

THE BROOKINGS INSTITUTION
AFRICA GROWTH INITIATIVE

AFRICA POLICY DIALOGUE ON THE HILL

"BRICS INVESTING IN AFRICA:
GEOPOLITICAL AND ECONOMIC RAMIFICATIONS"

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Rayburn House Office Building

9:30-10:30am

PARTICIPANTS:

Introduction:

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Africa, Global Health, Global Human Rights and
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Moderator:

VERA SONGWE

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Speakers:

HAROON BHORAT

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P R O C E E D I N G S

MR. SIMPKINS: Good morning, everyone.

Welcome to the Africa Dialogue on the Hill. I'm Greg Simpkins, Professional Staff Member for the House Subcommittee on Africa, Global Health, Global Human Rights and International Organizations. Our forums offer an African perspective on Africa issues as well as those of outside experts. This is a monthly co-presentation by the Congressional Africa Staff Association, or CASA, and the Africa Growth Initiative of the Brookings Institution.

For those who don't know CASA, we're a bipartisan, bicameral association of staff members who seek to educate our colleagues on today's substantive Africa issues on the continent and within greater Africa diaspora through panel discussions, briefings, and other events with decision makers and officials involved in Africa policy.

Our partner, the Africa Growth Initiative, brings together African scholars to provide policymakers with high-quality research such as this

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report that's being released today -- I hope you all get a copy of it; they have some at the door -- that brings expertise and innovative solutions to promote Africa's economic development. Because of AGI's access to the latest research from the continent, we thought they offered a great partnership in achieving our mutual goals to inform.

Our topic this morning is the economic coalition known as BRICS for Brazil, Russia, India, China, and South Africa. This coalition has had a significant impact not only in regional affairs, but also global affairs as well. Here to discuss the current and future impact of the BRICS are two scholars with significant insight into this phenomenon.

First, Ms. Yun Sun is a Visiting Fellow at the John L. Thornton China Center and the Africa Growth Initiative. She's an experienced China analyst who worked for the International Crisis Group in Beijing and also in China's private sector.

Dr. Haroon Bhorat is Professor of Economics
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at the University of Cape Town in South Africa. He also is Director of the university's Development Policy Research Unit, focusing on labor economics, poverty, and income distribution.

Our moderator for today's session is Dr. Vera Songwe, Nonresident Senior Fellow at the Brookings Institution's Africa Growth Initiative. She has served in several positions at the World Bank, including Country Director for Senegal, Cape Verde, The Gambia, Guinea Bissau, and Mauritania. Dr. Songwe.

DR. SONGWE: Thank you very much. Thank you all for coming here. I think this is a very opportune time to have this discussion because as we all know, just early this week there was a big discussion on the BRICS and basically it was in South Africa so it was coming to the continent. And I think that one of the reasons why President Zuma had it there and we had a lot of other African presidents join for the first time was to show that Africa as a continent was part of this BRICS discussion and could actually have

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something to offer.

I think today what we are going to do is listen to what South Africa as the center of the BRICS for Africa has to offer and then hear from one of the emerging and continuously emerging BRICS. I think that the BRICS of Africa can almost not grow if we do not have a continuously growing China and Brazil. And I think for those of us who have been reading the *Economist* or the *Financial Times*, I think it gave us - - two days ago or three days ago there was an article on how do you grow China's million cities and where do you get infrastructure steel. I think steel trading on the Shanghai Metal Exchange today is the highest rated commodity in the world, and the Shanghai Exchange has become the most traded exchange, taking over London, taking over the New York Stock Exchange, and commodities are becoming a big issue.

So I think that it is a little bit where we meet, Africa meets the BRICS, a lot of discussion around commodity trading, but there is also a lot of discussion around governance, around how then you

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share this growing BRICS in Africa as part of that environment.

So let's listen to -- first we'll listen to Ms. Sun and then maybe Mr. Borat and then we'll take some questions after that. Please?

MS. SUN: Well, thank you very much, Ms. Songwe. It's my great pleasure to be here today and have this interesting discussion about China's enhanced role in Africa and its participation in the BRICS Summit.

As we all know, this is a first of foreign tours by Xi Jinping as China's new leader. So the choice of his destination reflects an interesting development in China's foreign policy. So the Chinese really have two standards coming to the choices of the destinations for the new leader's first foreign visit. One, the destinations must reflect the certain foreign policy priorities for China; and two, the countries must be China-friendly so the new leaders will be met with open arms and warm welcome instead of embarrassing questions.

So Russia as China's close neighbor and a former ally fits the profile and has been the first destination for former Chinese President Hu Jintao in 2003 and for Jinping today. Jinping's visits to three African countries are particularly interesting. Historically, no Chinese leader has ever chosen Africa in their first overseas tour. This unprecedented emphasis of Africa reflects China's desire to reinforce and further develop its relationship with the continent. Africa is no strange land for Xi personally. He has considerable experience and knowledge on Africa throughout his grooming process. So during his five years as a Vice President of China between 2007 and 2012, Xi met with numerous African leaders in Beijing, familiarizing himself with the concerns and the key questions the African leaders are interested in. Xi also was key on building personal relations.

In November 2010, Xi took a 7-day trip to Africa, to South Africa, Angola, and Botswana, focusing on energy cooperation and infrastructure

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cooperation. And then most recently during the 5th FOCAC Conference in Beijing last July, Xi participated substantially in the discussion on how to deepen the African ties.

During his trip to Africa so far, Xi has visited Tanzania and South Africa. He reiterated China's commitment to provide US\$20 billion financing to Africa from now to 2015. This is not a new commitment in that it was promised by China during the FOCAC Conference last July, but this financing following China's traditional approach in Africa foreseeably will be focusing on the infrastructure development inside African countries.

Another highlight of Xi's Africa visit so far is a joint agreement between China and Tanzania to develop the Port of Bagamoyo. This is a project that will be connected to the famous Tanzania-Zambia railway that China assisted in building in the 1960s. The Tanzania Ambassador to China was quoted for saying that the whole project, the whole development, of the port will cost US\$10 billion. The port is in China's

interest in that it will facilitate China-bound shipments of minerals and natural resources from Tanzania's landlocked neighbors, including Zambia, Zimbabwe, and Democratic Republic of Congo. It will, of course, promote the trade and development of Tanzania itself as well. But at the same time the project has raised a lot of eyebrows internationally in that there are speculations about the potential military utility of this port because some people see it as a potential link in China's string of pearls strategy in the Western Indian Ocean.

At this point as for the next destination of Xi's visit, which is the Republic of Congo, we don't know what Xi is going to promise or deliver as a gift package yet, but most likely it will be a combination of infrastructure and economic cooperation deals.

So the highlight of Xi's trip really is his participation in his first BRICS Summit. The five nations agreed to establish a US\$100 billion contingency fund to promote the financial stability among their members. China's loan constitutes the

largest share, which is 41 percent, although a BRICS Development Bank was discussed, but not formally established, which has disappointed many. According to the reports in China, the leaders of BRICS nations in principle have agreed to such an establishment and will start the formal negotiations on specifics soon. This is literally the first time BRICS are gearing up substantial real movement and real actions, representing the symbolic summit statements we saw in the past.

So we might ask the question, why is the new Chinese leader granting such a high level of emphasis to the BRICS at this time? This actually reflects China's changing perception of itself and of China's external environment. So in the past decade, China has grown into the second largest economy in the world; however, its economic strength has yet to be translated into comprehensive national power. So in China's foreign policy lexicon, the United States, despite its relative decline, remains a superpower in China's foreign policy lexicon. And as the U.S.

rebalances to Asia specific, China feels the heightened pressure in China's immediate neighborhood from Washington's enhanced military involvement, deployment, alliance, and so-called interference in China's territorial districts. As the new Chinese leaders try to figure out how to break away from this new "containment strategy" of China, their reliance on and cooperation with non-Western rising economic powers are of high importance for China. So China sees natural common ground with emerging economies, especially in pursuit of what they call a new international economic order and the democratization of the international relations.

In Beijing's view, the 2008 financial crisis dramatically changed the mapping of the world economy deeply damaging the strengths of the traditional developed countries. The economic recovery of the U.S. and Japan has been sluggish, and the Eurozone crisis has lingered on for years. So the relatively impressive momentum for growth really came from the emerging economies, including China.

So China thinks that the BRICS countries share in the importance that the world economy has been growing, but has not yet surpassed the strength of the developed countries. So China perceives the next step naturally would be for the emerging economies to act as one group to increase their collective voice and collective bargaining power against the traditional developed countries. In China's view, this momentum would then apply to democratize international relations by offering developing countries more voices and more rights. As Xi pointed out right before his trip on March 19 last week, the international economic governance system must reflect the profound changes of the global economic reality and the emerging markets-developing countries deserve more representation and bigger voices. So the reform of the voting rights at the IMF and World Bank signifies their action to which China aspires.

China also wishes to strengthen its identity as an emerging economy and developing country by

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enhancing its contribution to the BRICS and its international status. The contingency fund and the discussion on the BRICS Development Bank are specific moves in this aspect. For example, China's former Special Envoy for African Affairs, Liu Guijin, commented yesterday that once the BRICS have their own bank, they will be able to break away from the Bretton Woods system and rely on the strengths of the developing countries themselves for economic growth instead of the traditional developed countries or World Bank or IMF.

So Xi's first overseas trip to Africa reviews the international quagmire China is in. The past ten years we have witnessed unprecedented growth of China's economy, but it was also accompanied by tremendous foreign policy challenges. As many Chinese analysts have observed inside China, China's external environment did not improve as a result of China's rise. Instead it has worsened. So China has become richer, but less respected internationally. And China has more transactions with the rest of the world than

ever, but less friends.

So, therefore, Xi's trip to Russia, Africa, and the BRICS Summit genuinely reflects China's strategic moves to break away from this predicament. China seeks to reconsolidate its friendship with Russia, which is also antagonized by the West; with Africa to reinforce its developing country identity and solidarity with the developing world; and with other emerging economies to align their collective power against traditional developed countries.

China has learned its lessons. It is yet to be strong enough to challenge the existing international order by itself. So alignment with other rising powers like the BRICS nations and reinforcement of its friendship base among the developing countries will be a new emphasis of China's foreign policy in the foreseeable future. Thank you.

DR. SONGWE: Thank you very much, Yun Sun. That was an interesting exposition, I think, starting first with the acknowledgement of the infrastructure relationship between China and Africa. And clearly, I

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think, as we all know and as you said, Mr. Xi Jinping had before becoming a president now had a very good and clear strategy about how to interact with Africa and how to do that. And it's no surprise now that he's actually putting it into place, first the relationship with China and Africa as an economic relationship you talked about. So it's very clear and very obvious.

Still there are questions, as you said, about the exchange between the infrastructure that has been put in. We all know that Africa needs about \$75 billion in infrastructure every year just to catch up with where it has to go. And so there is some welcome from some parts of the continent to have somebody that can provide that quickly. Their eyebrows, of course, are raised about how that has been done.

And that leads to the second part of your talk where you talk about the sort of new multilateralism. If the BRICS were a new multilateral institution, then China is sort of becoming part of this new multilateralism. I think the question will

be, and after Mr. Borat speaks first and come back, is it the challenge to the existing multilateralism or is there enough space for them to all coexist and have a come-together?

But I think that was a very interesting exposition on the sort of clear pathway for China, Africa, and the BRICS economically in that interaction, but still I think there is a difficult and not yet clearly defined discussion on the political sea of how one does it and is it an opening or is it a challenge or is it building a bigger coalition for growth and sustained development. We all know that because of China, Latin America and Africa succeeded to pull the emerging economies out of the financial crisis. So there was a plus, that there was a difference of the consumption center that helped to continue to grow and make the world grow.

And I think the U.S. turning now to Asia as well as the new growth pole is clearly a solution for growth in the West, and it will also be good for Africa. So I think as Africans we see all of growth

important, but clearly we need to first of all look at the poles if they're growing faster. And I think that a part of the new report that we've just done at the AGI on why Africa should -- why the U.S. should be looking at Africa is part of that story, that looking at Africa is another way to link to a growth pole even if you don't link to it directly because we are part of now a much broader growth dynamic and there is not sort of an Africa and then the rest of the world directly linked to the rest of the world. And somehow a discussion on Africa by the U.S. is also a discussion on the relationship between Africa and China and Africa and Asia.

So thank you very much for putting that discussion in place. I now turn to Professor Borhat.

DR. BHORAT: Thanks very much. So those of you who are aware of South Africa will know that we spent a lot of time, at least people in my line of business, traveling from Cape Town to Johannesburg, a two-hour trip that usually starts at 4:00 in the morning and then you land up at 8:00 and you return at

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6:00 in the evening. Now I thought that would end for my six months in New York, but somehow I managed to get on a train at 5:30 this morning. So I'm sort of feeling a bit homesick.

I thought what I'd do is I'd sort of spend my time talking to four major issues. The one is really to question whether the approach is really correct in terms of thinking about the BRICS in Africa, and that's just really a little bit of the Brookings style, what we call independent in our thinking around BRICS in Africa and whether that's really the right approach in terms on what's happening on the continent.

Secondly just to provide you with some facts and figures, but then to glean beyond those facts and figures and to provide a little bit of a reality check around this notion perhaps that's developing, that we have this new invasion of Africa and whether that's really true.

And then finally what I think are some of the important issues framing the future engagement

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between what I think is really China and India in Africa, what are some of the threats for Africa, and what are some of the concerns around economic development going forward.

So first this sort of question of whether this is the right topic for the seminar with due apologies to the organizers, is that is it really about BRICS? Well, to be honest, if you look at the data and you look at the FDI flows and you look at trade deals, it's really about China and India. It's not really about the BRICS. It's a China and India and Africa story, and it's really a China and Africa story. I think there's a lot going on politically, geopolitically around the BRICS and so on, but in terms of the data, in terms of what's happening, in terms of trade flows, it's really about China and India.

The other reason is that South Africa is in Africa, right? So it seems geographically tautologous to talk about an African country in Africa, so BRICS in Africa doesn't make sense when you get to the "S"

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in BRICS. Of course, there's a more substantive reason, which is that South Africa, being an African country, has a first mover advantage on the continent. I mean South Africa has been in the continent, in the region, for a couple of hundred years and been on the continent for the last 30 years and has made substantive sort of first-mover advantage investments in financial services and telecommunications. And so the more interesting question is how is China leveraging South Africa as a pathway into real economy investments in Africa, and we can have a discussion about that.

The third reason why BRICS doesn't make sense is that Russia, for example, is completely new to the continent. Turkey and Argentina, in fact, are ahead of the queue if one is talking about emerging markets in Africa. So I guess the broader point I'll make is let's think about new investors. Let's think about emerging markets that are getting into Africa and what are the interesting issues there with a special case, because of the trade volumes and the

size of the investment, the special case being China.

So that being said, I think it's an interesting moniker to think about BRICS in Africa and see what some of the numbers say. So in terms of -- the facts and figures are interesting because you need to look at FDI flows and you need to look at trade flows and they're separate and they tell a different story and you can get different data out of this. Analytically, you can come to very different conclusions.

In terms of FDI flows, the numbers at least produced by UHMTD -- they've got a very nice little bulletin, which I would urge you to look at on BRICS in Africa -- tell us that 25 percent of FDI flows to Africa come from BRICS, 25 percent. And the remaining -- well, about 64 percent and then the others, but 64 percent come from the EU and the U.S.A. So substantively FDI flows are still dominated by the developed world. The FDI flows in terms of growth rates are much faster in terms of BRICS into Africa relative to, if you like, the old world, the U.S. and

the EU, but certainly FDI flows into Africa are still dominated by the developed world. And I think that's an important thing to keep in mind.

So what do you think are the top five FDI investors? I wish we could have taken a poll. The top five FDI investors in 2011 by value in Africa were first France, the U.S.A., Malaysia -- so there's that emerging market story -- then China, and then India. So I think in a sense if one is looking at again in value terms who are the big players country wise, one is to think beyond BRICS.

And the other thing is most of those FDI projects actually are not in the primary sector. Yes, there's a lot of stuff going on in mining. There are a lot of mineral rights that are being issued and playing for tenders and so on, but over the period of 2003 to 2013 -- so if you take an aggregate 10-year period, 75 percent of all FDI flows were outside of mining. So they were in the secondary sector and in services. And one can dig a little bit deeper. A lot of that is construction and some of that's in retail

and so on.

So the take-home point about FDI flows is that they are growing from China and India and to some extent Brazil, if you look at the country-level data, but certainly the dominant form of FDI flows emanate from the developed world. And I think that's important in the context going forward.

Trade flows are different, though. Trade flows tell you a different story that's perhaps closer to the journalistic style about this new invasion of Africa and so on, but I want to come back to that. Trade flows -- and, incidentally, the research at least that I've seen hasn't quite gotten this together. There's a story around FDI flows and there's a story around trade flows, which is substantively different in this domain, and I think we need to do a bit more work on that.

So 85 percent of all exports from Africa to China and India only are broadly within the following commodities: Petroleum; metals, so it can be ores and metals, finished metals, but also ores, iron ores; and

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then agricultural commodities mainly around cotton, timber, lesser on cocoa and so on. But 85 percent of all the exports from Africa going to China and India are resources. We'll come back to that because that's the resource extraction argument. That's sort of the core of this China-Africa story.

Asia accounts for 27 percent of all African exports, the EU 32, and the U.S.A. 29. So Asia's moving in fast and it's growing at a fast rate, but still certainly you've got sort of a third division along the developed world -- EU, U.S.A., and China and India in terms of African exports.

So what's the reality check? So is this a story about resource extraction? Well, guess what the top three exports from Africa to the U.S.A. are? I don't even have to answer that. It's primarily commodities. So it's not really this sort of new invasion of Africa and the Chinese are going in and there's resource extraction. Well, it's what's been happening all the time and that's my second point. Part of it is just -- that's what Ricardo would be

proud of. It's the comparative advantage at work and that's where the two countries trade on the basis of the comparative advantage.

Now the other economic development issues in the long run for Africa are important, but this is not a surprising phenomenon because that's how trade works. So the top three exports to the U.S.A. and EU from Africa look very similar to those of China and India and they essentially are on extractive products. They may change in terms of the product categories, so I think for the U.S.A. cocoa is there rather than cotton and things like that, but essentially it's the same story.

Diversification, the other reality check is that yes, resource extraction is a feature, but it's in some other parts of the country, but that diversification is happening. It's happening on a small scale, but it is happening. And if I had to ask you, what do you think was the biggest FDI deal ever done thus far, if you like, in the last 10 or 15 years? You wouldn't get what? This audience probably

would guess, but the biggest deal was a 20 percent purchase of Standard Bank of South Africa by the Commercial Bank of China. So the biggest deal done was actually a financial services deal, and guess who brokered the deal? Goldman Sachs. So to some extent this sort of monolithic view that has got China and India and there's nobody involved, I think one needs to be careful of.

Then the final reality checkpoint -- and I've got 4 minutes and I'll try to be quick --

DR. SONGWE: You've only got 3.

DR. BHORAT: 3, sorry -- is that -- I was trying to negotiate --

DR. SONGWE: Yeah, I saw that.

DR. BHORAT: -- is that this is not so much a scramble for Africa really. If you think about it, it's just a reflection of the rapid rise of the emerging markets. The rapid growth of China and India, what emanates or what's an indicator of that is this rapid demand for African exports and that's all it really is.

So what are some of the important issues defining the BRICS relationship or China and India's relationship for Africa that I think are important? And I'll just list them, and we can come back to them later. One is on commodity price booms; that effectively this huge increase in global demand from China and then to some extent India was one of the major causes for the global commodity price boom. So, in fact, Africa gained indirectly from this increased price on the back of China's growth. Now that can turn, and that will turn. So when emerging markets' growth dips, then there'll be a commodity price dip again. We've seen that with Zambia in terms of the copper price, and up it goes and down it goes. And so to some extent the commodity price booms and China's growth fluctuations are intricately tied. And, thereby, because of the commodity price effects, they have a very specific impact on resource-rich countries in Africa. And I think that's crucial to keep in mind.

The one that worries me the most is Dutch

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disease and the resource curse. So you have seen very clear examples in Mozambique. South Africa is a perennial example and Zambia as well of Dutch disease emanating because of these commodity price booms. And so the weakened manufacturing sector is a constant feature of resource-rich countries, and one fears that in this growth spurt amongst emerging markets that you actually not only extenuate, but you reinforce Dutch disease within African economies. So the real challenge then around the Dutch disease issue is whether the African economies can actually get out of that trap over Dutch disease.

I'll mention four other points and then I won't talk to them. One is around cheap textile imports and the employment effects that has for African economies. The other is whether Africa can generate knowledge and skill spillovers from FDI and trade deals. I haven't seen enough of that, and I think that's a key thing to watch out for.

The second to last point is that China's global effects are having serious impacts on Africa,

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not only around resources, but elsewhere.

And then one point perhaps alluded to by the previous speaker is how do China and an increasing India see themselves within the aid environment on Africa? Are they engaging it in a different way? Are we seeing an overlap between FDI trade flows and aid? And that for me would be an interesting thing to see. Again, thanks very much.

DR. SONGWE: Thank you very much. I think that raised a lot of issues. I think it's very difficult to have a discussion on China, BRICS, and Africa without talking about the Dutch disease and this sort of economic race for resources of the continent. Clearly we have examples like Chile and Australia that have managed to do commodities to China without necessarily falling into the Dutch disease. So I think there is hope yet for Africa if it's well done, but it would be good to sort of get some discussion around that.

I think your point on should we be talking about the BRICS and the BRICS in Africa? It is true

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that if you look at the numbers, clearly does the BRIC concept make sense is a question that intellectuals continue to debate. A few years, many, many years back, I think that there was a debate about does the G-8 make sense because there were only really in the G-8 three countries. But we continued with the G-8 and then we made the G-20 and now it's the G-50, and so I think that sort of brings us back to this discussion about is it rivalry between the BRICS and the existing multilateral institutions or is it a way of looking about how we bring them in. So I think a little bit goes to your point.

One point that you raised and which will be nice to have a discussion around is this issue around trade and the direction of trade, the destination of trade and productivity. You didn't say, but I'm sure you have the data, which shows that it is true that trade from Africa to China and India has been growing. But the productivity is bigger and faster with trade from Africa to the U.S. So if we want to grow faster, then we should continue to diversify and trade with

the West. And I think that that data, the studies on the BRICS economy show that this is the way to go.

I think what China has done and what Africa could learn and you alluded to that in your knowledge and skills, when China was opening up, it had a clear policy on property rights and the fact that if you invested, you had to come in with technology. The question is, is Africa benefitting or is Africa following the same path like China in its investment. If you look at the agreement that China had with the U.S. and Europe in terms of IT, Samsung and Hyundai didn't just show up; they had agreements. When Microsoft and others went to China, they said you must come in with knowledge. Today we see China in Africa and they're not coming with the knowledge. And the question becomes, can Africa, can South Africa maybe shape this differently as you asked?

And then it's also interesting to talk about the aid environment. Of course, the World Bank, which is the multilateralism environment and you both talked about it, one about is China getting a seat at the

multilateral table or does China want to create any more multilateralism. And it will be interesting to get your views on that.

I think that clearly the U.S. coming back, something that Asia has been working a lot on, is I think for us productivity, the rapid growth spurt. We need to keep working on the productivity and the trade pact. And I think this is part of this discussion about should we open up and go or should we relax and go. I think with China coming in and doing all the commodities, Angola would not make sense if we cannot open it wider, go beyond textiles and oil. So I think that is a key discussion -- that sort of happens with the BRICS and China and Africa, but which we must come into.

I have to say, though, that on the mineral side in 2000 over US\$50 billion of the resource revenue on the continent was from resources; 90 percent oil. In 2011 we have \$250 billion coming into the continent from resources; \$60 billion of it non-oil. So there's been a huge shift in the trade

composition even of mineral commodities, so we do need to take a look at that.

But I'll open it up now for questions and maybe we can sort of cluster them around this economic infrastructure and then the multilateralism discussion. Yes, please?

SPEAKER: Tony Gerard --

DR. SONGWE: We'll take three or four and then I'll come back --

SPEAKER: Tony Gerard, Manchester Trade. China endeavored to open up its own markets to African exports I think after the 3rd FOCAC in 2006 and 2007 and proposed a list of about 600 items that would be given preferential access to the Chinese market. Has that resulted in any increased trade between China and Africa in finished goods?

And secondly, the FOCAC also prior to this \$20 billion fund, which we know is sort of new money, not necessarily new commitments, there was also a \$5 billion commitment on using money to support an investment in Africa, particularly in manufacturing by

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Chinese companies. And I'm wondering if we've seen any hard evidence to suggest that that's been successful?

Mr. Schneidman: Great, thank you. Whitney Schneidman. I'm a Nonresident Fellow at the HEI and with Covington and Broand. Thanks for the great exposition. It's really a very interesting discussion.

I'd just like to make two points and then put a question forward. In just reading about the BRICS, one of the things that caught my attention was the currency swap between Brazil and China. We've seen Nigeria denominating some of its currency in Chinese currency. So is this a trend that we're going to see more of and where do you see that going?

I think this notion about exiting from the Bretton Woods is, well frankly, quite mistaken. And to go to Vera's point, are we demultilateralizing the world? Are we seeing sort of breaking up with different blocks emerging or do the BRICS need to work more closely with the Bretton Woods institution? I

would certainly argue for the latter.

But the point I'm really interested in, to come to Haroon's presentation, is how you sort of glossed over the African consumer, which I think is sort of the story of the 21st century when it comes to Africa and the 350 million middle class because I think that's a real point of dynamism. *McKinsey* makes the point that when you break down Africa's GDP growth, for every \$1 that comes from natural resources, \$5 comes from services and the consumer. And I think given the tensions that President Zuma refers to about Chinese products coming into the continent and the fact that Wal-Mart last year, their acquisition -- their sales grew 15 percent, which is sort of unprecedented for the --

DR. SONGWE: I'll have to ask you to ask your question so that we can take a few more.

SPEAKER: -- yeah, which comes to highlighting the role of the African consumer. So my question is how do you see that fitting in vis-à-vis the natural resources?

DR. SONGWE: Thank you. One more?

SPEAKER: I'm just wondering if both of you could just comment on -- one thing that the U.S. in a way has going for it in terms of investment in Africa is the fact that one, there are a lot of increasing the number of Africans who are going to university here, which is a growing tradition as opposed to Europe. There's an affectation, I think, there's a good relationship between many countries in Africa and the U.S. is this friendship and light. But also U.S. companies tend to invest in training, provide this type of training services, which I don't see as much of with regards to perhaps India and China. Maybe I'm wrong, but I wonder if you'd comment on that.

DR. SONGWE: Thank you. So we'll take the questions. Yun Sun, do you want to start?

MS. SUN: Sure. First of all, on the trade issue. Yes, back in 2006 China reached this agreement on the FOCAC meeting that China will give the duty free status to most, well, to 600 commodity categories from Africa. So what has that resulted in? Back in -

- if you look at the data from 2010, which is as of 2011, China actually imports as much from Africa as it exports to Africa. So if you look at the data from the Ministry of Commerce -- I don't know why the Ministry of Commerce of China is actually producing the reliable data, but if you look at the data, that's what it tells you. So if you ask the question, well how much of that is composed of finished goods? I don't know. I didn't see that category. But that gives you a sense of well, Africa is not just a source of natural resources for China to fuel its economic growth, it's also a market for China.

On the US\$5 billion on investment, that's actually what China has proposed as a new focus of China's developing Africa, to focus on the agriculture industry and the manufacturing industry. I would say that that will be the new direction of what Xi will promote under his reign, although the idea was raised by Hu Jintao last year at the FOCAC meeting.

On the currency swap, the currency swap actually was announced last year back in 2012 between

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China and Brazil, but I understand it came up again during the most recent BRICS Summit. What does this say? We see it more often. I would say that we will see such initiatives from China more often, and actually such a trend is welcomed by a lot of countries, by a lot of developing countries I should say, because these countries will see it as an alternative to strengthen their financial stability inside their country. And China is willing to help, so why not?

Whether it is a good idea for China to want to exit from or divert away from the existing international economic order, I would say that is China's aspiration because China sees the current international economic order as one that is unfair for China and unfair for a lot of developing countries because they didn't participate in the rulemaking process. They came in late. They were told that -- they were asked to obey the rules even without making the rules. So I understand that opinion is now shared here, but I'm a China analyst so I observe China's

position and that is China's position. China wants to democratize the international relations by having more voice and more bargaining power amongst developing countries.

Is China providing training in Africa? Not a lot, and why? Because China so far is not focusing in that aspect. Will China develop more interest in that direction? I think so like China has interest in the agricultural and the manufacturing industries. That means that China will have to provide technologies, skills, and training to the African countries, and we wait to see.

DR. BHORAT: So I was grateful for the questions because it gave me extra time to complete my presentation. So there was one about the African consumer that was sort of in the form of growth of textile and cheap imports. I think that's the real story about this growing African consumer; that in the context of concerns for Africa is that you've got this flood of cheap imports. The Chinese imports in manufactured goods, particularly textiles, have

destroyed the South African clothing and textile industry. That's it. And I think you're going to see that in other economies that may have nascent or very small micro firms in these sectors. I think that's the really interesting thing. But you're right. For Wal-Mart, for Unilever, this is a green-field investment. I mean this is a route into the biggest growing consumer market in the world. So I think that's particularly interesting and President Zuma's comment about Wal-Mart or about China is really an issue about South Africans that already have a footprint, a very strong retail footprint, in Africa and many South African goods are there already. So it's a comparative statement. Many South African goods are being sold to African consumers outside of South Africa. And so to some extent, there's that battle going on.

Is it about BRICS versus the Bretton Woods? I think it's possibly about BRICS and Bretton Woods. I think you're going to find that the BRICS Development Bank is just a search for another line of

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credit. When you're finding the negotiations with the World Bank around a particular infrastructure project tricky, well let's go to this development bank. I think that's what it really represents in my view.

I haven't looked into the currency swap issue at all and it's not my area of research, but instinct tells me that the currency swap is a search for trying to avoid currency volatility. And so in a sense when you've got volatile emerging market currencies, the currency swap deal gives you a stable, again, source of a line of credit that you can't get in the open market.

And then finally I think it's a very nice question about skills and training and so on, and I think you're right. I think as China moves into more manufacturing, domestic type direct investment, you have no option but to deal with the workforce that you need to train and engage with and so on.

SPEAKER: What about India?

DR. BHORAT: India, I mean would it be any different? It wouldn't conceptually be any different

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from China. India's investment at the moment is quite heavy based on existing Indian networks in Eastern and Southern Africa, so more retail based. But if they do get into manufacturing, the same arguments would flow. I think it would be really nice -- a Ph.D. right because you've got an actual experiment. You've got training and investment before China in Africa and training and investment afterwards, and you can see if there's actually been an impact.

MS. SUN: If I could just add to that very briefly because the things you talked about, the textile industry in South Africa is actually an interesting issue. I have talked to the Chinese government officials and analysts repeatedly about this issue. So, yes, Chinese cheap commodities destroy the textile industry of South Africa. And that position -- I just want to put it out there so that you know -- their position is that back in 2007 when China learned about this criticism and this negative fact from what China has created in South Africa, the Chinese government made a tacit agreement

to suspend China's textile export to South Africa in 2007 for two to three years. And what was the end result? The end result was the market share emptied by the Chinese commodity was fueled not by South African products, but by products from Southeast Asia. So it was Malaysian and the Vietnamese textile products that came into South Africa and filled in the share that the Chinese evacuated. Just for your information.

DR. SONGWE: Maybe they were complaining not so that you should exit, but it's where you should develop the skills. But we have some space for three more questions. Yes, please?

SPEAKER: Hi. I'm wondering -- you mentioned that there is certainly interest on the bilateral front from China in agriculture, certainly from Brazil in agriculture. But I'm wondering about the focus of the BRICS as a whole in noninfrastructure sectors, whether that be AG, whether that be health, and if there's any value added from the BRICS group versus the value added in bilateral investments in

those sectors?

DR. SONGWE: Yes, please?

SPEAKER: So my question concerns that --

DR. SONGWE: Can you please just say your name and your affiliation?

SPEAKER: J.R. Warner from the Africa Center for Strategic Studies. You mentioned that Malaysia is the top Asian investor in Africa, but doesn't that allow that to eventually go somewhere else? So can you get an accurate sense of actually how much the country is investing in Africa and market for FDI or is this data just skewed because of tax savings?

DR. SONGWE: Yes?

SPEAKER: Hi, Joe Crafts. It would be interesting to hear you talk a little bit about what the impact of the strengthening of the BRICS might be on governance, on mechanisms in Africa particularly, given I work on transferring the accountability issues. China and Russia in particular are BRIC countries and their own challenges with democratization and with openness and transparency.

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DR. SONGWE: Thank you.

SPEAKER: Eric Williams with Representative Karen Bass. So perhaps I'll be the only one to ask this question. We're talking about the BRICS, but you're on the grounds of the U.S. Congress, so what is our role? We're currently having a conversation with other members on both sides of the Hill about AGOA, but as U.S. presence in Africa continues to be on the decline as China and the BRIC countries continue to merge, how do we stay competitive? There's talk of whole of government approach towards the continent, but there seems to not be the correct policies put in place to ensure that we see increased FDI across the continent. So what are some of the trigger points and what are some of the policy suggestions that you would put on the table for us to consider as we continue these conversations, not only about AGOA, but about U.S.-Africa policy moving forward?

DR. SONGWE: Good, thank you.

SPEAKER: I'm from the World Bank, Africa Region. Two very quick comments. One is the formal

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training. I agree that actually the government provides backstop and scholarship every year for African students to study in China. So that's the training provided by government, but not companies.

Another thing is that in terms of trade, that has the most that we see in exports. So far only 5 percent of them have manufacturing, mainly that may be so, mainly products from neighboring countries. So I think this BRICS will be focusing on infrastructure. I think that you will have probably direct impact on interregional trade.

DR. SONGWE: Thank you. I think we have a question on BRICS in other areas than agriculture; one on transit trade is all this discussion about trade in Africa, just about transit trade in havens; the impact of the BRICS on governance, they have their own governance problems and are they going to fix it or avert it; I think it's a little bit of discussion of China's democratization and is it good governance; and then what does the U.S. do to reattract itself and make itself competitive on Africa; and then I think

that was more of a response on information about training that the Chinese are doing. You have a minute and a half each.

MS. SUN: Well, I'd better get started. First of all on the BRICS bank, infrastructure development, that's why there was all this attention about this development bank that BRICS nations are going to set up. Yes, I agree, it will be most likely focusing a lot on the infrastructure projects, not only within the BRICS nations themselves, but also providing assistance to African countries. So there's that.

I'll leave the Malaysian and trade investment question to you, but on the governance with transparency, the democratization of China, okay an interesting conversation I had in Beijing earlier this month with some of the Chinese analysts. We're talking about development and better governance and better environment, especially given the pollution in Beijing that, of course, naturally came up. So one official was saying that oh wow, it would be great if

we can -- well, compare with development the environment and governance as more important. Then someone else argued back that the common argument is that is only for countries and people who have already developed to say.

So in the case of Africa, China's perspective is yes, governance is important; transparency, democracy, they're all important. But what is the priority for Africa as a continent? Economic development. We cannot feed yourself was the point I'm talking about democracy. That's China's approach. I don't know whether that's right or wrong, but that's how China perceives the issue.

And as for AGOA and what the U.S. should do about it, I think first of all and most importantly there's got to be more attention and more resources allocated on the Africa issue. When we talk about Africa as a geographic issue here in Washington, D.C., that's probably on the bottom of the list for the U.S. government. When you go to China and you ask them, well, is Africa on the bottom of the list? No,

America is behind Africa. So that's pretty low, but still it's at least better than the situation here. And I would be surprised to find any new U.S. president spending his first overseas tour to Africa, but China is doing it. So China is demonstrating more focus, more emphasis, more resources allocated to Africa, and we simply don't see it here.

DR. SONGWE: Thank you.

DR. BHORAT: I think noninfrastructure expenditure is an interesting one. There's a tendency to move from resources to infrastructure and then into retail and financial services. That sort of tends to be the, if you like, the sequential investment by countries overtime. And South Africa is a nice case study because we started initially; 300 years ago it was resource extraction on our border, whether it was Botswana or Namibia. And then you've actually seen overtime this movement into retail and then financial services, and I think you're likely to see that growth on the back of resources.

Data is a huge issue. I mean all of that's

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illicit financial flows. That's what it is, right. That's going to be hard always to figure out because it's illicit. But what's more interesting is whether you can figure out FDI flows from trade flows from aid and so on. This is not my core area of research, but I haven't seen any recent data. Maybe on the World Bank side we've got some numbers that are much better that actually give us a very careful breakdown of the difference across the flows.

Finally, policy suggestions for U.S. FDI. For me, the most important thing usually came not from an economist or an academic, but a businessman I met. And he said to me the problem is with U.S. investment and the EU, he says if a South African investor is there or a Russian or a Chinese, they look at it and they see opportunity. A U.S. investor comes in and they see a mist. They see risk. They see problems. They see poverty, and then they think aid. And in a sense, that probably is one of the key things to realize is that you've got opportunities. These are business opportunities made up in a different way, but

that's one way that you'll be able to think in terms of how you approach U.S. FDI in Africa. That's a change in the mindset. But I think if you look at the BRICS this is nothing that needs to be taught to them because these are developing countries anyway. So I think that's something to keep in mind.

DR. SONGWE: Thank you very much. I think that just before I close, I will --

SPEAKER: Thank you very much. I want grateful to you all for a very good -- but I do want to convince Eric in Representative Bass' office. I think what we need to do is figure out how -- what the U.S. can be doing to make inroads in Africa. And I think what we really need to focus on this.

DR. SONGWE: Thank you. Thank you very much. This was a very good discussion, I think as Borat said, in Brookings fashion no constraints. The clear message is there. It's an opportunity to go into Africa, so the leaders are because they have any particular humanitarian concerns. I think they're looking for investment. It's a growing continent. So

clearly I think there's still some constraints that need to be lifted, infrastructure constraints that the trade would depend on how those constraints are lifted. But I think there was potential between multilateralism and bilateralism on increasing the circle, and I'm sure that the circle will increase. I have to say that in the last round of IDA, which is the World Bank's pockets for the poorest, in the last IDA round, the Chinese contribution was one of the highest contributions. So the Chinese are not -- I don't think it is a conflict between the BRICS and the rest of the multilaterals. I actually think they are also coming into that multilateral space, and this is something that we encourage as well.

So thank you very much. I wanted to give the final closing word to one of our partners to say -
- yes?

SPEAKER: Hi. I'm with the Office of Senator Stone at the White House. On behalf of the Congressional Africa Staff Association, CASA, I want to again thank Brookings AGI for the day. These

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discussions help bring Africa into discussion, so we hope to continue that habit every month. So again, thank everyone. We thank the panelists. Thanks for coming.

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