk of Chinese lending is gone to really to Angola. China is no longer in the business of providing big loans to Africa, but when and when one takes a look at Chinese FDI in

Africa, there's not that much to write home about. Its investments in Africa is roughly equal to its investments in Pakistan, something to the tune of $10 billion a year. The total stock of Chinese FDI in Africa is lower than that of the UK.

[14:27]

With Japan has a similar story. Japanese FDI in Africa have in fact declined over the past few years. It was $12 billion in 2013. Today it is less than $5 billion. But the number of Japanese firms in Africa have almost doubled since 2010. Toyota dominates the second-hand automobile market across sub-Saharan Africa. It has announced plans to set up an assembly plant in Kenya. Its Japanese rivals Honda and Nissan plan to do the same in Nigeria and Egypt, respectively. Panasonic, Yamaha, Suzuki have factories in Nigeria. Japan is providing 300 million U.S. dollars for the expansion of the Nacala port in Mozambique, $220 million for port modernization in Kenya, and so on.

But one of the most strategic investments, the decisions of Japan has made in Africa, is taking a 5.5% stake in the African Development Bank. That is why African Development Bank, AfDB has an office in Tokyo. Lately, that has also been some notable investments made by Japanese VCs in the health and tech sectors in Africa.

[15:35]

So, where does Southeast Asia stand in all this? Well, arguably, and this is only according to the Thai government figures, ASEAN, which is the Association of Southeast Asian Nations, the ten countries of Southeast Asia, ASEAN is the third largest investor in Africa. But this is not corroborated by other sources. Thailand. Indonesia, and Singapore are the most significant trading partners for Africa and Southeast Asia, but Africa itself constitutes only 2.2% of Southeast Asia international trade.

Singapore is by far the largest investor out of Southeast Asia in Africa. Trade between Singapore and Africa has increased by about 15% over the past three years and is now almost $20 billion. Direct investments from Singapore into Africa exceed $23 billion, and there are now over 150 Singapore-based firms working in 40 markets across across Africa.

There is a lot of interest coming in lately from Indonesia as well. Indonesia will hold its second Indonesia-Africa forum later this year. Its state-owned oil firm, Pertamina, is has strategic investments in Algeria. Petronas of Malaysia has made some some upstream investment in Sudan, and other places. And now it's common to find traders from Nigeria in places such as Kuala Lumpur and Jakarta.

SIGNÉ: Insightful trends, Amit. Does the Center have any specific research or business priorities currently when it comes to Asia-African trade, business, and investment relations?

[17:17]

JAIN: Yes, we do, Landry. And the way we have thought about, you know, looking at Africa, there are so many things going on. So, you have to have a research focus.

So, [our] call is a formula called the three by five by eight. Three of the biggest challenges that Africa faces, that is jobs, climate change, and growth. Five of its most relevant economies, at least as far as Singapore is concerned, which is, you know, clearly the big ones, South Africa, Egypt, Kenya, Nigeria, and to an interesting point here, is Rwanda. And although by itself it's not a very big economy, because it is modeling its growth and its governance on Singapore, it becomes a natural partner for firms in Singapore to look at.

And here is where we look at, we look at the eight sectors of the economy in Africa. We cover manufacturing, resources, infrastructure, trade, finance, agriculture, technology, and to cap all of that is the business climate.

SIGNÉ: Your piece describes the underdeveloped state of capital markets on the continent. Can you explain what you mean by capital markets for our listeners who may be less familiar? And what policy could help expedite your development? And here I'm mentioning about your most recent *Foresight Africa* article.

[18:59]

JAIN: Thank you. Thank you for the plug in, Landry. I guess the best way to visualize capital markets is to think of a stock exchange. This is where business ventures come to find capital. Having a strong, vibrant, and deep capital market is an indicator of financial maturity of an economy. It facilitates efficient movement of capital from where it is in excess to where it is required. It can mobilize capital and put it to work in the service of growth and development. Stocks and bonds are perhaps the best known and well-traded instruments in any capital market.

If you have a compelling business plan, and are willing to take risks as an entrepreneur, you can tap into capital markets to find the money you need to get your business up and running. Banks are not the only places to go. There was a time when having a savings account used to be considered an ultimate safe investment. Banks paid interest on savings, but it wasn't enough to counter the eroding effect of inflation. So, people have turned to capital markets. The risk may be higher, but so are the returns. The deeper and more vibrant the capital market, the lower is the cost of finance.

[20:13]

Now, one reason why African enterprises as well as governments have to pay more to raise capital is because the state of their capital market. In 1990, there were only nine stock exchanges in the whole of Africa. Now there are at least 36 fully operational ones. But with the sole exception of the Johannesburg Stock Exchange, they're almost all small and underdeveloped. The size of the South Africa's capital market is more than three times its GDP. And the others are much, much, much smaller.

If the size of the capital market was larger, then African governments would not have to go out borrowing from international creditors, they could tap into their own pool of wealth, starting with a 2.3 trillion U.S. dollars' worth of pension funds and sovereign wealth funds that are locked overseas. These could be clawed back home if the capital market was deeper.

And I'm very thrilled about the initiative under the AfCFTA to unify seven of the biggest stock exchanges in Africa, recently. It's called the African Exchanges Linkage Project [AELP], and collectively it accounts for 90% of all the market capitalization on the continent. Previously, an investor in one African market had to set up a new account through a host broker in another country before trading. This is cumbersome and a tedious process. With AELP, they can carry out cross-border trading in from a single account. A single market operated from a single account will significantly cut transaction costs, expand the size of the capital market, and make it easy for investors to trade.

SIGNÉ: Fantastic. Do you have specific countries where you think that the potential could be the biggest?

[22:03]

JAIN: Oh, yes. I mean, clearly South Africa is head and shoulders above others. So is Mauritius. You have the Moroccan Stock Exchange, which is becoming vibrant. The Egyptian one. And clearly, if you look at the pattern of, we see investments coming into into Africa. We do a quarterly report on that. Kenya, Nigeria, South Africa are clearly the favorites. So, these would be the most potentially lucrative ones.

SIGNÉ: The third lesson in your viewpoint is on industrialization and the need to grow Africa's manufacturing sector. You use labor costs in China as an example of how China industrialized quickly but note that AI and other digital innovations may make this more difficult in today's world. How can Africa tackle industrialization given these technological developments?

[23:15]

JAIN: So, when China first plugged itself into the global manufacturing value chain, it did so starting at the bottom of the ladder, producing cheap toys, footwear, and garments, and so on. It became it quickly became a factory to the world. But as wages grew, those very same manufacturing jobs moved to elsewhere in Asia, where labor costs were far more competitive.

It is doubtful that this trend will continue. That is because of the rapid advancement made in robotics, artificial intelligence, and machine learning. Soon, almost any work that is mostly repetitive in nature can be done faster and cheaper by machines. China is already investing more in robotics than the next five developed countries combined. And very soon these machine robots, these will become much cheaper, and China will be able to claw back some of that manufacturing industry that it had that it lost to the the low low wage economies. At least that's my prediction. I could be proven wrong.

So, China used to use wage arbitrage previously to industrialize at a time when labor was still a key factor in, in manufacturing. But it is no longer going to be so. Manufacturing has become capital biased, not labor biased. Mass manufacturing today is much less reliant on cheap labor than it was in the 1980s. Robotics may soon wipe out any wage advantage for industrial latecomers. Besides, there is already so much excess capacity in the world for every conceivable consumer good that you and I can think of. It is difficult to see what what advantage would additional capacity create using lower cost labor, labor intensive production capacity and add to an economy. This this wage arbitrage model of industrialization, I'm afraid, may have run its course.

The only option for Africa to accelerate industrialization, in my opinion, is to morph into a single market as quickly as possible and exercise the advantage of size and scale to entice investments into manufacturing. Something on the lines of what India appears to be doing at this time, when supply chains are shifting as as global trade fragments along geopolitical lines, there is a window of opportunity for Africa to industrialize, but it is closing fast.

SIGNÉ: Which sector should be prioritized when it comes to industrialization given those digital innovations?

[25:52]

JAIN: Clearly, the focus on agriculture is going to be vital. Africa has critical minerals, natural resources. It's about time it focuses on adding value to those resources rather than .... And a lot of African governments certainly understand that and recognize that. But simply banning the export of raw material by country A is not going to help because it's neighboring countries only too happy to do that. So, it has to be a collective effort.

But I would, once again, emphasize the need for African countries that are part of the AU, that are, that are involved in the in the African Continental Free Trade Area to make that single market experiment succeed. Because with a large single market, if you can have a common, a harmonized trade policy towards the rest of the world, you would be in a position to attract manufacturing.

SIGNÉ: Fantastic, Amit. Your piece is entitled "Battling Global Headwinds: Three lessons for Africa from East Asia." If you could give a fourth piece of advice, what would it be?

[27:18]

JAIN: Invest in human capital, and that means investing in education and health. On on average, sub-Saharan Africa, spent about 4.5% of the of its GDP on education. There are some, of course, some brilliant exceptions. The curriculum, though, is inadequate to make most of the students coming out of African universities employable. Ten million African children each year do not receive the final dose of DTP vaccination. A child born in sub-Saharan Africa today, it will only be 40% as productive as a future worker if he or she were to enjoy complete education and full health. When compared to Europe with an African child, today is expected to be only 58% as productive as a future worker. Children in sub-Saharan Africa, on average, learn only for five out of eight years in school. Only 11% of 15- to 24-year-olds have basic literacy and numeracy skills. The median tertiary enrollment for sub-Saharan Africa is only 8.6%, far below the global average of 35%.

Now, demographic dividend materializes when a country reaches a ratio of at least 1.7 people of working age to each dependent. Africa is in that sweet spot, but unless health and skills development are attended to urgently, Africa could potentially squander its demographic dividend. A working age population relative to dependents does not automatically translate into rapid economic growth unless it is productive. Investing in education and health is what makes labor productive. That is what China, Vietnam, South Korea, and Singapore did when they first started out on their development journey. They invested in the only resource that counts: the people. And that is perhaps the fourth key lesson that Africa can take from Asia.

[music]

SIGNÉ: On this beautiful note, thank you so much, Amit, for joining us today.

JAIN: It has been a pleasure and a real honor, Landry. Thank you so much.

SIGNÉ: I'm Landry Signé, and this has been *Foresight Africa*. To learn more about this show and our report, visit Brookings dot edu slash Foresight Africa podcast.

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