



# China and India

## New Actors in the Southern Atlantic

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## Wider Atlantic Series

**G|M|F** The German Marshall Fund  
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FOUNDATION



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### **About the Wider Atlantic Program**

This report was prepared for GMF's Wider Atlantic program, a research and convening partnership of GMF and Morocco's OCP Foundation. The program explores the north-south and south-south dimensions of transatlantic relations, including the role of Africa and Latin America, and issues affecting the Atlantic basin as a whole.

### **On the cover:**

Bank notes from Brazil, China, India, Russia, and South Africa © TinaFields

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# Preface

**T**he Atlantic is going global. There is growing interest in a wider approach to transatlantic relations, taking account of the rise of Brazil and Atlantic Africa, and with greater attention to North-South and South-South relations within the Atlantic space. In 2010, the German Marshall Fund of the United States (GMF), in partnership with Morocco's OCP Foundation, launched a major new initiative to explore this concept through studies and dialogue (including the annual Atlantic Dialogues forum in Rabat).

One of the key trends shaping the future of wider Atlanticism is likely to be the emergence of major powers from outside the region as new actors in the Southern Atlantic. This new report explores the role of leading Asian actors — China and India — on both sides of the Southern Atlantic. The analysis focuses on their burgeoning trade and investment activity, but also looks to their future political and security interests. Brazil and West Africa are important case studies, and the authors pay special attention to the evolving debate in these places about the longer-term challenges and opportunities associated with a greater Asian presence in the Southern Atlantic. Their report also identifies implications for traditional transatlantic actors, and suggests some policy initiatives aimed at improving the prospects for cooperation among old and new actors in the Atlantic, in a global context.

We are pleased to offer this new study as a contribution to the new Atlantic debate.

Ian O. Lesser  
Executive Director  
GMF Transatlantic Center  
Brussels

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# Executive Summary

**C**hina and India have arrived as active players in the Southern Atlantic space. Their economic presence is expanding rapidly, with a focus on their acquisition of — and access to — raw materials such as fossil fuels, minerals, and agricultural commodities. The political and security implications of their arrival in the region is only now coming under scrutiny. Certainly, traditional powers in North America and Europe continue to wield considerable influence in the Atlantic Basin, and the region remains a low foreign policy priority for both China and India. But for the first time, states in the Southern Atlantic are beginning to have concerns about the effects of China's presence in particular — particularly a sense of overdependence on its economy and unbalanced trade relations — while remaining appreciative of its role as an alternative engine of growth to the West.

China's trade with the Southern Atlantic region has increased more than sevenfold in just eight years from 2002 to 2010, but still lags behind the United States and European Union. China is now Brazil's largest trade partner and its investment across the region has also increased substantially. Relations between China and Brazil — the largest political and economic actor in the Southern Atlantic region — reflect some of the benefits and tensions that have arisen from Beijing's new engagement with the Southern Atlantic. While Brazil's economy has benefited considerably, its policymakers and business leaders remain concerned that their relationship with China is beginning to resemble that with the United States and Europe. They also complain that economic ties with China have not yet resulted in the development of Brazil's infrastructure, have made commodity prices less stable, and have resulted in Chinese competitors stifling Brazil's manufacturing industry.

India, although it lags far behind China in its economic engagement with the region, is similarly driven by access to natural resources. However, its economic activity has not yet produced the

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same concerns. Unlike China, India's economic outreach is led by its private sector, with the partial exception of the energy sector. India has also made an attempt at cooperating with other large democracies in the region, particularly Brazil and South Africa, on global issues. And in addition to trade and multilateral diplomacy, it retains an interest in the Southern Atlantic due to the presence of a small but influential Indian diaspora. However, India has yet to approach the Southern Atlantic as a single strategic space, and has displayed only limited interest in the region's security.

Overall, the rapid growth of the Chinese and Indian economies has produced a new dimension of South-South economic cooperation, which has also been assisted by deeper linkages between Africa and Latin America. Chinese and Indian firms have become more global, and both countries are no longer just trade players, but are also increasingly active in the global economy via foreign direct investment. Their investments are more diverse than is widely appreciated. There are important differences. China's investment is more government-led and geostrategic, while India's is led by publicly listed companies including its leading multinationals. Indian investment is also driven more toward manufacturing and services than China's, which tends to be focused on natural resources and energy. China is also a major loan provider to both Africa and Latin America. Such engagement has produced real benefits for Africa and Latin America, including increased access to natural resources, improvements to physical infrastructure, and overall economic development. But concerns surface around the effects on environmental sustainability, labor standards, and local competitiveness.

Neither China nor India's engagement is necessarily directed by a set of clear goals or a coherent strategy. While both have engaged with some of the region's less savory regimes in an effort to snub the West or advance narrow economic or political objectives, China and India have differed in their approaches to civil society, human rights, and democratic governance in the region. China has oscillated between two policies: defending the principle of non-interference in political affairs and advancing its model of authoritarian capitalism. India is witnessing an emerging debate between those focused on material interests, those who find

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common cause with the Global South against the North, and those who emphasize coordination with other democracies.

These larger trends have several implications for the transatlantic community. China and India remain competitors as much as partners in the regions, and both lag behind the United States and Europe in terms of their overall presence. Africa has been a greater beneficiary of their engagement than Latin America. And overall, the arrival of China — and to a lesser degree, India — has not been without its problems. There are few mechanisms in place for institutional cooperation in the region enveloping both established and new powers, although the appeals for greater representation for developing states by China and India resonate positively in the region. The transatlantic partners should better manage China's presence by ensuring balances in trade, limiting market volatility, and encouraging local manufacturing. They should encourage India's emergence as a viable alternative model to China. Europe, faced with fewer strategic choices than the United States, should contemplate taking a more active role in engaging new actors in the Southern Atlantic. The transatlantic community should also consider new legal frameworks in the region that help underwrite the liberal order. This can be done, in part, by enhancing strategic dialogues with regional actors such as Brazil, to cover issues such as the international monetary system, infrastructure development, and food security. Multinational security cooperation in the Gulf of Guinea and coordinated efforts at developing renewable energy sources remain additional considerations that should be contemplated over the coming years and decades.



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# Introduction: New Players in the Atlantic Basin

*Emiliano Alessandri and Dhruva Jaishankar*

**A**lthough international attention is increasingly focused on rapid economic growth and geostrategic competition in Asia, the growing belief that the 21<sup>st</sup> century will be a “Pacific Century” should not come at the expense of overlooking new developments taking place in the Atlantic space, particularly in the Southern Atlantic.<sup>1</sup> The two trends are not entirely unrelated. China and India — among other rising Asian states — are slowly evolving into prominent Atlantic actors, extending their reach to most nations in the Americas and in Atlantic Africa, regions which have traditionally fallen within the strategic orbits of Europe and the United States. While still limited, the Asian presence in the Southern Atlantic is quickly expanding, and the economic and geopolitical implications of China and India’s arrival in the region are only now coming under scrutiny.

The vibrancy of the emerging economies in the Southern Atlantic, from Brazil to South Africa, appears to have opened the prospect for deeper engagement between the poles of economic growth in Asia, Africa, and the Americas. The new opportunities for these emerging economies have arrived just as the West is believed to be losing ground, at least in relative terms, particularly following the protracted economic slowdown across the developed world since 2008. What is the state of play of the new Asian involvement in the Atlantic region, and what are the drivers of their growing engagement? Will increasing economic influence pay political dividends? And how should North America and Europe respond to these changing realities and shifting balances?

This report seeks to address these important questions, with a particular emphasis on the presence and engagement of China and

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<sup>1</sup> In this case, as in the rest of this report unless otherwise indicated, the term Southern Atlantic is used to refer to those countries in Latin America and Africa that have an Atlantic coast. These include the African coastal states from Morocco to South Africa, Atlantic South America (Argentina, Brazil, Venezuela, Colombia, Guyana, Surinam), Central America, the Caribbean, and Mexico.

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India in the region, especially in connection to Brazil, the Southern Atlantic's largest economy and most prominent political player. The report's contributors elaborate upon how China's economic stature in South America has grown rapidly since the early 2000s. This complements but does not yet compare to China's presence in Africa, which in many respects predates its Latin American engagement by a decade. India, for its part, has only recently been making strides in a region that it traditionally considered as lying outside its area of primary interest. However, as the Indian economy grows and its thirst for natural resources augments its presence in the resource- and energy-rich South Atlantic, India too has begun to think of the region as part of its greater strategic neighborhood.

To be sure, the involvement of China and India in the Southern Atlantic to date remains primarily economic. Specifically, both countries continue to be focused on the acquisition of — and access to — fossil fuels, minerals, and agricultural commodities. Although economic engagement has formed a basis for greater political dialogue in some contexts, the Southern Atlantic region as a whole, and Central and South America in particular, remain low on the list of foreign policy priorities for both India and China.

For their part, traditional powers in North America and Europe continue to wield far greater influence in the Atlantic Basin than these new players. However, the long-term economic trends — in particular, the growing demands of the fast-rising Asian economies — suggest that South-South engagement will continue to grow, linking both China and India more closely to the region. China, at the very least, can be expected to become a true Atlantic power in the foreseeable future.

The notion that the United States and Europe can offer a counterweight to the rise of China in the Southern Atlantic is therefore intriguing, but it may in fact be unrealistic. China is already part of the Atlantic equation. Local actors may find the effects of China's growing presence problematic in many respects. For the first time, governments across the Atlantic region have started to become concerned — perhaps rightly — about becoming overly dependent upon China. At the same time, they are also keenly aware of the

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critical role that China can play in their economic development as an alternative engine of growth to the West.

For the transatlantic community looking for new partners to maintain the stability, peace, and liberal principles that broadly characterize the Atlantic space, the challenge will lie in engaging China on some of the more sensitive issues — from establishing the rules of competition to a coordinated approach to the use of resources — while deepening dialogue and ties with an actor such as India, which is seen as less threatening by virtue of its economic and political characteristics.

## **Introducing this Report**

Within this general framework of analysis, this report includes a brief overview of China's growing presence in Africa and Latin America. Andrew Small and Amy Studdart chart the dramatic increase in Chinese trade in the region from \$30 billion to \$228 billion between 2002 and 2010. In less than a decade, China has become one of the three largest trading partners in the region, although it still lags behind the European Union (\$346 billion) and the United States (\$640 billion). China is now Brazil's primary trading partner, and its investments in the region are also on the rise. Small and Studdart focus on the case of China's engagement with Brazil as symptomatic of some of the larger dilemmas its arrival has brought regional policymakers. Although Brazil has benefited tremendously in many respects from Chinese trade and investment, Brazilian policymakers are concerned that the relationship is beginning to resemble the North-South ties that they sought to escape. Specifically, growth spurred by relations with China has not always translated into sustainable development, commodity prices have become more volatile, and China has emerged as a competitor to Brazilian manufacturers.

In the subsequent chapter, Dhruva Jaishankar argues that although India's engagement with the region is — like China's — driven primarily by its quest for natural resources, it has been a less invasive partner. While certainly a smaller player in the Atlantic's space until now, India may come to be seen by regional governments as an easier partner to deal with in the long run, as its economic rise and external projection are driven by its dynamic

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private sector, with only the limited involvement of state interests in industrial development and trade strategies. India has also sought to engage the leading democracies in the region — Brazil and South Africa — through regular trilateral summits, and has also taken an interest in several other South Atlantic countries due to the presence of a sizeable and influential Indian diaspora. However, at present, India's security relationships in the region remain largely aspirational.

Joseph Quinlan widens the focus by painting a picture of rapidly changing global economic trends. He explains that a transition is taking place in the Atlantic space from a two-flow economy that had developed along a North-North and North-South axis, to one now relying on a strong South-South dimension thanks to growing Asian influence and deeper African-Latin American engagement. Southern Atlantic players like Brazil now play an important role not only in trade but also in finance and investment in Africa, both in other Lusophone countries such as Angola and in places such as post-apartheid South Africa. Quinlan also concentrates on some of the fundamental differences between India and China's Atlantic projections, deriving from the differences in their economic and political regimes.

William Inboden argues that as both China and India increase their presence and activities in the Southern Atlantic, it remains unclear whether their engagements are guided by an explicit strategy and set of coherent political goals. He observes that neither China nor India necessarily sees the Southern Atlantic as a single strategic unit. The two powers, however, differ somewhat in their respective approaches to and influences on civil society, human rights, and democratic governance in the Southern Atlantic. China vacillates between an approach based on the principle of non-interference on one hand and a more aggressive advancement of an alternative model of governance — a “Beijing Consensus” — on the other. New Delhi is also divided, but between realists who advocate focusing on India's material and security interests, those who favor more ideologically driven notions of the Global South, and values-driven groups who emphasize India's democratic identity and call for closer coordination with other democracies, including in North America and Europe.

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The final section offers a conclusion that assesses the implications of these findings and provides tentative recommendations aimed at policymakers in the Atlantic Basin, particularly in the United States and Europe. Although the presence of China and India in the Southern Atlantic is relatively small compared to the United States and Europe, their arrival is now a reality. The United States and Europe will have no choice but to accept the growing presence of China, in particular, and discuss both among themselves and with their partners in the Southern Atlantic as to how to manage China's presence without causing disruptions to the region's political stability or economic future. Moreover, while resources dominate the agendas of both China and India, their economic engagements are far more diversified than is commonly acknowledged, and now encompasses infrastructure, finance, and various specialized technologies. Additionally, local actors are becoming concerned that their relationship with China is beginning to resemble those with the United States and Europe. This presents opportunities to open dialogues with the leading powers in the Southern Atlantic, in particular Brazil, about Chinese business practices to ensure a balanced relationship and level playing field. This can also apply to the realm of aid, in the cases of both China and India. And finally, the United States and Europe should be conscious of the fact that India offers a remarkably different model of political and economic development, which translates into an alternative model for its projection in the region, one that may prove to be more balanced and sustainable as well as less politically disruptive.

This report reflects the views of individual contributors, and is not indicative of a consensus of opinion among the authors. Nor do these views necessarily reflect those of the German Marshall Fund of the United States (GMF), with which all the contributors are affiliated. The report benefited greatly from discussions held at the inaugural edition of *The Atlantic Dialogues* in Rabat, in particular the session on September 30, 2012 called "Asian Actors in the Wider Atlantic."

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# China in the Southern Atlantic: The Case of Brazil

*Andrew Small and Amy Studdart*

China's relationships in the Southern Atlantic have had a profound impact on the region. The rise of China has done much to drive the economic growth and strengthen the political clout of states across Latin America and Africa. But riding China's coat tails to a more prosperous and equitable world was only ever going to take the Southern Atlantic part of the way. As China has risen, its bilateral relationships have become increasingly unbalanced, and the impact of Chinese growth has outpaced the capacity of many countries to adjust to it. Nothing illustrates the challenges of navigating life in China's economic and political slipstream more clearly than the situation of the Southern Atlantic's largest economy, Brazil. Despite the strength of its political position, its years of surging growth rates, and its advanced industrial base, Brazil's goal of forging an economic relationship with China that transcends the sale of commodities has proved elusive.

## The Rise of the Rest

The last decade has seen a decisive shift in the role the developing world plays on the global stage. After decades of lagging behind the West, it was the developing countries that contributed half of global growth in 2011 and 2012.<sup>1</sup> Not only have these states registered their own explosive rates of economic development, but South-South cooperation is also on the rise — as can be seen in both the extraordinary expansion of commercial ties and in the burgeoning alphabet soup of multilateral South-South and regional organizations. With 20 percent of the world's population and growth rates averaging 10 percent over the last three decades, it is China that has been at the forefront of that rise. In addition to bringing hundreds of millions of its own people out of poverty,

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1 "Navigating Strong Currents," *Global Economic Prospects*, Vol. 2, World Bank, January 2011. (<http://go.worldbank.org/80LZUWIL80>)

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its phenomenal economic performance has ricocheted, reaching corners of the world that the West's prosperity had not.

China's influence on the economies of the Southern Atlantic has grown quickly, driven by a hunger for resources, political influence, and a desire on the part of well-financed Chinese companies to expand their activities in the developing world. In 2010, trade between China and the Southern Atlantic stood at approximately \$227.5 billion,<sup>2</sup> a significant increase on 2002, when China's total trade with all of Africa and Latin America amounted to only \$30 billion.<sup>3</sup> China has grown to be one of the three largest trading partners with the region — along with the European Union at \$345.9 billion and the United States at \$640.3 billion — and in several countries it is the largest. Through much of the global economic crisis, China's demand for resources has also had a tremendous impact on global commodity prices and the scale of commodity export flows, with Chinese consumption now accounting for 20 percent of the global production of non-renewable energy resources, 23 percent of major agricultural crops, and 40 percent of base metals.<sup>4</sup>

Trade only tells part of the picture. Unlike in the West, where Chinese investments have still been relatively limited, recent years have seen a take-off in its financial flows to the developing world. In 2010, Chinese investment amounted to approximately \$17 billion<sup>5</sup> in Brazil and \$7.5 billion in Nigeria.<sup>6</sup> Since 2004,

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2 Estimated using World Bank, EU, and IMF figures, as well as the 2011 European Commission trade reports, with some data from the Chinese Statistical Bureau, checked against external reports. Countries included are Angola, Argentina, Aruba, the Bahamas, Barbados, Belize, Benin, Bermuda, Brazil, Cameroon, Cape Verde, Columbia, Costa Rica, Cuba, the Democratic Republic of Congo, Dominica, the Dominican Republic, Equatorial Guinea, Gabon, The Gambia, Ghana, Grenada, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Ivory Coast, Jamaica, Liberia, Mauritania, Mexico, Morocco, Nicaragua, Nigeria, Panama, Senegal, Sao Tome and Principe, Sierra Leone, South Africa, St. Kitts and Nevis, St. Lucia, St Vincent and the Grenadines, Suriname, Togo, Trinidad and Tobago, Uruguay, and Venezuela. Due to insufficient data, the Republic of Congo, Curacao, and Namibia are excluded.

3 "International Trade Statistics 2003," World Trade Organization, 2004. ([http://www.wto.org/english/res\\_e/statis\\_e/its2003\\_e/its03\\_appendix\\_e.htm](http://www.wto.org/english/res_e/statis_e/its2003_e/its03_appendix_e.htm))

4 Shaun K. Roache, "China's Impact on World Commodity Markets," IMF Working Paper, International Monetary Fund, May 2012. (<http://www.imf.org/external/pubs/ft/wp/2012/wp12115.pdf>)

5 Press Trust of India, "China invests \$12.67 billion in Brazil," *The Economic Times*, July 5, 2011. ([http://articles.economictimes.indiatimes.com/2011-07-05/news/29738779\\_1\\_brazil-accounts-chinese-investment-brazil-s-ministry](http://articles.economictimes.indiatimes.com/2011-07-05/news/29738779_1_brazil-accounts-chinese-investment-brazil-s-ministry))

6 Aminu Wali, "Nigerian Ambassador: Chinese investment in Nigeria on the rise," *China Daily*, March 8, 2011. ([http://www.chinadaily.com.cn/china/2011-03/08/content\\_12142753.htm](http://www.chinadaily.com.cn/china/2011-03/08/content_12142753.htm))

China's Exim Bank has invested \$7.5 billion in building Angola's oil infrastructure alone.<sup>7</sup> In the same year, China had a 36.6 percent share of the construction industry in Africa,<sup>8</sup> and loaned more to Latin America than the World Bank, the Inter-American Development Bank, and USAID combined.<sup>9</sup>

However, in recent years the underlying tensions in the economic relationships between China and the countries of the Southern Atlantic have started to come to the fore. On a trip to Zambia in 2011, U.S. Secretary of State Hillary Clinton joined the chorus of those chastising China's behavior in Africa, warning that "we saw that during colonial times, it is easy to come in, take out natural resources, pay off leaders, and leave." The location was apposite. Despite — and partly because of — its investments there, Zambia's relationship with China has been one of the most fraught on the continent. Current President Michael Sata ran election campaigns heavily critical of Chinese labor rights abuses and China's "corrupt" influence over his predecessor Rupiah Bandam, while anti-Chinese protests have taken place in the Copper Belt region and in the capital, Lusaka.<sup>10</sup> Economic fundamentals play an even more important role than the practices of Chinese companies. South African President Jacob Zuma warned of an "unsustainable" trade relationship based on the export of natural resources to China and the import of cheap Chinese manufactured goods. "Africa's past economic experience with Europe dictates a need to be cautious when entering into partnerships with other economies." As one analyst in Brazil put it: "the worry is that we're constructing a new North-South relationship, only instead of the United States and Europe, it's China. There are the same structural problems."<sup>11</sup> From trade imbalances on value-added goods to an unhealthy

7 Shelly Zhao, "The China-Angola Partnership: A Case Study of China's Oil Relations in Africa," *China Briefing*, May 25 2011. (<http://www.china-briefing.com/news/2011/05/25/the-china-angola-partnership-a-case-study-of-chinas-oil-relationships-with-african-nations.html>)

8 "China-Africa: You want it; they can build it," *The Africa Report*, August 23, 2012. (<http://www.theafricareport.com/20120823501817580/sectors/china-africa-you-want-it-they-can-build-it.html>)

9 Kevin P. Gallagher, Amos Irwin, and Katherine Koleski, "The New Banks in Town: Chinese Finance in Latin America," *Inter-American Dialogue Report*, February 2012 (<http://ase.tufts.edu/gdae/Pubs/rp/GallagherChineseFinanceLatinAmericaBrief.pdf>)

10 Andrew Bowman, "Zambian mine death puts China relations in spotlight," FT.com August 6, 2012. (<http://blogs.ft.com/beyond-brics/2012/08/06/zambian-mine-death-puts-china-relations-in-spotlight/>)

11 Author interviews in Brasilia, Rio de Janeiro, and Sao Paulo, May 2012.



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dependence on unstable commodity prices, these issues are common to much of the Southern Atlantic.

Brazil provides one of the most useful prisms through which to look at China's role in the region. In theory, Brazil's sheer scale provides it with a degree of leverage in dealing with China that other countries lack. It stands as the sixth largest economy in the world, the leading political and military power in Latin America, one of the handful of leading actors in international trade negotiations, and a charter member of most of the major developing world's multilateral clubs. Yet Brazil's economic issues with China have been no less acute and the challenges it faces in harnessing China's rise for its advantage and that of the developing world as a whole are profound. Its response has significant lessons for other countries in the region and beyond.

## **Lula Goes to Beijing**

In May 2004, Luiz Inacio Lula da Silva — the then-president of Brazil — went to China with eight of his cabinet ministers, six state governors, and 450 Brazilian business leaders for five days. The result was a set of commercial deals of a quantity and comprehensiveness rarely seen between developing countries. China sought to benefit from Brazil's vast iron ore deposits, its land and potential for soya production, and what was then a perennially weak currency, the real. Brazil, which had been under what the International Monetary Fund (IMF) called the “threat of a major blackout” only the year before, would see its crumbling infrastructure rebuilt and trade and investment help drive growth and bring prosperity.

Lula had a more expansive ideological and political agenda as well. He had a dream of building a G5, a bloc that would consist of Brazil, Russia, India, China, and South Africa. Of the bloc, he said “we want to build a political force capable of convincing rich nations... that they can ease their protectionist policies and give access to the so-called developing world.” The “BRIC” terminology coined by Goldman Sachs in 2001 became common vernacular later that year, and the addition of the “S,” for South Africa, followed in 2010.

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Eight years later, trade between Brazil and China stands at \$60 billion. China's demand for commodities has driven up the price of iron ore, soya, and petroleum — Brazil's biggest exports — and the real is now one of the strongest currencies in the world. In October 2012, one U.S. dollar was worth 2.03 Brazilian real while in May 2004, one dollar was worth 3.09 real. (The peak of 1.55 real to the dollar was hit in July 2011.)

But the increased cooperation with China has shone a spotlight on the Brazilian economy, exposing some problems, exacerbating others, and creating new tears in an already fraying economic fabric.

## What Happened to the Brazilian Economy

In 2003, the year before Lula's first trip to China, Brazil produced 215 million tons of iron ore. By 2005, that production had grown by 40 percent to 300 million tons a year. In 2011, annual exports had reached 390 million tons.<sup>12</sup> Half of that made its way on specially designed freight ships to China. The iron ore poured into China's factories, where it became industrial machinery, building materials, automobiles, and any number of other consumer goods. Not only has Brazil found a new, hungry market, but the Chinese demand has also pushed up prices. In January 2003, a ton of iron ore sold for \$14 on the global market. As of August 15, 2012, it was selling for \$113.50.<sup>13</sup> But while this been a big driver of Brazil's growth over the last decade, the sky-rocketing demand for Brazil's commodities is not without its problems.

First of all, while commodity exports may drive growth, they do not necessarily drive development. Brazilian infrastructure is amongst the worst in the world. According to the OECD, only 13.8 percent of Brazilian roads were paved in 2008. In 2011, the World Economic Forum's Global Competitiveness Index ranked Brazilian infrastructure overall as 104<sup>th</sup> of 142 countries — a decline on the preceding year when it placed 101<sup>st</sup>.

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12 U.S. Geological Survey ([http://minerals.usgs.gov/minerals/pubs/commodity/iron\\_ore/](http://minerals.usgs.gov/minerals/pubs/commodity/iron_ore/)); "The Iron Ore Market in 2011," Organisation for Economic Co-operation and Development, May 12, 2012. ([http://www.oecd.org/sti/industryandglobalisation/OECD%20May12%20Summary%20%20Iron%20ore%20doc%20\(3\).pdf](http://www.oecd.org/sti/industryandglobalisation/OECD%20May12%20Summary%20%20Iron%20ore%20doc%20(3).pdf))

13 Javier Blas, "China demand worries weigh on iron ore," *Financial Times*, August 15, 2012. (<http://www.ft.com/intl/cms/s/0/81f6e8d0-e6ef-11e1-af33-00144feab49a.html>)

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Second, commodity prices are volatile. While iron ore was selling at \$113.50 per ton in August this year, it was selling at \$177 per ton in September 2011. Since then, both prices and demand have drastically declined, while Vale — the world’s largest iron ore company — continues to attempt to increase production. Commodity prices are especially volatile when reliant on one major consumer, as Brazil is with China. The fall in iron ore prices is the result of a broader global slowdown, but, of the developing countries, Brazil’s growth rate has been among the worst hit over the last two years. As of October 2012, the Brazilian Central Bank is forecasting 1.6 percent growth in 2012, down from 2.5 percent in 2011, and 7.5 percent in 2010.

Third, China has become a significant competitor to Brazil’s manufacturers. Production and labor costs, along with a relatively weak renminbi and a strong real — driven up significantly by the influx of new investment and the commodities cycle — mean that China is capable of producing and then exporting value added industrial and consumer goods at a price with which Brazil cannot compete, in markets in which it has traditionally been a dominant player. In the 1980s, industry represented between 43 percent and 46 percent of Brazilian GDP and 43-48 percent of Chinese GDP. In 2011, industry’s share of GDP was only 28 percent in Brazil, but was 47 percent in China.<sup>14</sup> China displaced Brazilian industrial exports to Chile by 14.4 percent, to Argentina by 6.8 percent, to Mexico by 6.6 percent, and to Venezuela by 8.6 percent.<sup>15</sup> This is also true across the region as a whole: in 2010, 12 percent of intraregional exports were affected by competition from China.<sup>16</sup>

This trend is affecting the domestic market too. While Brazil has largely relied on its own production to feed domestic consumption, between 2005-10 the percentage of imports from China doubled. In 2005, Brazil was importing 5.5 percent of its machinery and equipment from China. By 2010, that figure had increased to 9.7

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14 “World Development Indicators,” World Bank, 2012. (<http://data.worldbank.org/indicator/NV.IND.TOTL.ZS>)

15 Jenkins Rhys and Alexandre de Freitas Barbosa. “Brazilian manufacturing in the face of Chinese competition,” *DEV Research Briefing*, International Development, University of East Anglia, July 2011. (<http://www.uea.ac.uk/dev/People/staffresearch/rjenkinsresearch/brazil-chinese-competition-briefing-english>)

16 Osvaldo Rosales, “Trade competition from China,” *Americas Quarterly*, Winter 2012. (<http://www.cedes.uerj.br/documentos/artigos/AMERICAS%20QUARTERLY.%20Trade%20Competition%20from%20China.pdf>).

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percent.<sup>17</sup> The total trade deficit in manufactured goods between Brazil and China in 2010 stood at \$19.5 billion.<sup>18</sup>

Summing up the big questions facing many countries in their relationships with China, an analyst in Brazil said: “The [Brazilian] relationship with China has been passive. There’s been a tremendous growth of Chinese investment in and trade with Brazil, but what are the rules? Brazil is a sovereign nation with the capacity to make this work to its benefit. We can encourage China to invest in sectors that would help Brazil, and we can put limits on what China can do. China is welcome, but where do we want them to be; what is the behavior that we don’t like? What is the future of the Brazilian production sector?”<sup>19</sup>

## The Brazilian Response

Brazil has attempted to respond to these unexpected challenges partly through a series of internal reforms and partly through measures targeted more directly at China.

In 2009, Lula returned to China, this time on a mission to diversify Brazilian exports and increase investments in infrastructure. He focused on opening Chinese markets to Brazilian meat and aircraft, as well as on negotiations over access to Brazilian oil in return for investment in its oil industry and infrastructure.<sup>20</sup> Lula secured 13 deals during the trip, the highlight of which was one between Sinopec, the China Development Bank, and Petrobras, which included a \$10 billion loan to develop Brazilian oil fields and a potentially lucrative contract on crude oil trade.<sup>21</sup>

In April 2011, Brazil’s then-new President, Dilma Rousseff, made China her first extended trip abroad. She was accompanied by 309 business representatives. Rousseff secured a deal with Foxconn — the Taiwanese manufacturing giant with a large presence in

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17 Ibid.

18 Rhys and de Freitas Barbosa, “Brazilian manufacturing in the face of Chinese competition.”

19 Author interviews in Brasília, Rio de Janeiro, and Sao Paulo, May 2012

20 Fabrizio Sardelli Panzini, Paula Cristina Corrêa Bolonha, and Wellington de Lima Freire. “Uma análise das perdas comerciais brasileiras para a China (2000-2009),” *Pontes*, Vol. 6, Nr. 5, December 2010 (<http://ictsd.org/i/news/pontes/99014/>)

21 Xinhua, “Brazil’s Lula, on China visit, secures 13 deals,” *China Daily*, May 19, 2009. ([http://www.chinadaily.com.cn/china/2009-05/19/content\\_7793015.htm](http://www.chinadaily.com.cn/china/2009-05/19/content_7793015.htm))

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mainland China — to build a new plant in Sao Paulo assembling tablet computers and potentially providing much-needed jobs for Brazilians; further deals on agricultural produce, including three contracts with pork suppliers, and a deal that would allow the Brazilian aviation company, Embraer, to produce jets in China. China said it would “encourage companies to increase imports of high value-added products from Brazil,” according to the final joint communiqué.

Yet alongside these attempts at political deal-making have been a series of defensive measures to protect and support Brazilian industry and to change the conditions for Chinese investment.

In 2010, Brazil initiated more than 40 anti-dumping measures against China and increased trade tariffs to protect domestic producers. It also established rules to prevent companies that are more than half foreign owned from holding more than 12,000 acres of farmland, a general measure that was nevertheless seen to have China particularly in mind. Brazil’s agriculture minister, Wagner Rossi, stated that: “Some of these countries are great partners in other areas, but having them buying land in Brazil creates some sort of sovereign risk for us. This is not part of our plan and we are not going to allow that.”

Brazil has also taken a series of industrial policy measures, including energy sector tax reforms intended to reduce production costs for Brazilian manufacturers;<sup>22</sup> tax breaks on home appliances, furniture, white goods, and automobile manufacturing; an increase in targeted lending by state-owned banks; and state purchases of select Brazilian products, ranging from train wagons to armored vehicles.<sup>23</sup>

One of the biggest challenges for Brazilian industry has been the rising value of the real, and here too China has been in the firing line. As Ruchir Sharma explains in his *Foreign Affairs* article, “restaurants in São Paulo are more expensive than those in Paris, and office space is pricier there than in New York. Hotel rooms in

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22 Michael Place, “Energy tax reform to guarantee economic growth, says Rousseff,” *Business News Americas*, September 11, 2012. (<http://www.bnamericas.com/news/electricpower/energy-tax-reform-to-guarantee-economic-growth-says-rousseff1>)

23 “Brazil extends tax breaks to boost economy,” *Chicago Tribune*, June 29, 2012. ([http://articles.chicagotribune.com/2012-06-29/news/sns-rt-brazil-economytax-update-1l2e8htdpc-20120629\\_1\\_brazilian-industries-tax-incentives-president-dilma-rousseff](http://articles.chicagotribune.com/2012-06-29/news/sns-rt-brazil-economytax-update-1l2e8htdpc-20120629_1_brazilian-industries-tax-incentives-president-dilma-rousseff))

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Rio de Janeiro cost more than they do along the French Riviera, bike rentals are more expensive than in Amsterdam, and movie tickets exceed the price of those in Madrid.”<sup>24</sup> Some of the efforts made by the government, including the periodic imposition of capital controls and the reduction in interest rates, have coupled with a dropping off in the inflow of investment to push the value of the real some way below its historic highs. But as the largest developing economy with a floating currency, Brazil remains exposed.

In the summer of 2011 at the G20 summit in Paris, Brazil’s finance minister Guido Mantega called for an overhaul in the global currency system reiterating fears of a “currency war” that he had expressed the year before. While Mantega pointed his finger at a generic systemic problem signaling out the “monetary issuing policies of the U.S. and the U.K.,” a Brazilian analyst said “everyone knew that the finger should be pointed at China.”<sup>25</sup> At times this has been explicit. “Of course, China manipulates its currency and it [would be] better that the currency could fluctuate,” Mantega added at the same meeting. His statements were made in part to defend Brazilian capital controls policy lest Brazil’s reputation at the WTO suffer from being labeled protectionist. Speaking to the *Financial Times*, Mantega said, “We have to make it clear that we limit capital flows because we have no other alternative. We would prefer to have capital freedom and a freely floating exchange rate system. We are only using these limits because others are using their exchange rates as a weapon for trade.”<sup>26</sup>

As long as the problem remains unsolved, Brazilian manufacturers will continue to have trouble competing with far cheaper Chinese goods in domestic, regional, and even international markets as long.

Brazil also has broader infrastructure issues that prevent it from taking full advantage of the opportunities that China’s growth offers. The hundreds of millions of tons of iron ore that Brazil ships to China each year must travel to Europe, down the coast of West

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24 Ruchir Sharma, “Bearish on Brazil,” *Foreign Affairs*, May/June 2012. (<http://www.foreignaffairs.com/articles/137599/ruchir-sharma/bearish-on-brazil>)

25 Author interviews in Brasilia, Rio di Janeiro, and Sao Paulo, May 2012.

26 Quentin Peel, “Brazil calls for currency system overhaul,” *Financial Times*, February 19, 2011. (<http://www.ft.com/intl/cms/s/0/61d3afea-3bc7-11e0-a96d-00144feabdc0.html>)

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Africa, around the tip of South Africa, across the Indian Ocean and then up through the South China Sea before they finally reach their destinations in China's factories. For the Brazilian company Vale, this means that it takes around 45 days and costs \$20 a ton for their product to reach China, a big disadvantage when compared to the other big iron ore producing country, Australia, which can ship its product to China in nine days for \$8 a ton.<sup>27</sup> While this may benefit shipping companies, it significantly increases costs for Brazilian exporters. More sophisticated regional infrastructure — a rail running from Brazil through Paraguay and straight to the Pacific, for instance — would help both Brazil and the region as a whole better compete on the international market.

An even greater set of challenges are posed by the Chinese slowdown and the long-term implications of shifts in China's growth model. After four years of avoiding the worst of the economic crisis, developing economies are starting to feel the effects. The World Bank has cut its forecast for Chinese growth to 7.7 percent, still high but significantly lower than the Bank's May 2012 prediction of 8.2 percent.

While stretches of the developing world have been able to rely on Chinese growth to advance economic prosperity, that growth has depended significantly on two factors: China's exports of value-added manufactured goods to the rest of the world and domestic investment on an enormous scale, both of which sucked in huge quantities of commodity imports. As the eurozone continues to stagnate, and the U.S. economy recovers haltingly, weak consumer demand in those countries has led to similar faltering in China, and a commensurate drop in Chinese demand for commodities like iron ore.<sup>28</sup>

Unlike the early stages of the last potential Chinese downturn, at the peak of the global financial crisis in 2008 and 2009, Beijing's approach has not — yet — been to enact a comparably large

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27 Jamie Freed, "Brazil's eyes move on Australian Iron Ore," *Financial Review*, February 23, 2012. ([http://www.afr.com/p/business/companies/brazil\\_eyes\\_move\\_on\\_australian\\_iron\\_uv5oF7XirQdoFtJdEEfXfO](http://www.afr.com/p/business/companies/brazil_eyes_move_on_australian_iron_uv5oF7XirQdoFtJdEEfXfO))

28 Leslie Hook, "Chinese commodity imports fall in June," *Financial Times*, July 10, 2012. (<http://www.ft.com/intl/cms/s/0/6ceca446-ca40-11e1-844e-00144feabdc0.html>)

stimulus package.<sup>29</sup> This is partly due to difficulties in the finances of local governments in China, which were among the principal agents for the previous investment boom. It partly stems from the fact that the central government was enacting measures to cool off inflation, even as there were already signs of weakening external demand. But it is as much a product of the fact that the Chinese government does not want to repeat elements of the distortionary impact that the last stimulus created.<sup>30</sup> Over the last decade, China has been seeking to transition to better-balanced growth, in particular through raising the level of domestic consumption. While the sheer need to sustain growth at a reasonable level put some of those plans on the back-burner — and indeed raised levels of investment and enlarged the role of the state in the Chinese economy — the perceived need for a shift in China’s growth model is now equally great.<sup>31</sup>

This shift is not taking place quickly but the current economic challenges besetting many of the economies of the developing world — and developed world commodity exporters such as Australia<sup>32</sup> — illustrate the fact that many of these countries need to use the proceeds of the commodity boom to lay more lasting foundations for their economic growth. Even in the short term, the composition and scale of demand for imports from China cannot be taken for granted.

As the sixth largest economy in the world and the largest economy in the Southern Atlantic, Brazil has more leverage than most to negotiate favorable arrangements with China. But Brazil too has been unable to address the problems that this global transformation has engendered. Many of the difficulties it faces in dealing with China are shared with others across the Southern Atlantic and it is hard to say that its attempts to respond — through investment

29 Simon Rabinovitch, “China: Slowdown in growth likely to continue,” *Financial Times*, October 11, 2012. (<http://www.ft.com/intl/cms/s/0/e27aef76-112e-11e2-a637-00144feabdc0.html>)

30 Bettina Wassener, “As growth flags, China shies from stimulus,” *New York Times*, September 3, 2012. (<http://www.nytimes.com/2012/09/04/business/global/as-growth-flags-china-shies-from-stimulus.html>)

31 Wang Zhenghua, “Expand domestic market demand: Li,” *China Daily USA*, May 23, 2012. ([http://usa.chinadaily.com.cn/business/2012-05/23/content\\_15360923.htm](http://usa.chinadaily.com.cn/business/2012-05/23/content_15360923.htm))

32 Rachel Pannett, “Trade deficit widens as softer commodity prices hit exports,” *The Australian*, October 12, 2012. (<http://www.theaustralian.com.au/business/economics/trade-deficit-widens-as-softer-commodity-prices-hit-exports/story-e6frg926-1226487275195>)



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restrictions, trade-defense measures, industrial policy, attempts to drive down the value of the currency, and bilateral negotiations — have yet had the requisite impact. Most Brazilian analysts we interviewed believed that more fundamental efforts to improve Brazil’s competitiveness can no longer be avoided.

## Conclusion

The political relationship between Brazil and China continues to provide an overlay to many of the economic issues. For Brazil, China’s rising economic power also provides a vehicle to cement its own global power position. A developing world bloc, with the world’s second largest economy as its most potent force, is in a position to make demands for greater representation in global economic bodies such as the IMF, resist the pressures of the West in negotiations on issues such as climate change, and even establish tools of their own, such as the BRICS bank. Making a success of this evidently does not require the elimination of differences between developing world powers — India and China have a far more politically combative relationship, and yet are still able to forge common positions on these areas of mutual interest. There is a vast array of issues on which disagreements between any two powers are pronounced.

But at times the desire to maintain some level of developing world solidarity in public has led to a papering over of economic tensions that are more acute than those between China and the West, where there is at least a high level of economic complementarity. WTO Director-General Pascal Lamy once described China as the “specter at the table” of the Doha round: developing world countries privately admitting to him that they were terrified to agree to another round of tariff reductions as a result of their fears of the destructive impact of a further influx of Chinese products on their domestic industry. For many of these countries, the deal that Brazil has grown increasingly reluctant to accept — natural resources out, cheap manufactured products in — is the only one on the table. Brazil has at least been able to start using its clout to insist on a more acceptable set of economic arrangements in the short to medium term. But the longer-term policy agenda for many countries in the Southern Atlantic is extremely challenging, since some of the measures required have been elusive for decades

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— improvements to the competitiveness of domestic industry; a comprehensive upgrade of infrastructure; and a major deepening of intra-regional economic linkages. As an academic in Sao Paulo described it, “There is no new China-specific agenda, but China puts pressure on the Brazilian government to make all of the reforms that have been necessary for a long time.”

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# India in the Southern Atlantic: An Overview

*Dhruva Jaishankar*

In late 2006, India's chief of naval staff, Admiral Sureesh Mehta, surprised many observers — both at home and abroad — by defining India's "greater strategic neighborhood" as extending from Venezuela to Russia's Sakhalin Island.<sup>1</sup> This lofty aspiration appears to have been driven by India's concerns about maintaining open sea lanes in an effort to secure its energy interests. But it may also have represented one of the first conscious attempts at bringing the Southern Atlantic Basin — the maritime littoral extending from the Strait of Gibraltar to the Cape of Good Hope, and from the Gulf of Mexico to Tierra del Fuego — into India's strategic consciousness.

As India's economy has opened after the end of the Cold War and grown from \$320 billion to \$1.8 trillion in less than two decades, its global interests have expanded and its international engagements have increased exponentially. India's priorities have revolved around refashioning its ties with the United States, expanding its economic and commercial links with East and Southeast Asia, and stabilizing its relations with China and Pakistan. Historical legacies, the large Indian diaspora, and pressing economic and strategic interests have also meant that Russia, the Middle East, Europe, and East Africa have featured prominently in India's international relations. But until relatively recently, Latin America and Western and Southern Africa — the countries comprising the Southern Atlantic — remained lower priorities. For a number of reasons, not least growing economic and trade links, resource imports, cultural connections to the Indian diaspora, and political alignment on multilateral issues, this is likely to change. We can soon expect the Southern Atlantic to feature more prominently on India's strategic radar.

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1 Mohan Malik, "Asia's Great Naval Rivalry," *The Wall Street Journal Asia*, September 5, 2011.

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This paper provides a broad overview of India's engagements to date with the Southern Atlantic, covering some of the historical and geographic roots of its limited interaction; the gradually intensifying economic and commercial linkages with the region, driven largely by India's quest for resources; and India's most important multilateral and bilateral political relationships in the region. It concludes with some possible implications for the United States and Europe, including potential areas for collaboration.

## Historical Background and Geographic Determinants

The traditionally low priority accorded the Southern Atlantic by India is due in large part to history and geography. During the era of European colonization, Latin America fell within the realms of influence of Spain and Portugal, while West Africa was mostly governed by France. India, meanwhile, remained at the center of the British Empire, separated from the Southern Atlantic by two oceans and often an entirely different language and culture. Indeed, among states in the region, India maintained its strongest cultural and commercial links — both before and after its independence — with fellow British colonies, including Nigeria, Ghana, South Africa, and the English-speaking Caribbean.

Another key point of contact that India had with the Southern Atlantic during the colonial era related to Indian indentured laborers, transported to British, French, and Dutch colonies in the Americas. In some of these states — notably Guyana, Suriname, and Trinidad and Tobago — ethnic Indians now represent a plurality of the local population and are often elected to leadership positions. Examples include former Guyanese president Bharrat Jagdeo and current Prime Minister of Trinidad and Tobago Kamla Persad-Bissessar. Their success resonates today with the Indian public, but until the early 21<sup>st</sup> century, the independent Indian government did little to actively maintain links with these communities, considering them part of a “lost diaspora.” Since 2001, the Indian government, conscious of the economic, investment, and political benefits, has placed far greater emphasis on outreach to diaspora groups, including in the Caribbean and in Africa.<sup>2</sup>

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2 See *Report of the High Level Committee on the Indian Diaspora* (New Delhi: Indian Council on World Affairs, 2001).

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Decolonization and the onset of the Cold War brought about a further set of complications in India's relations with many states in the Southern Atlantic littoral. New Delhi's engagements with other post-colonial states until the 1960s were largely through the prism of non-alignment, leading to friendly diplomatic relations with the likes of Kwame Nkrumah's Ghana and Fidel Castro's Cuba. Yet other key states — including Brazil, Argentina, and apartheid-era South Africa — were considered too closely-associated with militant anti-communism for an India that from the late 1960s on became increasingly strategically aligned with the Soviet Union. The dynamic was two-way; Brazil, for example, rejected India's invitation to join the non-aligned movement as a full member, believing at the time that it would compromise its relations with the United States.

Nonetheless, during periods of conflict, post-colonial empathy often prevailed: Indian leaders, for example, were outspoken in their support for Argentina's claims to the Falkland Islands and continue to refer to the disputed archipelago by its Spanish name: the Malvinas. India's leadership role both in the Non-Aligned Movement and in the G77 grouping of developing countries also allowed it to engage many countries in Latin America and Africa as states that broadly shared India's outlook and worldview, particularly as it related to righting the inequalities of the international system. And often in contrast to political divergences between states caught on opposite sides of the Cold War, India enjoyed a level of cultural osmosis with many states in the region in the realms of literature and the arts — including Mexico, Brazil, and Colombia.<sup>3</sup>

The end of the Cold War in 1991 coincided with India's economic liberalization, leading eventually to high rates of economic growth and, for perhaps the first time in its modern history, excess capital. Politically, the dissolution of the Soviet Union also instilled in India a desire to diversify its strategic relations, an objective it shared with several other large developing countries including Brazil and South Africa. India also faced greater demands for energy — which the likes of Nigeria, Angola, and Brazil offered as major exporters — while India's large business conglomerates increasingly sought

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3 Shashi Tharoor, "India-Latin America Relations: A Work in Progress," *Georgetown Journal of International Affairs*, June 2012.

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commercial opportunities in emerging markets, including those in Africa and Latin America.

Comparisons are inevitably made between China and India, and strategic commentators note that despite India's impressive strides in recent decades, it lags behind China on most indicators of international influence. Despite rough parity in the 1980s, China's economy is today three-and-a-half times India's, despite a comparable population. But China's incomparable achievements overshadow the enormity of India's own development. Standards of living have increased four-fold in two decades, creating a new consumer class no longer condemned to a life of subsistence agriculture. India offers a remarkably different model of economic development. While China has adopted state-led, investment driven growth, India's growth has been fueled by private enterprise and domestic consumption. This has made India less reliant on trade and — to some degree — raw materials. Services also account for over half of India's economy, ensuring that it plays a very different, and in some respects more benign, role as an economic partner.<sup>4</sup>

## Trade, Investment, and Energy

Economic relations between India and the Southern Atlantic were negligible until about a decade ago. Since 2000, Indian companies have invested \$12 billion in Latin America in such sectors as information technology, pharmaceuticals, and mining. Major investments in several smaller countries had an outsized impact, included a 2.5 million ton steel plant in Trinidad and Tobago and the establishment of a major presence by one of India's largest info-tech companies in Uruguay.<sup>5</sup> In 2012, India contemplated joining the Inter-American Development Bank in what could yet be a watershed moment for marking its entrance into Latin America, easing credit for Indian business in the Americas.<sup>6</sup> After an initial trade deal with Mercosur in 2004 that covered a select list of products, India promised to negotiate further preferential trade

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4 Deutsche Bank Research, "China-India Chartbook: Has Strong Growth Led to Structural Changes?" May 13, 2011.

5 Jorge Heine and Rengaraj Viswanathan, "The Other BRIC in Latin America: India," *America's Quarterly*, Spring 2011, 4-7.

6 Smriti Seth and Vikas Dhoot, "India Mulls IDB Membership to Boost Trade with Latin America," *Economic Times*, March 1, 2012.

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agreements with that group and southern Africa's largest trade bloc SACU to, in the words of Commerce Minister Anand Sharma, "complete the IBSA [India-Brazil-South Africa] triangle."<sup>7</sup>

Energy also remains a key determinant of India's relations with many Southern Atlantic states, despite its being an arriviste on the energy scene. Low domestic fossil fuel reserves mean that India has to import over two-thirds of its oil, of which more than two-thirds comes from the Middle East. Africa and Latin America therefore serve as a means for India to diversify its sources of energy, and India's state-owned Oil and Natural Gas Corporation (ONGC) has gone about this by investing heavily in blocks in Brazil, Colombia, and Venezuela.<sup>8</sup>

A close analysis of India's commercial relationships in the Southern Atlantic points to several interesting trends.<sup>9</sup> First, India's trade with the region as a whole — with the notable exception of South Africa — is dominated by resource imports, particularly oil and natural gas. Thus its largest trade partners in the Southern Atlantic are presently Nigeria, South Africa, Angola, Brazil, and Venezuela, in that order. Energy relations with Angola and Venezuela, two countries to which India has not traditionally paid significant attention, are rising rapidly. Over a five-year period beginning in 2007, India's trade with Angola grew almost 13-fold, with India now responsible for almost 6 percent of the country's international trade. Similarly, Nigeria — a country with which India has had longer standing ties as a fellow Commonwealth country — is India's largest commercial partner in the region, conducting trade worth over \$13 billion in 2012. The fragility of this engagement stems from the fact that it is driven by commodity prices, which in turn is linked to global demand. India's decelerating economy — which initially appeared to have survived the global financial crisis well — risks lowering the already low profile of the Southern Atlantic region in India's strategic consciousness. But the long-term trends are less of a concern, given the expected expansion in India's manufacturing sector.

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7 "Delhi proposal to triangle South Africa Customs Union, India and Mercosur," Mercopress.com, May 21, 2011.

8 James Camilleri, "India chases Venezuelan oil project," *AsianOil*, February 10, 2010.

9 Indian trade data from "Export Import Data Bank," Department of Commerce, Ministry of Commerce & Industry, Government of India, 2012 (<http://commerce.nic.in/eidb/default.asp>).

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Second, in stark contrast to relations with the other major emerging market, China — which is often accused of flooding smaller markets with cheap manufactured imports — India is a net importer from the region, enjoying sizeable trade deficits with almost every major economy in the region, with the exception of Brazil. It may be tempting to view this dynamic as further deepening Latin America's dependence on resource exports, at the expense of other more sustainable and equitable aspects of economic growth. But for both the exporting and importing parties, it also represents market diversification.

Third, India's presence as a commercial player is far greater in Atlantic Africa than in the Americas, although its trade has been increasing more rapidly with South America over the past five years. Latin America and the Caribbean may possibly represent a greater opportunity over the medium-term future; among the more ambitious publicly stated goals of India's commercial agenda is the promise of \$50 billion in annual trade between India and Latin America.

While these trends are by and large positive, India's economic engagement with the region is still dwarfed by China's.<sup>10</sup> Indian officials still see relations with Latin America and Africa as an opportunity waiting to be tapped, rather than a present day reality.<sup>11</sup> Beyond business and commercial relations, India has also begun to pay more attention to the region from a strategic vantage point, propelled by its importance as a source of energy and raw materials.

One realm in which India has arguably made bigger headlines than China is in foreign acquisition, although this perception is largely colored by a handful of high profile mergers and acquisitions, such as Tata Motors' purchase of Jaguar Land Rover and Hindalco's of U.S. aluminum giant Novelis. Although the United States and Europe remain the favored destinations for Indian purchases, Africa and Latin America are now figuring more prominently. One

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10 For an extraordinarily comprehensive overview of India's economic relations in Latin America, see Osvaldo Rosales et al., "India and Latin America and the Caribbean: Opportunities and Challenges in Trade and Investment Relations," United Nations and Economic Commission for Latin America and the Caribbean, November 2011.

11 IANS, "India's trade with Latin America may reach \$50 billion," *The Times of India*, January 2, 2012.



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survey by an Indian business confederation found that almost 8 percent of foreign acquisitions by Indian companies between 2000 and 2006 were in Africa and Latin America. Among the largest such acquisitions in the Southern Atlantic were state-owned oil company ONGC Videsh's \$600 million investment in Angola's Greater Plutonio Project.<sup>12</sup>

## Multilateral and Bilateral Engagement

The gradually deepening economic relations between India and the Southern Atlantic have been supported by political leadership at the highest levels. Former Brazilian leader Luiz Inacio Lula da Silva visited India three times as president, helping to promote a shared vision of South-South partnership.<sup>13</sup> India also found common cause with many countries in the region in various multilateral fora encompassing global trade, climate change, nuclear disarmament, and UN reform, even though in some cases — including the Doha Round of World Trade Organization negotiations and on its nuclear tests — it found itself isolated. The BRICS Summit — a formulation that included Brazil and later South Africa in addition to Russia, China, and India — has proved another means for India to engage both sides of the Southern Atlantic Basin on a regular basis.

The centerpiece of India's diplomatic engagement in the Southern Atlantic since 2003 has been the trilateral India-Brazil-South Africa (IBSA) dialogue, resulting in regular summits by the leaders of the largest democracies in Asia, Africa, and Latin America, which also happen to be the largest economies in their regions. This configuration got its start when the three countries found common cause in promoting generic drugs for HIV/AIDS, in opposition to patents by Western pharmaceutical companies.<sup>14</sup> However, there are concerns now, particularly following the inclusion of South Africa in BRICS, that the IBSA coalition will gradually lose its relevance or be downgraded. If so, it would represent a setback for apex level democratic cooperation in the region.

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12 Deepak Nayyar, "The Internationalization of Firms From India: Investment, Mergers and Acquisitions," *Oxford Development Series*, Vol. 36, No. 1, March 2008, 116-123.

13 Tharoor, "India-Latin America Relations"; Oliver Stuenkel, "Seeing India through Brazilian Eyes," *Seminar*, February 2012.

14 Stuenkel, "Seeing India through Brazilian Eyes."

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Bilateral relations with Brazil and South Africa have also deepened in tandem. During the latest meeting in 2012 between Indian Prime Minister Manmohan Singh and Brazilian President Dilma Rousseff, the two agreed to further collaborate on UN Security Council reform, set a new trade target of \$15 billion by 2015, and, rather notably, discussed developments in a third region — the Middle East — reflecting both countries’ increasingly global aspirations.<sup>15</sup> India and Brazil also made an effort to enhance their defense relations — marked almost exclusively by the sale of Embraer aircraft to India — with Brazilian Defense Minister Celso Amorim visiting India in February 2012 in an effort to upgrade ties.<sup>16</sup>

Mexico is another country gradually increasing in importance for India, and is among the more important sources and destinations of investment for India in the region, including in the automotive and entertainment sectors, as well as in energy.<sup>17</sup> Like Brazil, Mexico shares with India an identity as an emerging economic power, whose rise has implications for the global order. Colombia, another large economy, has also witnessed a deepening of economic relations with India, with officials in both countries targeting 30 percent annual growth in trade.<sup>18</sup>

## Conclusion: Moving Beyond Resources

India’s priorities will almost certainly remain closer to home than the seemingly distant Southern Atlantic. New Delhi’s immediate priorities encompass a range of challenges and opportunities in the Indian Ocean Basin, Asia-Pacific, and Middle East. But pulled by its rising energy demands and deepening economic relations with the countries of Latin America and Western and Southern Africa, it will undoubtedly become more deeply invested in political, economic, and security developments in Southern Atlantic. “There is a unique opening for India at this time,” noted one Indian diplomat recently in the context of relations with Latin

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15 Press Trust of India, “India, Brazil to step up efforts on UNSC reform,” *The Hindu*, March 30, 2012.

16 Josy Joseph, “India and Brazil have no possibility of conflict at all” (Interview with Celso Amorim), *The Times of India*, February 22, 2012.

17 Karen Woodin-Rodriguez, “The future of Indo-Mexican relations” (Interview with Mexican Ambassador to India Jaime Nualart), Gateway House, February 24, 2012.

18 Huma Siddiqui, “India-Colombia Trade May Cross \$1 bn in 2011,” *Financial Express*, January 12, 2011.

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America, pointing to the general disillusionment with a West facing economic crises and the reassessment of relations with a China that is flooding Latin American markets with cheap imports.<sup>19</sup>

As in other areas of U.S. and European engagement with India, better coordination in the Southern Atlantic represents more of an area of long-term possibility, rather than a short-term policy option. Although its interests in Africa and Latin America have both increased, India does not see the Southern Atlantic as a discrete strategic space, in large part because of the absence of any pressing maritime security challenges in that basin. Assuming India's growing commercial presence, however, the elements are in place for a gradual ideological shift. India's recent embrace of the Indo-Pacific as a single strategic concept represents a case in point.

Moreover, although India may share the United States' and Europe's commitment to democratic ideals, it will remain resolutely opposed to working with the North Atlantic allies in this region over the near term future, particularly in the realm of security. India continues to identify NATO as an ideological Cold War-era bloc, and its interactions with the organization are incredibly weak. In other areas, India is likely to find it easier to establish commonalities with the Southern Atlantic in terms of similar development trajectories, rather than in terms of shared values, which could once again position it in opposition to the North Atlantic states. It is the fact that Brazil and South Africa lie at the intersection of democracy and development that has made the logic of IBSA particularly compelling for Indian policymakers. Regardless, the United States and Europe should be wary of overinvesting in India's promise as a partner in the region, particularly one that can be used explicitly to balance Chinese influence in the region.

Two areas that bear considerable potential for trilateral U.S.-Europe-Indian cooperation in the Southern Atlantic space are electoral best practices and foreign assistance. In the former case, India has already proved a valuable model for nascent democratic states across the developing world. West African countries such as Nigeria and Ghana have made conscious attempts at learning from Indian electoral practices. In the case of Ghana, one of Africa's

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19 "India's trade with Latin America." IANS, January 2, 2012.

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biggest democratic success stories, India's system of electronic voting has been used by NGOs as a model to help ensure free and fair elections.<sup>20</sup> The United States and Europe could help support initiatives for administrators and civil society representatives in the Southern Atlantic's nascent democracies to learn best practices from India's Election Commission.

The second area of considerable promise for transatlantic cooperation with India in the Southern Atlantic is in terms of development assistance, largely because it is an area in which India is a new player, and also because there has been some collaboration with the United States in this realm both in East Africa and in Afghanistan. Working with India's newly minted foreign aid agency to develop small-scale projects in some of the Southern Atlantic countries has short-term potential and could have wider consequences.

India is a long way from being an Atlantic power, and it may never seek to become one. But as its global economic and energy interests expand, it will have little choice but to pay greater attention to developments in the Southern Atlantic. For many reasons — not least its relatively transparent system of governance, its equitable economic growth model, and its private sector-led foreign investments — India's arrival is unlikely to result in the concern generated by similar Chinese activities. Its gradually increasing presence therefore holds promise for the United States, Europe, and the Southern Atlantic states.

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20 Gabby Asare Otchere-Darko, "Ghana's Fragile Elections: Consolidating African Democracy through E-Voting," *Georgetown Journal of International Affairs*, Vol. 11, Issue 2, Summer/Fall 2010.

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# Growing Economic Linkages with Latin American and Africa: Key Drivers and Trends

*Joseph Quinlan*

**G**lobal commerce has been dictated and determined by the developed nations, namely the United States and the European Union, for decades. Trade and investment across the Atlantic has long been the largest commercial artery in the world, with the transatlantic partnership serving as the post-war hub of the global economy. From this hub, various commercial spokes have emerged to link the United States and Europe to developing Asia, Latin America, the Middle East, Africa, and Central Europe. Under this configuration, global trade and investment flows have been largely two-dimensional: mainly North-North, between and among the developed nations, and North-South, between the developed and developing nations.

Times have changed, however. While the United States and the EU still exert a powerful influence on global commerce, the global supremacy of the transatlantic economy is being undermined by the rise of the developing nations. This trend is hardly new. The share of world output of the United States and the EU has fallen nearly ten percentage points since 2000, to 39.2 percent in 2011. Conversely, the developed nations' share of world GDP (based on PPP) has jumped 12 percentage points, to 53.8 percent, since the start of the new millennium. What is new is that the economic weight of the developing nations extends beyond world output.

Global foreign direct investment, including cross-border mergers and acquisitions, global bank lending, and global trade, all activities that have long been dictated by the developed nations, are increasingly determined by China, Brazil, India, and others. Where for decades the bulk of foreign direct investment (FDI) flowed to and from the developed nations, today a rising global share of FDI emanates from the developing nations. Where global mergers and acquisitions (M&A) were once the exclusive preserve of multinationals from the rich nations, global M&A increasingly bear the hallmark of global-minded corporate giants from Brazil, China,

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Russia, and India. And where trade and investment ties and bank lending between the developing nations were once underdeveloped and secondary to flows from the developed nations, such linkages are now thicker, more robust and more sophisticated. South-South linkages in trade, investment, and finance are becoming an increasingly important driver of global economic activity.

As part of this shifting dynamic, this report examines the expanding commercial ties of two of the largest emerging economies in the world, China and India, with two of the largest emerging regions of the world, Africa and Latin America. In summary, commercial linkages between the two parties have soared over the past decade, but from a low base. Africa has attracted more attention and capital from India and China relative to Latin America. Resource-seeking investment has been a prime motivator of China and India but their investments in both Africa and Latin America extend well beyond energy and mining. Further economic integration can be expected in the future but not without problems and challenges.

## **Stepping Out: China and India Go Global**

For decades, cross border trade was the primary means by which China and India engaged with the world. Trade linkages were the first steps towards greater global integration, and as both countries became more comfortable and confident with the world around them, external linkages expanded to include more inward and outward foreign direct investment, greater cross-border bank lending, and other forms of deeper economic integration. While the speed at which China and India have moved has varied over the years, the direction has been steadily towards more — not less — global engagement.

In particular, outward foreign direct investment has become an important economic dimension for both China and India, a reversal from decades of relative isolation. Up until the early part of the last decade, FDI outflows were actually discouraged by policies that incentivized firms to stay at home. Not atypical were capital controls that forbade large overseas acquisitions or investments. Policies were often designed to attract FDI inflows in support of growth and employment at home, as opposed to incentives

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catalyzing FDI outflows. At the same time, many companies in India and China were not ready to go abroad, lacking the capital, management skills, and the global experience of investing overseas. There were a few corporate outliers — Indian and Chinese firms with extensive overseas experience — but these firms were in the minority.

In the past ten years, however, Chinese and Indian firms have become far more globally minded, with companies, motivated by market conditions and government policies, becoming more embedded in the global economy via foreign direct investment, and not just trade. Globally shy no more, China's outward FDI stock, totaling just \$4.4 billion in 1990 (or 1.3 percent of GDP), spiked to \$28 billion in 2000 before soaring to roughly \$365 billion in 2011 (or greater than 5 percent of GDP). The surge reflects soaring annual FDI outflows, with outflows totaling \$69 billion in 2010 and \$65 billion in 2011. Comparable levels in 2000 and 2001 were just \$900 million and \$6.9 billion, respectively.

Outward flows from India, while not as large as China's, have been just as robust given the lower starting point. Annual FDI outflows were less than \$1 billion in 2000 but peaked at \$20 billion in 2007, prior to the financial crisis. Outflows totaled roughly \$15 billion in 2011, pushing India's outward FDI stock to \$111 billion last year, more than 5 percent of GDP and a 65-fold increase from the beginning of the century. The combined outward FDI stock of China and India was roughly 5 percent of the global total in 2011, up from 0.1 percent in 2000. Last year, China was the 14<sup>th</sup> largest foreign investor in the world, while India ranked 27<sup>rd</sup>.

Outward FDI flows from China and India have become so large and impactful that traditional global trade and investment flows have been reshaped and altered — a trend that has not gone unnoticed in either Washington or Brussels. As Chinese firms have burrowed deeper into Africa, and Indian firms have snapped up more global brands and become more embedded in key sectors of the global economy (for example, in steel and software development), policymakers in the developed nations have become increasingly concerned and alarmed by the spread of China's and India's global footprint, notably in regions of the world like Africa that have long been under the West's sphere of influence.

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In a pointed jab at China, U.S. Secretary of State Hillary Rodham Clinton warned in her June 2011 speech in Zambia of “new colonialism” threatening the African continent.<sup>1</sup>

Despite these worries, the variables that are driving both nations overseas are the same as those that have long influenced and spurred U.S., European, and Japanese firms to invest abroad. In many respects, Chinese and Indian firms are simply following in the footsteps of their industrialized brethren — resource-seeking Chinese energy firms are emulating the corporate strategies of U.S. and Japanese energy giants in the 1950s and 1960s. Chinese consumer giants like Lenovo and Haier and India’s Tata Motors are just as keen on gaining access to foreign consumers and indigenous technology capabilities as Dell, General Electric, and Toyota, and have therefore ploughed billions in market-seeking foreign investment into Africa, Latin America, and elsewhere. Indian technology giants like Wipro are no different than IBM and other U.S. tech leaders in going overseas to operate closer to their customers and leverage indigenous skills.

In the end, while much has been made of China’s large-scale energy projects in Africa, the FDI of both China and India is driven by commercial needs hardly unique to Western firms. Their investments are, in fact, more diversified than is widely recognized. Like everyone else, they are driven by resource-, market- and technology-seeking investments.

## Key Differences Between India and China

While the motivations for going overseas are similar, there are, however, substantial differences in terms of how, where, and in what sectors China and India invest overseas. China’s outward investment, for instance, is more government-led and more geo-strategic in nature. As part of China’s “going out” strategy (*zou chuqu*), a key priority of Chinese foreign direct investment is securing strategic assets and natural resources to fuel the industrialization, motorization, and urbanization of the Middle Kingdom. Thanks to these tectonic economic trends, China’s demand for global commodities has become nothing short of stunning. The nation is now the second largest consumer of oil

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1 Dambisa Moyo, “Beijing, A Boom For Africa,” *The New York Times*, June 28, 2012.



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after the United States, and presently devours 25 percent of the world's soybeans, 20 percent of the world's corn, and 16 percent of the world's wheat. The mainland also accounts for nearly 25 percent of world rubber consumption. Name a commodity and there is a good chance China is now among the largest consumers in the world.

China's secular rise in commodity demand, juxtaposed against a steady decline in arable land, mounting deforestation, rising water scarcity, and herculean environmental challenges at home, makes the nation fanatically focused on food and energy security for its 1.3 billion people. Hence Beijing's unstinting support to state-owned Chinese firms investing overseas in commodity-rich Africa, a strategic target of China.

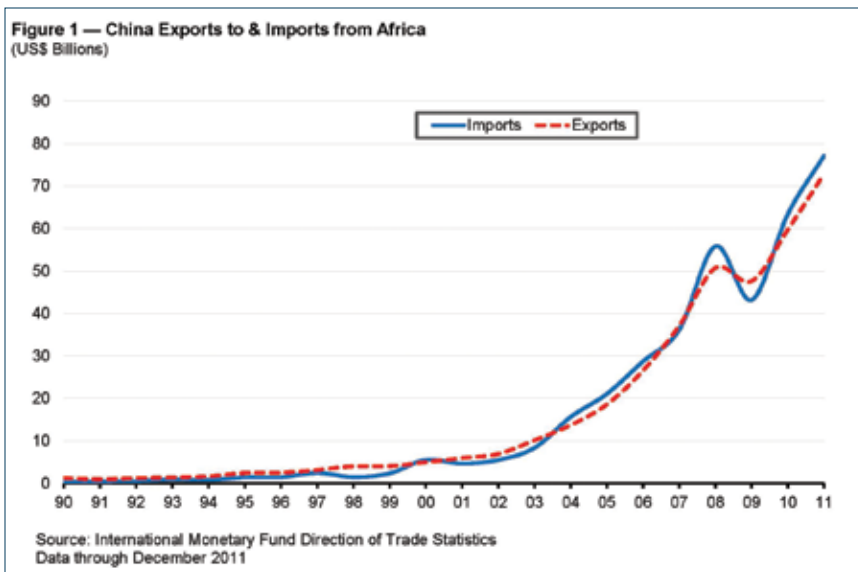
There is a direct link between China's resource-seeking FDI in Africa and the nation's energy security policies. Hence, a great deal of China FDI to Africa is bundled, and includes bilateral aid and grants, low cost loans, and other preferential financing arrangements provided by China's so-called policy banks — notably the China Export-Import Bank and the China Development Bank. The former has provided concessional financing to Angola, Equatorial Guinea, the Republic of Congo, Ethiopia, Guinea, Nigeria, Sudan, and Zimbabwe, as well as preferential procurement agreements tied to the purchase of Chinese equipment, materials, technology, and services. In addition to sovereign loans, both banks provide credit to many state-owned Chinese enterprises involved with infrastructure development and the energy sector; the Bank's activities also include export buyer's credits and financing for overseas construction projects.

Other organs of the Chinese state involved in Africa include the Ministry of Commerce, the China-Africa Development Fund, the China Construction Bank and the Industrial and Commercial Bank of China. Their objectives are to help Chinese firms gain and secure a strategic foothold not only in Africa's resource industries but also in such sectors as finance, textiles, distribution, logistics, and transportation. In the past few years, Chinese FDI has moved beyond natural resources and infrastructure and widened to include investment in wholesale activities (as in Kenya and South

### *Box 1: Sino-African Trade*

- Between 2000 and 2011, China's exports to Africa soared from just \$5 billion at the start of the century to nearly \$73 billion last year. South Africa, Nigeria, and Egypt ranked as the three largest African export markets for China; South Africa alone accounted for nearly one-fifth of total exports.
- Chinese imports from Africa rose by a comparable amount to exports. Imports tallied just \$5.5 billion in 2000 but exceeded \$77 billion last year. Reflecting China's need for resources and China-related investment in Africa's energy infrastructure, the bulk of imports were comprised of oil and other commodities. Africa provides China with 30 percent of its tobacco, 25 percent of its pearls and precious metals, 20 percent of its crude oil and cocoa, 10 percent of its ores, and 5 percent of its iron and steel.<sup>1</sup>
- Angola was the top supplier to China last year, with Chinese imports totaling \$25 billion; South Africa and Sudan ranked second and third, respectively. The top three accounted for nearly two-thirds of Chinese imports from Africa. Presently, China accounts for 18 percent of Africa's exports, up from 10 percent just three years ago.
- Surging trade flows reflect in large part the widening presence of Chinese FDI in Africa. That said, annual Chinese FDI outflows to Africa averaged \$318 million over 2003-05 but surged to an annual average of \$2.6 billion over the 2007-10 period.
- The stock of outward Chinese FDI to Africa soared from \$491 million in 2003 to over \$13 billion in 2010, a more than 25-fold increase.
- The stock of China's investment in Africa is concentrated in particular countries. South Africa is home to \$4.2 billion in Chinese investment in 2010, making it the favored destination accounting for roughly one-third of the total. Nigeria ranked second, with \$1.2 billion, or 9.2 percent of the total, while Algeria ranked third (\$937 million), Zambia fourth (\$944 million), and the Democratic Republic of Congo fifth (\$603 million). These five nations accounted for roughly two-thirds of the total FDI stock of China in Africa in 2010.

<sup>1</sup> "Africa Macro," Standard Bank, March 19, 2012.



Africa), automotive and truck assembly (in Tanzania) and garments and apparel (in Ethiopia).

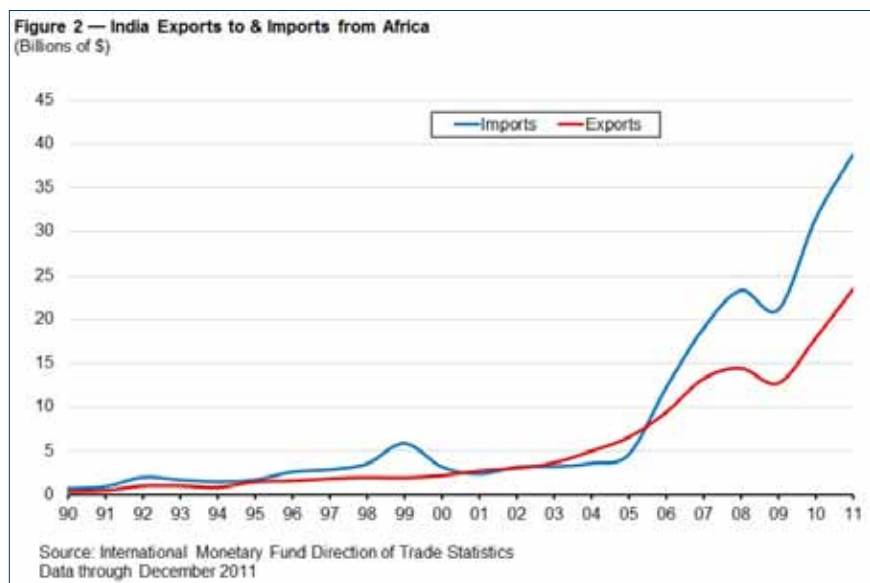
In the face of rising wages, intense domestic competition, and a stronger currency, Chinese companies have turned to Africa as a source of low-cost labor and new markets for Chinese goods. Regarding the latter, Chinese products — of low cost and satisfactory quality — are well suited for many African markets. To facilitate this process, China has borrowed a page from its own economic development by establishing and planning numerous special economic zones (SEZs) in several African nations. Just as the establishment of SEZs in China helped fuel export-led growth and kick start the industrialization of the mainland beginning in the late 1970s, the same effect is expected in such African nations as Ethiopia, Mauritius, Nigeria, and Zambia.

Finally, government-led support for Chinese investment in Africa includes formal arrangements, with China launching the Forum on China-Africa Cooperation (FOCAC) in October 2000 to facilitate greater multilateral economic cooperation among key African states. Given all of the attention China has showered on Africa over the past decade, it is little wonder China's trade and investment with the continent has soared over the past few years.

## India-African Linkages

In contrast to China's high-profile, state-led FDI in Africa, the outward investment thrust of India has been driven by the private sector and publicly listed companies, notably leading Indian multinationals. There has been some state-backed support for firms investing in the energy sector since India, like China, must import a great deal of oil, iron, copper, and other raw materials to keep its economy running. Hence the need for Indian energy companies, with the backing of the Indian government, to scour the world for resources and the need for high-level summits to promote commerce such as the first India-Africa Summit held in Delhi in 2008. But in general, Indian outward FDI is driven by business fundamentals — profits, access to technology and innovation, global growth, competition, distribution channels, and other business metrics. Small and medium-sized firms in India are more likely to invest overseas than comparable firms in China, who lack the knowledge and business acumen when investing beyond their home market.

Moreover, while China's outward investment has gone mainly to the developing nations (those in Asia in particular) and to the natural resource and energy sectors, with comparably less capital flowing to manufacturing activities, the bulk of India's FDI investment — roughly two-thirds over the past decade — has been directed at the developed nations and in such sectors as manufacturing and



### *Box 2: Indian-African Trade*

- Indian FDI outflows to Africa totaled \$9.3 billion over 2002-09 versus just \$750 million over 1996-2002. Of the \$9.3 billion total, roughly two-thirds was invested in Mauritius, a critical offshore financial center for Indian firms.
- Over 2002-09, there was a noticeable rise in energy-related investment in Sudan, totaling \$1.2 billion.
- Over the last few years, significant Indian FDI has been made in Kenya (coal, oil, and natural gas), Egypt (chemicals), Zambia (coal, oil, and natural gas), and Uganda and Congo (telecommunications).
- Trade and investment in pharmaceuticals have also increased sharply over the past decade, with Indian firms, leaders in generic medicines, tapping into the soaring needs of Africa's health challenges.
- Bilateral trade between India and Africa has increased dramatically over the past decade. Indian exports to Africa rose more than ten-fold between 2000 (\$2.2 billion) and 2011 (\$23.5 billion). Imports from Africa illustrated a similar trend, surging from \$3.2 billion in 2000 to roughly \$39 billion in 2011. India posted a trade deficit of \$15.4 billion with Africa last year; China's deficit was much smaller at \$4.7 billion.
- India's exports to Africa are highly concentrated and directed primarily at South Africa, Nigeria, Egypt, and Kenya. These four nations accounted for almost half of India's total exports to Africa last year. Imports – the bulk being energy/commodity-related – were even more concentrated: Nigeria, South Africa, and Angola accounted for nearly 75 percent of India's total imports from Africa in 2011.

services. Within manufacturing, key industries include electronic equipment, chemicals, telecommunications, pharmaceuticals, automobiles, and software development. According to figures from the Reserve Bank of India, manufacturing accounted for nearly half of India's total outward FDI in 2008-2009. Among service activities, a large share of FDI investment has gone to business services, data processing, financial services, and technical consulting.

By geography, roughly two-thirds of India's outward stock is in the developed nations, although Indian FDI in Africa has increased

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sharply over the past decade. Foreign direct investment from India to Africa is driven by a host of factors. Indian investment in Ethiopia, for instance, is resource-seeking, with Indian firms among the largest investors in the nation's coal, oil, and natural gas sectors. India also ranks as one of the largest investors in Egypt, Uganda, and Ghana, where Indian investment is more market-seeking and directed at the food and tobacco sectors. Indian investment in Kenya is directed at financial services, while in Tanzania the focus has been on the communications sector. Indian-South African ties have increased as well, with the stock of Indian FDI flows totaling \$6 billion in 2010 as compared to \$500 million in South African investment in India. Finally, India's rather large investment base in Mauritius is directed towards business services and designed to leverage the nation's advanced financial services sector.

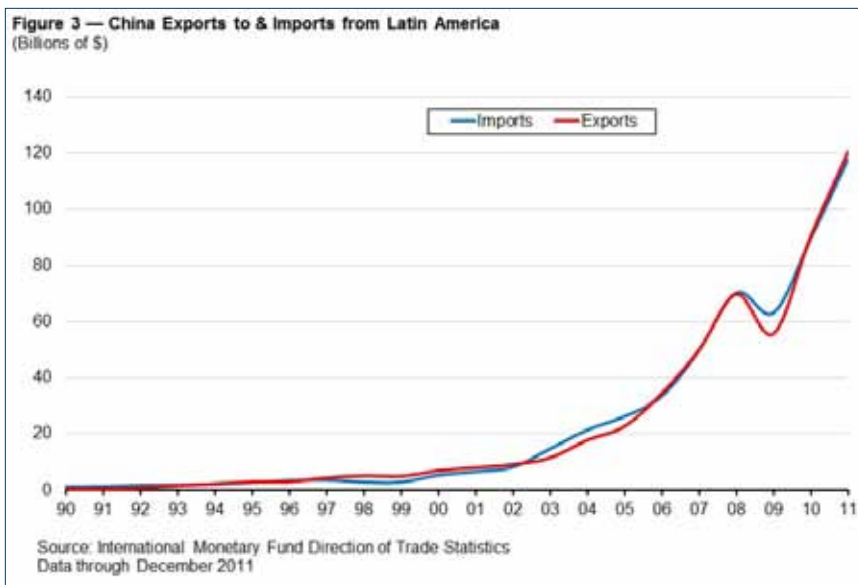
### **China's Linkages with Latin America**

Latin America, like Africa, has become more important to China over the past decade as both a source of raw materials and a new market for Chinese manufactured goods. China's soaring energy and agricultural needs account for China's rising investment profile in Brazil, Peru, and Venezuela, the top destinations for Chinese foreign direct investment excluding the mainland's investment in the offshore centers of the Cayman Islands and the British Virgin Islands.

And like Africa, Latin America has been at the receiving end of many large Chinese loans to help finance natural resource-based deals and infrastructure spending. To this point, the Inter-American Dialogue notes that Chinese loan commitments of \$37 billion in 2010 were more than those from the World Bank, Inter-American Development Bank, and U.S. Export-Import Bank combined.<sup>2</sup> The organization estimates Chinese loan commitments to Latin America since 2005 at \$75 billion, with Venezuela, Brazil, Argentina, and Ecuador receiving over 90 percent of the total. Two-thirds of these loans were loans-for-oil. For Ecuador and Venezuela — two nations that have found it difficult to raise capital in the global markets — Chinese capital has been instrumental in providing financing options. Finally, while Chinese loans do

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2 Kevin P. Gallagher, Amos Irwin, and Katherine Koleski, "The New Banks in Town: Chinese Finance in Latin America," Inter-American Dialogue, February 2012.



not come with stringent conditions, unlike loans from many multilateral institutions, Chinese banks do typically tie their loans to the purchase of Chinese goods and services.

Against this backdrop, heavy financing from Chinese banks have underwritten rising trade and investment flows between China and Latin America. In terms of FDI, China's investment stock in the region remains relatively small, roughly \$3.5 billion in 2010 versus \$13.5 billion in Africa. However, the last decade has seen sharp spikes in Chinese investments in Brazil, (from just \$79 million in 2004 to \$923 million in 2010), Peru (from \$126 million in 2004 to \$655 million in 2010), and Venezuela, (from just \$47 million in 2004 to \$417 million in 2010). As a large investor in Panama's transportation sector, Chinese FDI stock in that strategically important nation totaled \$236 million, larger than China's investment position in Mexico (\$153 million).

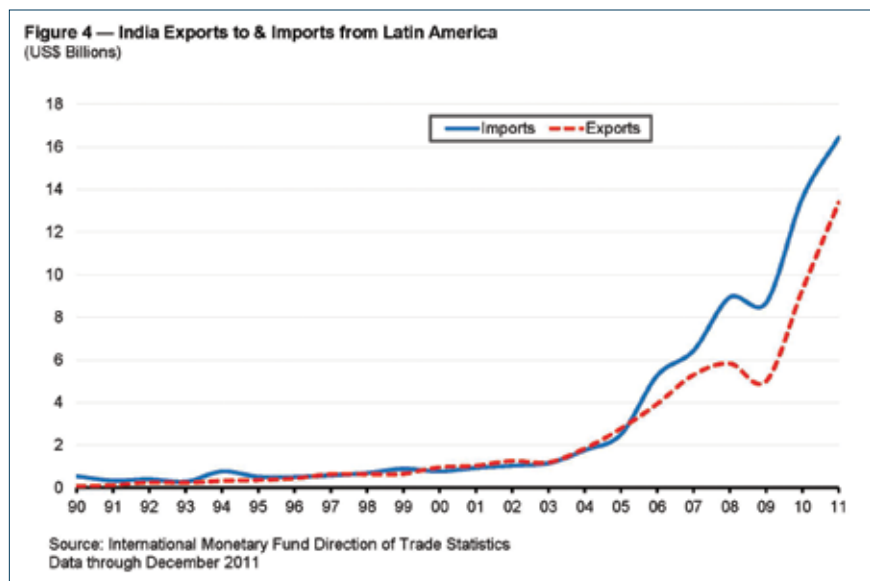
In general, when it comes to FDI, Latin America does not figure prominently in China's thinking. The region accounted for less than 2 percent of total Chinese investment stock in 2010. But investment flows are ramping up. China's investment in Latin America in 2010 was nearly \$1 billion — the largest annual increase on record, with Brazil accounting for half of the total. China-Brazil relations continue to evolve, but are plagued by the fact that both nations are partners and competitors. As a partner, China's demand for Brazil commodities (soy, iron ore, and oil) has soared since 2000, with

China's imports from Brazil surging from just \$1.6 billion to nearly \$53 billion in 2011. More than three-fourths of these imports were basic goods. China is now the top buyer of Brazilian exports.

The problem lies with China's exports to Brazil — which are primarily composed of manufactured goods (electronic and capital goods) that have undermined the competitiveness and market share of indigenous Brazilian manufacturers. While Brazilian farmers and energy firms have benefitted from rising trade ties with China, Brazilian manufacturers have seen their profits eroded by rising Chinese competition not only in Brazil but also in Argentina, Mexico, and other regional markets. In Latin America and the United States, low-cost Chinese goods have taken market share from Brazilian manufacturers. As a competitor, China is a direct threat to many Brazil firms, including Embraer, Brazil's aerospace leader. Hence, non-commodity sectors in Brazil are calling for more protectionist measures against Chinese imports and China's relatively weak currency, despite the fact that Brazil continues to enjoy a trade surplus with the mainland.

## India's Linkages with Latin America

Latin America has yet to emerge as a significant destination of interest for Indian businesses, much like for their Chinese counterparts. Between 2002 and 2010, Latin America accounted for roughly 4 percent of India's FDI outflows versus Africa's 12



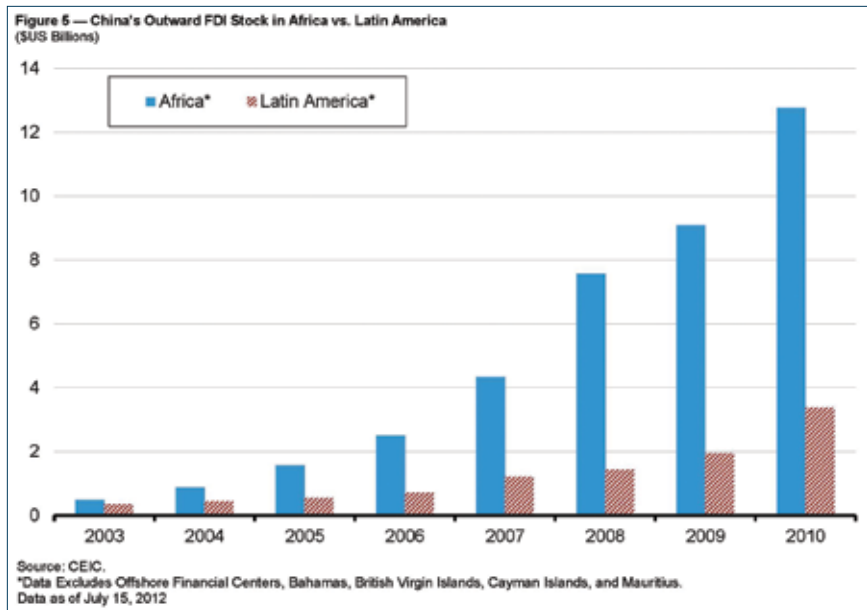


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percent share. In 2009-10, Indian outflows to Latin America (\$718 million) were roughly half total flows to Africa (\$1.5 billion). A large share of Indian investment in the region — around 70 percent — is invested in tax haven nations like the Cayman Islands and the British Virgin Islands. In trade, Indian exports of \$13.4 billion to Latin America in 2011 were 43 percent of India's exports to Africa. Meanwhile, although India imported \$39 billion in goods from Africa in 2011, the comparable figure with Latin America was less than half, just \$16.4 billion.

Although total trade between India and Brazil has increased significantly over the past decade, the level of trade remains quite small, tallying just \$10.2 billion in 2011. Total trade was composed of Indian exports of \$6.2 billion and imports from Brazil of \$4 billion. In addition, like Chinese companies, India manufacturers represent significant global competitors for many Brazil manufacturers and service providers. Brazil is the largest market in Latin America for Indian goods, while Venezuela is the largest regional supplier to India. For most of Latin America, India is still an unexploited export market and a minor source of imports.

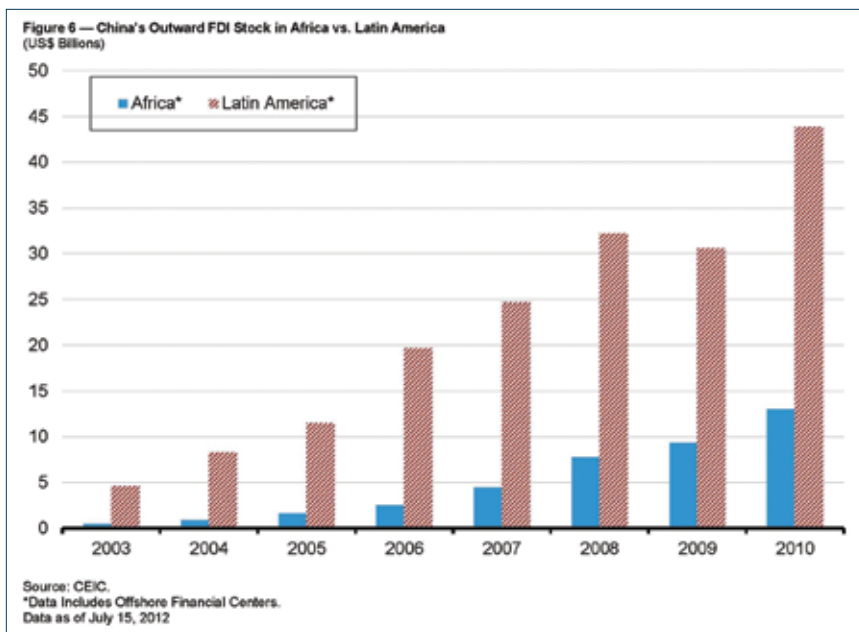
There is plenty of upside for stronger trade and investment linkages, given Latin America's abundant fresh water supplies and agricultural and energy potential. Latin America's proximity to the United States should also attract more service-related FDI from India's world-class information technology firms. Many of India's top IT firms are already in the region, with Satyam Computer Service having design centers in both Brazil and Panama. Tata Consultancy Services has operations throughout the region, including Mexico, Argentina, Brazil, Chile, and Colombia. Infosys is present in both Mexico and Brazil. Indian pharmaceutical firms like Ranbaxy Laboratories, Torrent, and Cipla all have operations in Brazil. Oil and Natural Gas Corporation (ONGC), India's energy giant, is active in Venezuela and Cuba, while Bharat Petro Resources has acquired oil tracts in Brazil. Tata Motors has established a joint production agreement in Argentina to sell cars. In India, meanwhile, Brazilian firms like Marcopolo, Petrobras, Perto, and Dedini all have some type of presence in one of Asia's largest emerging markets. In the end, Indian-Latin American relations are in their infancy, with plenty of potential if the right conditions are created to foster more trade and investment.



## Host Country Benefits

FDI inflows to Africa and Latin America from Asia's two emerging giants have been important and positive ingredients for real economic growth and development. In the case of Africa, the benefits of rising trade and FDI inflows from China and India have been manifold and include the tapping of under-exploited natural resources, the build out of physical infrastructure, greater manufacturing capabilities, and the development of more service activities. All these variables have created more jobs, produced more income, generated more exports, and resulted in more government revenue. China, in particular, has helped improve Africa's infrastructure by building roads and bridges in the Democratic Republic of Congo, railways in Angola, power stations in Zambia, and a national communications network in Ethiopia.

In that increased infrastructure spending is key to Africa's future — a prerequisite for more trade and investment and the long term development of the continent — China's infrastructure investment in roads, hydroelectric dams, and thermal power will go a long way in promoting economic growth in many nations. According to the World Bank, Chinese-funded projects will generate a power capacity of more than 6,000 megawatts — over one-third



of Africa's currently existing hydropower generating capacity.<sup>3</sup> China has also plowed billions into Africa's rail network, with large deals announced in Nigeria, Gabon, and Mauritania. It has also committed billions to upgrade the continent's information technology infrastructure to the benefit of China's leading telecom companies like ZTE and Huawei Technologies.

In Mauritius, FDI inflows from India have become so large and important to the overall economy that the stock of Indian FDI in the nation is estimated in excess of 20 percent of GDP, helping the nation to emerge as one of the strongest in sub-Saharan Africa. By increasing their investment stakes in both Africa and Latin America, and generating more cross border trade and investment, India and China are promoting the further globalization of both Latin America and Africa. The latter, in particular, has been a continent long held at arm's length by the rest of the world.

Not all is perfect, of course. Concerns continue to surface around the effects on the environment as a result of soaring Chinese investment in Africa. In addition, one key challenge for host nations is to ensure that FDI inflows add to the local economy's capital stock and boost, not diminish, the activities of local firms.

3 Martyn Davies, "How China is Influencing Africa's Development," OECD Development Centre, April 2010, 21.

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In both Latin America and Africa, it is important for the benefits of FDI inflows to trickle down to lower social strata, and help promote and encourage education, worker training, and healthcare development.

Looking forward, there is plenty of scope for China and India to expand their commercial ties with Africa and Latin America. These ties will help strengthen South-South trade and investment linkages, relations that are becoming more evident and powerful with each passing day.

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# China, India, and Civil Society in the Southern Atlantic Basin

*William Inboden*

While the past decade has seen China and India substantially increase their activities in Southern Atlantic Basin nations, it remains unclear whether their engagements are guided by an explicit strategy and set of coherent goals. This is especially the case on the question of their respective influences on civil society, human rights, and democratic governance. Further complexity arises from the fact that neither China nor India appears to have a consistent, coherent set of foreign policy goals, particularly for distant regions such as those of the Southern Atlantic. New Delhi remains divided on foreign policy among an array of camps, including traditional realists who advocate focusing solely on India's material and security interests, Non-Aligned Movement holdovers who favor a more ideologically driven effort at leadership among the Global South, and values-driven voices who privilege India's democratic identity and call for a stronger global role for India based on forging closer ties with fellow democratic powers such as the United States, Japan, and Australia. Commenting on these internal tensions besetting Indian foreign policy, Michael Green and Andrew Shearer note that "India's residual non-alignment pathologies tend to come out most often in multilateral forums rather than in bilateral cooperation or in mini-lateral efforts."<sup>1</sup>

While Beijing's internal divisions are less pronounced and less visible, they are real nonetheless. As described by Henry Kissinger in his recent book *On China*, most in the Chinese Communist Party leadership remain committed to the "peaceful rise" or "peaceful development" path, while other voices advocate shifting to a more aggressive posture that challenges U.S. dominance of the prevailing international order.<sup>2</sup> Other scholars such as Aaron

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1 Michael Green and Andrew Shearer, "Defining U.S. Indian Ocean Strategy," *The Washington Quarterly*, Spring 2012, 186.

2 Henry Kissinger, *On China* (New York: Penguin Press, 2011), 503-513.

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Friedberg detect a less ambiguous goal in Chinese foreign policy. In Friedberg's words, "the party's desire to retain power shapes every aspect of national policy. When it comes to external affairs, it means that Beijing's ultimate aim is to 'make the world safe for authoritarianism,' or at least for continued one-party rule in China."<sup>3</sup> While this may bode ill in terms of China's continued support for authoritarian regimes such as Cuba, Venezuela, and Sudan, it is a far cry from China's radical foreign policy of the 1960s that sought to export Maoist revolution throughout the Global South.<sup>4</sup>

Their emerging strategic competition notwithstanding, some scholars believe that Chinese and Indian foreign policy behavior is remarkably similar, especially considering the domestic political differences between democratic India and authoritarian China.<sup>5</sup> One particular area of relevance to this report is their common approach to development assistance. As described by Rani Mullen and Sumit Ganguly in a recent article on India's growing "soft power" and global competition with China, "crucially to the recipient countries in Africa, neither India nor China usually imposes conditionalities on aid, in contrast to multilateral and bilateral OECD countries, which makes Indian aid, as well as Chinese aid, more attractive to recipient countries."<sup>6</sup>

Additionally, it is not clear that either China or India perceive the Atlantic Basin as such. Rather they seem to approach their engagements through the more traditional geographic lens of each continent, as Latin America or as Africa. However, the fact that neither Beijing nor New Delhi uses an "Atlantic Basin" lens in conceiving their activities does not mean that those engagements do not have an Atlantic Basin effect. Moreover, the Southern Atlantic Basin itself is becoming a transcontinental regional reality

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3 Aaron Friedberg, "Hegemony with Chinese Characteristics," *The National Interest*, July/August 2011.

4 On China's revolutionary foreign policy phase, see Peter Van Ness, "China and the Third World: Patterns of Engagement and Indifference" in Samuel Kim, ed., *China and the World: Chinese Foreign Policy Faces the New Millennium* (New York: Westview Press, 1998), 151-170.

5 This is the main conclusion of George J. Gilboy and Eric Heginbotham, *Chinese and Indian Strategic Behavior: Growing Power and Alarm* (New York: Cambridge University Press, 2012). See also "America and the Asian Giants: Spot the Difference," *Economist.com*, June 14, 2012. (<http://www.economist.com/blogs/analects/2012/06/america-and-asian-giants>)

6 Rani D. Mullen and Sumit Ganguly, "The Rise of India's Soft Power," *ForeignPolicy.com*, May 8, 2012. ([http://www.foreignpolicy.com/articles/2012/05/08/the\\_rise\\_of\\_indian\\_soft\\_power](http://www.foreignpolicy.com/articles/2012/05/08/the_rise_of_indian_soft_power))

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of sorts, whether through malignancies such as the growing activities of Latin American drug cartels in Gulf of Guinea nations, or more positively through the growing democratic solidarities and economic links being developed between countries such as Brazil and South Africa.

The Atlantic Basin provides an interesting laboratory for the evolving foreign policies of China and India for another reason. Because the Atlantic Basin nations are outside the Indo-Pacific region and do not constitute “core interests,” proxies in an incipient great power contest, or neuralgic flash points in the manner of issues like Tibet, Taiwan, Burma, or Kashmir, China and India are able to approach the region more dispassionately. In this sense, their respective engagements in the southern Atlantic Basin likely reflect the default settings of their general foreign policy inclinations. On this count, a comparison of their influences on the specific issues of democratic governance and civil society may be instructive.

## China’s Impact on Civil Society

It is hard to discern a comprehensive strategy behind China’s interactions on either side of the South Atlantic Ocean. As described by Princeton scholar Gary Bass, who is critical of China’s support for oppressive regimes, “defending sovereignty may be Chinese diplomats’ only guiding ideology today.”<sup>7</sup> Recent years have witnessed China issuing statements of policy principles for each region that reinforce this preoccupation with sovereignty. In the words of the Chinese government’s *Africa Policy Statement* from 2003, its guiding standards include respect for “African countries’ choice in political system and development path suited to their own national conditions” and China “does not interfere in internal affairs of African countries.” Specifically, and no doubt with an eye towards the aid conditionality often imposed by Western and multilateral donors, the statement declares that “China will, as best it can, continue to offer African countries economic assistance with no political conditions attached.”<sup>8</sup> Similarly, China’s 2008 *Policy Statement on Latin America and the Caribbean* affirms that

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7 Gary Bass, “Human Rights Last,” *Foreign Policy*, March/April 2011.

8 *China’s Africa Policy*, China Internet Information Center, December 10, 2003, (<http://www.china.org.cn/english/features/China-Africa/82055.htm>).

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China's interactions with Latin American governments will be "on the basis of independence, full equality, mutual respect, and non-interference in each other's internal affairs" and that China will "continue to provide economic and technical assistance to relevant Latin American and Caribbean countries without attaching any political conditions."<sup>9</sup> Notably, the policy statement makes no mention of democratic governance, human rights, or civil society. And its reference to "democracy in international relations" refers only to increased roles for developing countries in multilateral fora. Such non-interference and non-conditionality policies are not directly intended to undermine civil society and democratic norms, but given the often fragile governance and institutions that besets developing countries, the practical effect may be deleterious for democratic governance.

However, China seems ambivalent on whether the guiding principle for its engagements with developing countries should be pure "non-interference" or should instead be a more active commitment to promoting the "Beijing Consensus" of authoritarian capitalism. He Wenping, a scholar with the government-sponsored Chinese Academy of Social Sciences, wrote an article lamenting China's relatively meager "soft power" in Africa and ascribed much of this deficit to the fact that "Western rhetoric on democracy and human rights has already claimed the ideological and moral high ground" among African leaders. She worries that "Africans are very proud of [their] quick development of non-governmental organizations (NGOs) and civil society" and that this has led African governments to "draw closer to the Western conceptualization of democracy and human rights." Yet noting the fragility of African democratic institutions and troubled elections, she takes hope that some African leaders "have sought to learn from China's model" of authoritarian capitalism.<sup>10</sup>

A recent article by Luo Jianbo of the Central Party School and Zhang Xiaomin of Beijing Foreign Studies University on "China's African Policy and Its Soft Power" echoes these sentiments. Luo

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9 *China's Policy Paper on Latin America and the Caribbean*, China Internet Information Center, November 5, 2008, ([http://www.china.org.cn/international/news/2008-11/05/content\\_16713528.htm](http://www.china.org.cn/international/news/2008-11/05/content_16713528.htm)).

10 He Wenping, "Overturning the Wall: Building China's Soft Power in Africa," *China Security*, Issue 16, 2010. For more on China's efforts to export the "Beijing Consensus" to Africa, see Mark Leonard, *What Does China Think?* (New York: Public Affairs, 2008), 118-120.



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and Zhang note that a combination of Western media and the Western education of many African leaders has led many Africans to embrace “Western notions of democracy, human rights, freedom, and good governance.” Furthermore, “in the increasingly active African civil society, China’s political system and foreign policy in Africa is criticized for ignoring democracy, human rights, and good governance.” In response, they suggest that the Chinese government should expand its public diplomacy in Africa to advertise Chinese culture and emphasize the benefits of China’s development path of state capitalism.<sup>11</sup> The befuddlement of Chinese leaders at the apparent African embrace of the supposedly “Western” notions of human rights and democracy also reflects the observation of Sinologist Robert Sutter that “Chinese officials to this day continue a long-standing practice of comparing Africa’s suffering under the European colonialists with China’s so-called hundred years of humiliation.”<sup>12</sup> Holding to this narrative of Chinese and African shared oppression under Western colonialism may have resonated in decades past but now potentially obscures China’s capacity to perceive the appeal of civil society and democratization among many African countries.

One mechanism through which Chinese investment in developing countries potentially undermines democratic governance is its eschewal of aid conditionality. For example, in 2004 as Angola came under increased pressure by the International Monetary Fund to demonstrate more transparency in its management of petroleum revenues, China stepped in and offered Angola a \$2 billion line of credit. As human rights legal scholar Patrick Keenan observes, this helped enable the Angolan government to resist pressure to hold democratic elections, inhibited the development of political accountability to citizens, and removed “one of the only incentives available to encourage the Angolan government to change its behavior.”<sup>13</sup>

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11 Luo Jianbo and Zhang Xiaomin, “China’s African Policy and its Soft Power,” *AntePodium*, Victoria University of Wellington 2009. (<http://www.victoria.ac.nz/atp/articles/pdf/JianboXiaomin-2009.pdf>)

12 Robert G. Sutter, *Chinese Foreign Relations: Power and Policy Since the Cold War* (Lanham, Md.: Rowman and Littlefield, 2008), 368.

13 Patrick J. Keenan. “Curse or Cure? China, Africa, and the Effects of Unconditioned Wealth,” *Berkeley Journal of International Law* (2008), 18-19. See also Sutter, *Chinese Foreign Relations*, 377.

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China's relationship with the Hugo Chavez regime in Venezuela has displayed a similar dynamic. China's extensive support for the Venezuelan government — including \$32 billion in loans, arms sales, petroleum purchases, and massive construction projects — has been instrumental in helping Chavez maintain his hold on power and stifle the democratic opposition. However, China's support for Chavez does not appear to stem from any ideological affinities for his Bolivarian revolutionary program, but rather reflect simple calculations of material interest.<sup>14</sup> Further indications that China may be expanding its Latin American commercial engagements come from Premier Wen Jiabao's recent announcement during a visit to the region that Beijing is offering a \$10 billion line of credit to Latin American countries. Wen also highlighted the Southern Atlantic regional dimension when he proposed a free trade agreement with Mercosur, the trade bloc that comprises Atlantic Basin countries Brazil, Argentina, Uruguay, and soon Venezuela.<sup>15</sup>

The evidence that Chinese investments in some southern Atlantic Basin countries may undermine democratic accountability does not mean, of course, that no other benefits accrue. The debate is still unfolding over what manner of economic benefits China brings, and evidence can be marshaled for and against the notion that Chinese investment brings net advantages to the recipient countries. But for purposes of civil society and democratic governance, it appears that Chinese economic activity overall plays a detrimental role.

The other major Latin American Atlantic Basin nation where China exerts a detrimental influence on democracy and human rights is Cuba. China's economic interests in Cuba are minimal; instead Beijing appears to regard Cuba as a political and strategic asset. Sino-Cuban relations became closer after the end of the Cold War, when the demise of the Soviet Union deprived Cuba of its main patron and gave Beijing an opportunity to upgrade its relationship with a Castro dictatorship keen to maintain its monopoly on power. While Venezuela provides the dominant share

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14 Evan Ellis, "China's Cautious Economic and Strategic Gamble in Venezuela," *China Brief*, Vol. 11, Issue 18, 7-11.

15 "China proposes \$10 billion loan for Latin America countries," *BBC News*, June 26, 2012. Available at <http://www.bbc.co.uk/news/business-18605450>

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of economic aid to Cuba, China is Cuba's second-largest trading partner, and Beijing's assistance to the Castro regime includes interest-free loans, consumer goods, and medical, technological, intelligence, and military cooperation. In turn, Cuba provides a convenient platform for Chinese intelligence assets to monitor the United States. China and Cuba have also formed a "like-minded group" with other authoritarian countries who work together in multilateral fora such as UN Human Rights bodies to shield each other from scrutiny and pressure on human rights. The collective effect of this relationship, including China's generous support for the Castro regime and protection of Cuba from external human rights pressure, has been to help stifle civil society and any inchoate democratization movements in Cuba.<sup>16</sup>

## India's Influence on Democratic Governance

Judging from India's provisional engagements in Latin America and Africa, it appears that New Delhi employs two different standards depending on the type of government in question. For non-democratic countries, India adheres to the traditions of its non-aligned heritage and adopts a non-interference policy, doing little to support democracy and civil society actors who resist their government's authoritarianism. With democratic countries, India privileges its own democratic identity and pursues closer diplomatic ties while working to support the further strengthening of civil society.

On Cuba, for example, scholars George J. Gilboy and Eric Heginbotham find the policies of China and India "virtually indistinguishable" as both Beijing and New Delhi maintain close ties with the Castro regime — although India does not support Cuba to the same degree as China.<sup>17</sup> The Indian government reinforces this point. India's Ministry of External Affairs (MEA) describes Indo-Cuba relations as "traditionally warm and friendly," and notes in particular that "India has been supporting Cuba against U.S. supported resolutions at the UN Human Rights

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16 See Sutter, *Chinese Foreign Relations*, 388; Rana Siu Inboden and Titus C. Chen, "China's Response to International Normative Pressure: The Case of Human Rights," *The International Spectator: Italian Journal of International Affairs*, Vol. 47, No. 2, 45-57; Yinghong Chen, "Beijing and Havana: Political Fraternity and Economic Patronage," *China Brief*, Volume 9, Issue 9, 30 April 2009.

17 Gilboy and Heginbotham, *Chinese and Indian Strategic Behavior*, 289-290.

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Council and also consistently voted in favour of Cuban sponsored resolutions in the UN General Assembly calling for lifting of U.S. sanctions against Cuba.”<sup>18</sup> However, India’s diplomatic support for Cuba does not extend to the depth of China’s financial, intelligence, and security cooperation with Havana. India’s MEA is not as effusive in describing India’s relationship with the other major Latin American autocracy, Venezuela, but stays silent on democratic backsliding under Hugo Chavez while noting approvingly Venezuela’s membership in the NAM and says the “mutual goodwill and cooperation between the two countries is most apparent in multilateral fora.”<sup>19</sup>

While India’s opposition to human rights pressure on the Castro and Chavez regimes likely reflects the continuing resonance of India’s non-aligned heritage, in other areas of the Southern Atlantic Basin, India’s democratic identity holds more influence. For example, a cornerstone of India’s engagement with civil society in the Southern Atlantic is the India-Brazil-South Africa Dialogue Forum (IBSA). Established in 2003, IBSA self-consciously privileges the democratic identity of the three nations, and brings two of the largest and most powerful Southern Atlantic Basin countries into explicit partnership with India.

IBSA has established numerous working groups focused on particular issues, one of which is “social development.” A document issued by the Social Development Working Group declares “India, Brazil, and South Africa have a number of striking similarities, such as sharing a commitment to democratic values and the building of equitable and culturally heterogeneous societies.” At the most recent IBSA Summit meeting, the three heads of state issued the Tshwane Declaration affirming the “importance of the principles, norms, and values underpinning the IBSA Dialogue Forum, i.e. participatory democracy, respect for human rights, and the Rule of Law.”<sup>20</sup> In addition to regular head-of-state and foreign minister

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18 Overview of “India-Cuba Relations” Ministry of External Affairs, India.t (<http://mea.gov.in/mystart.php?id=2001&pg=c>).

19 Overview of “India-Venezuela Relations” Ministry of External Affairs, India. (<http://mea.gov.in/mystart.php?id=2001&pg=v>)

20 “Social Development Strategies,” IBSA Trilateral, ([http://www.ibsatriilateral.org/index.php?option=com\\_content&task=view&id=46&Itemid=13](http://www.ibsatriilateral.org/index.php?option=com_content&task=view&id=46&Itemid=13)); “India-Brazil-South Africa (IBSA) Dialogue Forum Fifth Summit of Heads of State and government Tshwane Declaration,” IBSA Trilateral, October 18, 2011. ([http://www.ibsa-trilateral.org/index.php?option=com\\_content&view=article&id=164&Itemid=92](http://www.ibsa-trilateral.org/index.php?option=com_content&view=article&id=164&Itemid=92))

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meetings, IBSA, in its decade of existence, has sponsored many working-level meetings and projects in issue areas including civil-society and development. This will likely lead to more systematic policy coordination. Commenting on India's evolving development policy, W.P. S. Sidhu notes that "instead of the traditional multilateral mechanisms — particularly the OECD — India will put greater emphasis on multilateral development initiatives with its IBSA partners."<sup>21</sup> Whatever other similarities that Chinese and Indian foreign policy might have, it is hard to conceive of China creating a values-based multilateral organization such as the IBSA that spans three continents and privileges democracy, human rights, and rule of law.

India's other civil society engagements will likely occur alongside India's economic engagements, and here current trends point to growing Indian activity in the African nations of the Atlantic Basin. Notwithstanding India's historic ties to East Africa, particularly Kenya, India's strongest trade relationships by far are with the Atlantic Basin countries of West and Southern Africa, which together comprise almost 70 percent of India's African trade. Here cultural and political affinities also help shape trade patterns, as India's largest trade partners are British Commonwealth countries such as Nigeria, Ghana, and South Africa.<sup>22</sup> Perhaps not coincidentally, these three nations also represent some of Africa's leading, albeit still fragile, new democracies.

Nigeria in particular illustrates the convergence of India's commercial, cultural, and political activities in the African Atlantic Basin. As India's largest African trading partner, primarily from petroleum exports, Nigeria was nonetheless politically neglected by India for decades, with a 45-year interval from 1962 to 2007 between visits by an Indian head of government. Yet since Prime Minister Manmohan Singh's journey to Nigeria in 2007, Indian diplomatic engagement has substantially increased, including in efforts to strengthen and support Nigeria's fragile democracy.

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21 W. P. S. Sidhu, "India's Evolving Role in Development and Security in States at Risk," in Jake Sherman, Megan M. Gleason, W.P.S. Sidhu, and Bruce Jones eds., *Engagement on Development and Security: New Actors, New Debates*, New York University Center on International Cooperation, September 2011 ([www.cic.nyu.edu/engagement/docs/engagement\\_book.pdf](http://www.cic.nyu.edu/engagement/docs/engagement_book.pdf))

22 Anita Prakash Tripathy, "India-Africa Trade Relations: Current Scenario and Future Trends," Crawford School of Public Policy, Australian National University, 2009. ([http://www.crawford.anu.edu.au/acde/asarc/pdf/papers/conference/INDIA2009\\_08.pdf](http://www.crawford.anu.edu.au/acde/asarc/pdf/papers/conference/INDIA2009_08.pdf))

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As leader of a pluralistic democracy, Singh has publicly affirmed a special role for India, declaring that “we have an obligation to history and mankind [sic] to show that pluralism works. India must show that democracy can deliver development and empower the marginalized. Liberal democracy is the natural order of political organizations in today’s world.” Accordingly, in September 2011, India’s Chief Election Commissioner hosted a nine-member delegation of Nigerian officials in India to study the Indian electoral system. Given the many similarities between the two countries — multi-ethnic and multi-religious democracies, developing economies, victims of religion-based terrorism — such steps by India to help strengthen Nigeria’s fragile democratic institutions represent the intersection of India’s political and economic values and interests.<sup>23</sup>

## Conclusion

Making any firm and binding assessments of India and China’s influence on civil society in the Southern Atlantic Basin is further complicated by the rapidity of change both nations are undergoing. As just one example of this evolution, a Chinese diplomat recently pointed out that “twenty years ago, we regard[ed] U.N. peacekeeping as a kind of interference in internal affairs. But now we are active participants.”<sup>24</sup> Or in the case of India, a country that over a four-decade period from 1951 to 1992 was the world’s largest recipient of foreign aid, totaling \$55 billion, has now become a major donor country, delivering over \$1.5 billion in aid to developing countries last year alone.<sup>25</sup> But even in the midst of this flux, some provisional conclusions emerge. In the past decade, both China and India have substantially increased their interest and engagement in the nations on both continental rims of the Southern Atlantic Basin. For both nations, economic concerns are paramount, particularly as each seeks new suppliers of energy and natural resources. And both nations depict their postures at least in part in reaction to what they resentfully describe as the Western

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23 J. Peter Pham, “India’s Expanding Relations with Africa and their Implications for U.S. Interests,” *American Foreign Policy Interests*, Vol. 29, 2007, 341-352; and Overview of “India-Nigeria Relations” Ministry of External Affairs, India. (<http://mea.gov.in/mystart.php?id=2001&pg=n>)

24 Quoted in Bass, “Human Rights Last.”

25 Cited by Mullen and Ganguly, “The Rise of India’s Soft Power.”

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model of hegemony — hence their paeans to “non-interference” and pledges not to condition aid to political and economic reforms.

Yet beyond these similarities, some telling differences appear, especially through the prism of civil society and democracy. China is much more willing to offer full-throated support to autocratic regimes that it believes align with its interests, and to hold forth its “Beijing Consensus” of authoritarian capitalism as the preferred model of political economy. On the other hand, India, while hesitant to oppose autocratic regimes outright, nonetheless privileges its own democratic identity as it decides which Southern Atlantic nations to align with most closely, and as it looks for ways to quietly yet clearly lend further support to the expansion of civil society and democracy in this region. It is too early to tell, but here one wonders whether an inchoate “Delhi Consensus” of democratic politics, civil society, and economic development might be emerging.

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# Conclusion: Implications for the Transatlantic Partners

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**W**hat does the so-called “Pacific Century” herald for the Southern Atlantic, and what in turn does that mean for the transatlantic partners? This study marks an attempt at illustrating how China and India, the two largest emerging economies in Asia, are already developing into influential actors in the Southern Atlantic space. Moreover, China and India appear poised to become even more important factors in the Atlantic economic equation in the years to come. Policymakers, businesses, and societies in the Americas, Europe, and Africa are only now coming to terms with these new realities. While the picture remains fluid and a plurality of views exists as to how to adapt to these economic and political developments, certain significant implications and tentative recommendations for the transatlantic community can be identified.

A number of potential important implications for the United States and Europe are highlighted in the various sections of this report.

- Although Chinese — and, in some areas, Indian — investment in the Southern Atlantic has increased, the United States and Europe still retain their economic preeminence, particularly in Latin America. The established North Atlantic powers have only lost ground in relative terms. Europe still provides about 40 percent of the foreign direct investment to Latin America. U.S. and European trade with Latin America has also grown over the past decade.
- Other than a handful of exceptions, such as in Sudan, China and India are in competition with each other as much — if not more — as either is with the West. Despite statements at the BRICS summits and other developing multilateral forums, the two emerging Asian powers do not comprise a monolithic bloc that is intent on displacing the United States and Europe in the Southern Atlantic.



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- While much has been made of China and India's large-scale energy and resource extraction projects in Africa and Latin America, the economic presence of both China and India in the region is far more diversified than is commonly believed. Both have been driven by a variety of commercial needs that include infrastructure development and technology acquisitions. In that sense, many aspects of their behavior — and that of their companies — cannot be considered unique or even particularly unusual.
  - Africa has arguably been a greater beneficiary of Chinese and Indian engagement than other regions in the Southern Atlantic. Underexploited natural resources have been tapped as a result of Chinese and Indian demand and investments. Infrastructure has been built in areas previously ignored. Manufacturing and services have, on occasion, been given a boost. As a result, more jobs have been created, incomes have risen, exports have grown, and governments have generated more revenue.
  - Although China's role in the Southern Atlantic has certainly contributed to growth and increased economic opportunity in both Latin America and Africa, its investments in economic and social development has been less than impressive and in some cases deeply controversial. An absence of interest — or, at best, low-level interest — in such fields as education, training, and healthcare development has been noted by local stakeholders. In some cases, China's growing presence has been closely associated with allegations of infringements of labor rights and deteriorating labor and environmental standards.
  - While the Southern Atlantic states have many incentives for maintaining or even deepening their engagements with China, they are also aware that they must avoid a relationship that comes to resemble their ties with Europe and the United States during the colonial era. Brazil is at the forefront of this challenge; its gross domestic product was higher than China's in the 1980s when their bilateral engagement was initiated, but as their ties became more comprehensive they gradually grew less balanced, a state of affairs from which China was the bigger beneficiary. By contrast, the relationship between the United

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States and Brazil has become considerably more balanced since the 1980s.

- Cooperation among democracies does not yet feature prominently in the Southern Atlantic realm. However, the IBSA dialogue between India, Brazil, and South Africa and Brazil's engagement with Lusophone countries in Africa provide small foundations for greater cooperation among democratic entities. These platforms could, in time, provide bases for their collaborating with democracies in the North Atlantic in various ways.
- China and India both make calls for greater representation for developing states in multilateral forums, statements of support that appeal to many developing states in the Southern Atlantic. However, while not necessarily designed to undermine civil society and democratic norms in these states, the practical effect is sometimes damaging for democratic governance, given these countries' fragile institutions.

The report's findings also suggest some possible recommendations for U.S. and European policymakers. The United States and European states, either individually or collectively, should consider:

- **Managing, rather than reversing, China's presence in the region by coordinating efforts at making trade more balanced, commodity prices more stable, and local manufacturing more competitive.** Given the impressive strides made by China in the first decade of the 21<sup>st</sup> century in economically engaging the Southern Atlantic, the United States and Europe should abandon any notion of constructing a wider Atlantic coalition to somehow balance Chinese influence. Not only might such a notion prove disruptive to local economies, it is also impractical. Nor is it guaranteed to be well-received by countries in the Southern Atlantic Basin. China, and to a lesser degree India, are already active economic partners in the region and are critical to regional growth. The only alternative for the United States and Europe is to work more closely together, and with states in the Southern Atlantic, to better manage China's growing influence. In particular, coordinating efforts should look into how to make trade with China more balanced and sustainable, how to manage volatility in the markets for

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commodities and natural resources, and how to ensure that growth does not come at the expense of regional development or local manufacturing industries.

- **Encouraging India's emergence and regional engagement as a viable alternative political and economic model to China's, while remaining conscious of New Delhi's limitations.**

India holds considerable potential as an alternative model for emerging powers' economic and political engagement in the Southern Atlantic. This model can be defined by several characteristics, including multilateral political engagement based on shared values, support for democratic governments, private sector-driven investment, consumer-driven growth, and balanced trade. This stands in contrast to China's model of state-led, investment-driven growth. India could therefore prove a partner of choice for many states in the Southern Atlantic, as they seek newer and broader configurations in the 21<sup>st</sup> century. For now, India remains a relatively unexploited export market and only a minor source of imports for many of these states. India's current engagement, however, is not without its problems for the West. India's growing acquisitions in the Southern Atlantic could temper any goodwill it has gained through its other efforts. Among other challenges are India's support for the region's authoritarian regimes, as in Cuba and Venezuela, and its provision of non-conditional aid. Although India is unlikely to be compelled to abandon the former, its gradual emergence as an aid provider opens the prospect of better coordination with the West on conditioning its assistance. The United States and Europe must explore whether and how to encourage India's presence in the region in a manner that can be mutually beneficial for India, the West, and for the countries and communities of the Southern Atlantic. One area of potential collaboration involves India's ongoing efforts at promoting political development in Nigeria and Ghana, both of which are interested in emulating Indian electoral practices.

- **Having Europe take the lead in engaging China and India in the Atlantic space, particularly if it manages to satisfactorily resolve the euro crisis.** Europe — unlike the United States — does not face a choice in allocating its increasingly scarce

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military, economic, and diplomatic resources between the Pacific and the Atlantic. It is often now seen in more benign terms than the United States in the region, with colonial legacies having gradually been superseded by accusations of neo-imperialism during the Cold War. Europe's strategic engagements in the Atlantic can also complement U.S. investments in the Asia-Pacific, and it can in this manner remain a globally relevant strategic ally of the United States. In some sense, this could represent a more pragmatic alternative to the burden sharing envisioned in more ambitious proposals, such as that of a "global NATO." This kind of wider Western coalition need not make Europe more marginal. Europe's leaders should also appreciate the direct relationship between a speedy and satisfactory resolution of the euro crisis and the ability of Europe to exert itself, including in the Southern Atlantic space. As former Brazilian President Lula recently noted, the euro crisis is a global, and not simply a continental European problem. Both large and small economies across the Southern Atlantic have already suffered significantly from the reduction of exports from Europe and slower rates of growth in the more anemic European economies. As both Chinese and Indian growth rates decelerate, the connection between European recovery and growth potential in the Southern Atlantic basin becomes even more crucial.

- **Reinforcing the principles that underwrite the liberal order in the Southern Atlantic, and including China and India in any commonly-accepted legal framework.** Although by no means universal or uniform, the countries in the Southern Atlantic largely accept the principles of economic and political freedom, including the notions of free markets, political accountability, the rule of law, and representative governments. They also share commitments to regional and global peace and stability, to the principle of freedom of the seas, to reciprocity and fairness in trade, and to WMD non-proliferation. These principles are currently enshrined in a diverse set of regional and international institutions and agreements. The United States and Europe should engage the states of the Southern Atlantic in discussing how political, economic, and technological developments reinforce the importance of these base principles. The objective should be to develop a broad

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legal framework for the Atlantic that makes it an area free of interstate and civil conflict, with open access to resources. This conversation — and any resulting agreement — should eventually be extended to include China and India.

- **Encouraging China to make bigger contributions to the African Development Bank.** In the African context, China could be asked to increase its contributions to the African Development Bank, which are currently relatively limited, as well as to other regional development entities active in the region. As in other regional contexts, the general goal should be to encourage China's transformation into a responsible stakeholder. This message can be expressed in direct engagements between China and the Atlantic African states, indirectly through dialogue with Europe and the United States, and in trilateral meetings, even though China has shown only limited interest in this latter type of engagement. Although the European External Action Service and the United States government both have existing mechanism to coordinate approaches to China's growing presence with African and Latin American counterparts, these lack both a transatlantic and an explicitly Southern Atlantic perspective.
- **Further enabling Brazilian manufactured and high added value goods to be exported to the United States and Europe, including through favorable trade arrangements.** Political engagement between Brasilia and Beijing aimed at changing the nature and context of their commerce have not yet fundamentally altered the terms of their relationship, which remains asymmetrical and unequal. Brazil has responded with positive incentives such as tax reform to create a better business environment for local industries, but it has also enforced anti-dumping measures and reverted to protectionist practices that could ultimately hurt the Brazilian economy. Such measures could also come at the expense of U.S. and European business interests. An alternative, or complementing, approach for the United States and Europe to advocate is for Brazil to deepen engagement with those markets that offer a more level playing field and allow greater access to high added value Brazilian commodities. Favorable trade agreements with all of the Atlantic Basin countries would make a key difference, and in

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this respect Europe is in a better position to move forward while the United States considers streamlining and working through its preferred trade configurations.

- **Developing a trilateral dialogue or dialogues with Brazil on the future of the international monetary system, infrastructure, and food security.** All three parties have much to gain from a shared dialogue, despite Brazil's stated hostility to a system dominated by the United States and Europe. All have been perceived victims, albeit to different degrees, of China's monetary policies. This has had negative repercussions with capital controls strengthening and domestic prices rising in Brazil, including for consumer products. All three parties also stand to benefit from investments to improve Brazilian infrastructure. Food security should also be added to any trilateral discussions, including the implications for — and possible cooperation in — Africa.
- **Considering counter-piracy operations in the Gulf of Guinea as an area for potential security cooperation in the future.** Neither China nor India yet plays a major security role in the Atlantic. But should that change, the United States and Europe should consider the precedent of the ongoing counter-piracy cooperation in the Gulf of Aden as a template for possible multilateral security cooperation in the Atlantic. The Gulf of Guinea is another major hotspot for piracy, and given their growing interests in the region — particularly as it relates to energy security — the United States and Europe could consider inviting China and India, as well as Southern Atlantic powers such as Brazil and South Africa, to contribute their naval capabilities to collective counter-piracy efforts there.
- **Deepening the involvement of China, India, and the Southern Atlantic states in renewable energy development efforts.** China and India have been making growing investments in renewable energy, particularly but not exclusively in wind and solar power. These include some investments in this sector in the Southern Atlantic. Renewable energy presents another area of potential bilateral and multilateral cooperation involving governments and

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corporations in the United States, Europe, China, India, Latin America, and Africa.

- **Leveraging cooperation with China in Latin America and Africa to secure better terms for Chinese investment in Europe and the United States.** Spain and Portugal, with a traditionally strong presence in Latin America, have managed to work with China in the region to secure better investment terms at home. If carefully managed, and anchored to a set of clear principles, this could serve as a replicable model, particularly for other European states.

These observations and recommendations are by no means exhaustive, nor are they in many cases universally applicable or immediately feasible. However, they provide a starting point for a shared transatlantic agenda for how to adapt to the new reality of a Southern Atlantic space in which China and India are now active players. Specifically, these possibilities suggest ways to ensure optimal benefits for the governments and people of the United States, Europe, China, India, Latin America, and Africa.

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