Indian Ocean Nexus

The Atlantic and Pacific now dominate the world's politics and trade, but the Indian Ocean is emerging as a new locus of power that increasingly unites China, India, the Middle East, and Africa.

BY MARTIN WALKER

The seas have traditionally been the highways of trade, enabling the prosperity that tends to follow. From ancient times, the Mediterranean Sea facilitated the exchanges that nurtured the precocious civilization of Greece and fed Rome, then carried the Crusaders abroad and enriched Venice and Genoa. Later the Atlantic became the great highway of trade that fed the explosive growth of North America, and more recently trade across the Pacific has become the most lucrative of all. Now there are signs that the Indian Ocean is taking its place in this maritime and commercial tradition, and also in the strategic rivalry that usually accompanies the generation of the wealth and resources that trade brings.

The Indian Ocean laps the coasts of Africa and India, of Southeast Asia and the Persian Gulf states, of Indonesia and Australia. It flows into two of the great chokepoints of world commerce: the Red Sea, and thus the Suez Canal, and the Strait of Malacca, off Singapore, through which pass a thousand ships each week. Thanks to the thirst of China, Japan, and South Korea for the oil the tankers bring, the strait hosts close to a quarter of all world trade.

Martin Walker, a senior scholar at the Wilson Center, is director of A. T. Kearny's Global Business Policy Council. His latest novel, *Bruno, Chief of Police,* will be published in January by Knopf.

The Indian Ocean is not new to the trading game. There are potent and even somber historical memories along its shores, from the Arab slave trade down the East African coast to Zanzibar and beyond, to the celebrated 15th-century oceanic explorations of the Chinese admiral Zheng He during the Ming dynasty. He was far from the first to exploit the Indian Ocean's potential. Some 1,500 years ago, Chinese pilgrims brought back Buddhist scriptures and sutras from India, and the Muslim explorer Sa'ad ibn Abi Waqqas, an uncle of Mohammed, reached China and established the first mosque there in the seventh century. China exported its porcelain and tea to the Arab world, and the small ports of what we now call the Persian Gulf sent pearls and gold to the markets of India and China.

But the trade that is now flourishing across the Indian Ocean is altogether different, in scale and in range of products, and in its economic and strategic implications. It is different above all in the flows of money and investment that are now binding the Indian Ocean nations and China into a potential new hub of the global economy. We might call it CHIMEA, for China, India, the Middle East, and Africa.

Like all of the great surges of trade in history, the explosion of Indian Ocean commerce is based on mutual needs. China and India need energy supplies from the

Persian Gulf states and oil and raw materials from Africa, and Africa needs the financial resources that the gulf states are accumulating in unprecedented quantities. And now that India has become a net food importer once again, China and India and the Middle East all have an interest in developing African agriculture as perhaps the last great untapped food resource of a world whose population looks set to grow from today's 6.5 billion to 9.1 billion by 2050.

Moreover, if one considers most of the projected growth rates for India and China, the CHIMEA connection appears likely to strengthen throughout this century. It could become the catalyst that finally hauls Africa from underdevelopment and poverty. Indeed, the surge of economic growth in sub-Saharan Africa, running more than five percent annually in the past several years, owes a great deal to Chinese, Arab, and Indian trade and investment. We are finally seeing that expansion of South-South commerce that has been the dream of developing-world economists and political leaders—wary of the implicit exploitation they suspected would come from the North-South relationship—since the 1955 Asian-African summit at Bandung, Indonesia, in the early days of decolonization.

TWO OUT OF EVERY three people may soon live in the lands of the emerging Indian Ocean nexus.

More than half of the world's population now lives in the CHIMEA countries, and if current demographic trends continue, the region will by 2050 account for two out of every three people on the planet. By then, according to Goldman Sachs projections, India could be the world's largest economy and China the second largest. Certainly, the current 11 percent of global gross domestic product produced by the CHIMEA countries will have grown dramatically.

The combination of Middle Eastern energy and finance with African raw materials and untapped food potential and Indian and Chinese goods and services looks to be more than just a mutually rewarding three-way partnership. Wealth follows trade, and with wealth comes the means to purchase influence and power. Just as the great centers of Europe clustered first around the Mediterranean Sea until the greater trade across the Atlantic and then the Pacific produced new, richer, and more powerful states, so the prospects are strong that the Indian Ocean countries will develop greater influence and ambition in their turn. In the emergence of CHIMEA as a new factor in global commercial affairs, we may also be seeing the future contours of the world's geopolitical system.

Each year, the United Nations Conference on Trade and Development (UNCTAD) publishes *World Investment Report*, an authoritative study of the patterns of investment that flow through the global economy in much the same way—and as vitally—as blood flows through the human body. The UNCTAD conferences of the 1970s provided the most prominent forum for complaints about North-South capital flows and the need for more South-South cooperation, so there was a discernible note of satisfaction in the most recent UNCTAD report. It found that South-South foreign direct investment (FDI) "has expanded particularly fast over the past 15 years. Total outflows from developing and transition economies (excluding offshore financial centers) increased from about $4 billion in 1985 to $61 billion in 2004; most of these were destined for other developing or transition economies. In fact, FDI among these economies increased from $2 billion in 1985 to $60 billion in 2004 [flowing] primarily from Asia to Africa."

Although the United States, Japan, Britain, France, and Germany are home to 73 of the world's top 100 transnational corporations, those based in the developing world are also making their mark. In 1990, only 19 transnational corporations from developing countries were among the *Fortune* top 500 global firms, but 47 were in 2005.

In 2006, India and China ceremonially reopened their border crossing at the Nathu La Pass, a landmark of the ancient Silk Road that had been closed since the 1962 border war. Political tensions have eased even as the two powers increasingly compete for trade and influence in the Indian Ocean basin.

This change has come with remarkable speed, fueled by the sudden collision of two separate but connected trends—the acceleration of economic growth in China and India and the surge in energy prices that followed the onset of the Iraq war. The oil and gas export revenues of the Organization of the Petroleum Exporting Countries (OPEC) member states more than tripled in four years, from $210 billion in 2002 to a record $649 billion in 2006. And just over $505 billion of OPEC's swollen 2006 revenues went to the organization's Arab members. Saudi Arabia alone earned $194 billion from petroleum exports, according to OPEC's *Annual Statistical Bulletin*. This was the period when China crept up on Japan as the world's second-biggest oil importer, after the United States. The Chinese appetite more than doubled, while India's imports of crude oil tripled. In four brisk years, China and India alone increased global oil demand by 150 million tons, or 1.1 billion barrels.

With that kind of extra demand, prices naturally soared, and Arab revenues grew in consequence. The result, according to the Hedge Fund Research Group, is that the potential Middle Eastern capital available for investment is more than $4 trillion—close to the total size of Japan's annual economic output. Much of this money is under direct state control, rather than in private hands, although the boundaries between private family wealth and state holdings tend to be blurred in Arab countries such as Saudi Arabia and the United Arab Emirates. The Abu Dhabi Investment Authority is almost certainly the largest single investing entity; this sovereign fund is worth $875 billion, according to the investment bank Morgan Stanley.

Most of these Arab funds are invested in traditional Western vehicles such as Citibank and Airbus. Some, such as P&O Ports, have been bought outright. Vast sums are also invested at home. The current Saudi state budget, for example, calls for outlays of $665 billion over the next

Thousands of years ago, traders in ships hugging the shore of the Arabian Sea plied the waters between India and the Middle East. Later travelers brought ideas, such as Islam, which spread to the subcontinent and Indonesia. Today, oil, investment, and migrants are creating new links across the Indian Ocean.

three years. Six new cities are under construction. The largest, King Abdullah Economic City, on the Red Sea coast near Jeddah, will have a new port equivalent in size to Rotterdam, 150,000 new dwellings, universities, industrial parks, and a financial center. Even if these ambitious projects are successful, they will barely make a dent in the explosive growth of the labor force, which, on the strength of births already registered, will more than double, to 15 million males of working age, by 2020.

But a careful analysis of recent Arab investment decisions reveals a new trend: a striking willingness to invest in Asia and, in particular, in other CHIMEA countries. Arab money is pouring into Asia, especially into predominantly Muslim countries, where Arab capital has been heavily committed to the development of banks that comply with Islamic law's prohibitions against interest payments. Arab companies have also been prominent in the energy sector, property investments, and mobile telephony, three fields where they have considerable experience.

Trade and investment between India and the Arab countries has more than trebled, from $7.5 billion in 2001–02 to $24 billion in 2005–06, and is expected to reach $55 billion by 2010. This excludes the oil trade as well as the annual $20 billion sent home in remittances from the four million Indian workers in Saudi Arabia and the gulf states.

During a state visit to India last year by King Abdullah, Prime Minister Manmohan Singh opened the door to Saudi capital for Indian infrastructure projects. Now the fourth-largest recipient of Saudi oil, after Japan, the United States, and China, India secured a Saudi commitment to cofinance a refinery project with India's state-owned energy firm. India's Reliance Group will, in turn, invest in a refinery and petrochemicals project in Saudi Arabia. The king signed an ambitious "Delhi Declaration" that amounted to a broad strategic partnership stressing

energy and economic cooperation as well as joint efforts to fight terrorism.

The Saudi monarch flew to India directly from China, where he had signed an energy cooperation agreement providing for joint investment in oil, natural gas, and mineral deposits, and invited Chinese investors to take advantage of his country's privatization program and invest in the growing Saudi private sector. Already building—with Kuwait and other OPEC members—an $8 billion refinery complex in Guangzhou, the Saudis have held regular political consultations with Beijing since 2004, when Sinopec, the Chinese state energy company, was given rights to explore for gas in Saudi Arabia's vast Empty Quarter. Although nervous about separatist movements in its western provinces, China agreed that the Saudi Development Bank could fund a large urban development project in the traditionally Muslim city of Aksu.

ARAB MONEY IS POURING into Asia, especially into predominantly Muslim countries, where it is being invested in energy, property, and mobile telephony.

The Arab investment in Asia is logical, given Asia's stunning growth rates. The real surprise is elsewhere. The Asia-Africa Business Forum meeting in Dar es Salaam early in 2006 symbolized a new investment interest in Africa. Dubai Ports World has spent $2 billion to buy Cape Town's port and waterfront, and is investing another $1 billion in further developments. Deals announced in the past year included a $500 million investment by Mobile Telecommunications in the Republic of Congo and another $500 million property venture by Dubai Ports World in Kinshasa.

India, with a diaspora of 2.8 million ethnic Indians in Africa, is taking advantage of these historic connections and its British Commonwealth links to strengthen its ties and to negotiate new energy supplies. It helped establish Nigeria's military academy, and almost all senior officers of Ghana's military have attended Indian training courses. As they look increasingly outward, the big Indian corporations, such as the Tata Group, Reliance, and Ranbaxy Laboratories, have mostly focused on other countries that once knew British rule—South Africa, Nigeria, Egypt, and Kenya. These are also countries where the products of India's Bollywood film industry, dubbed into English, are popular.

On the whole, India has a far better reputation in Africa than China, which has been criticized for using predominantly imported Chinese labor in its African projects and for a cavalier attitude toward the human rights records of the regimes it deals with. But despite admirable measures, such as a pledge to develop a project to link remote African schools and medical centers to Indian institutions via the Internet, India could easily lose its superior reputation by succumbing to temptations such as a potential mining deal in Zimbabwe, home to one of the continent's least savory regimes.

After India brought 300 African delegates to New Delhi for an economic partnership conference in 2006, the Confederation of Indian Industry claimed that the event kicked off negotiations on $17 billion in new deals in fields ranging from oil exploration to hotel construction. "We want to learn from India's experience," Amadou Dioffo, managing director of Sonidep Petrol and Gas Company of Niger, told the closing press conference. "Like us, India also has a colonial past. We want to know how and why it is doing so much better now."

India's commitment to Africa, however, is dwarfed by that of China, whose trade with the continent has grown from $10 billion to $56 billion since 2000. In that period, China has invested $12 billion in Africa and built more than 100 food and raw material processing plants, 3,500 miles of highways, 1,600 miles of railways, eight power stations, and three ports. More than 800 Chinese companies are currently operating in Africa, which now provides 28 percent of China's oil.

Last year, China hosted the annual meeting of the African Development Bank in Shanghai, where it announced new credit and investment funds of $3 billion and $5 billion, respectively, and wrote off $10 billion in bilateral debts. China will train thousands of African professionals and double the number of scholarships awarded to African students while sending more agriculture experts and youth volunteers to work on the continent.

The list of deals is long. Thirty-one percent of China's offshore contractor and engineering projects are based in Africa. That figure will soon rise if a deal to provide $2.3 billion to Mozambique for a new hydroelectric dam on the Zambezi River is completed. This is likely, not only because Chinese prices are low but, as President Hu Jintao has declared, "China's aid comes without strings." This policy has been appreciated in Sudan and Zimbabwe, to name but two of the most egregious human rights offenders. But there are signs of backlash against China's investments, notably in Zambia, where the opposition Patriotic Front made inroads in the 2006 elections by campaigning on an anti-Chinese platform. Its leader, Michael Sata, says the Chinese are "exploiting us, just like everyone who came before. They have simply come to take the place of the West as the new colonizers of Africa."

INDIA'S COMMITMENT to Africa is dwarfed by that of China, with its investment of more than $56 billion.

Nonetheless, the infrastructure that China has already built will benefit Africa for years to come, and has played a major role in what is starting to look like Africa's takeoff into self-sustaining growth. For once, Africa seems to be generating wealth without digging for it in the ground. Ghana, which has an English-speaking population and lower wages than India, was one of the first African countries to capitalize on the offshoring trend in business. The American outsourcing company ACS set up shop in Accra in 2000, employing 60 people. The work force has since grown to 1,800. Among other things, Ghanaians now process parking tickets for New York City's local government.

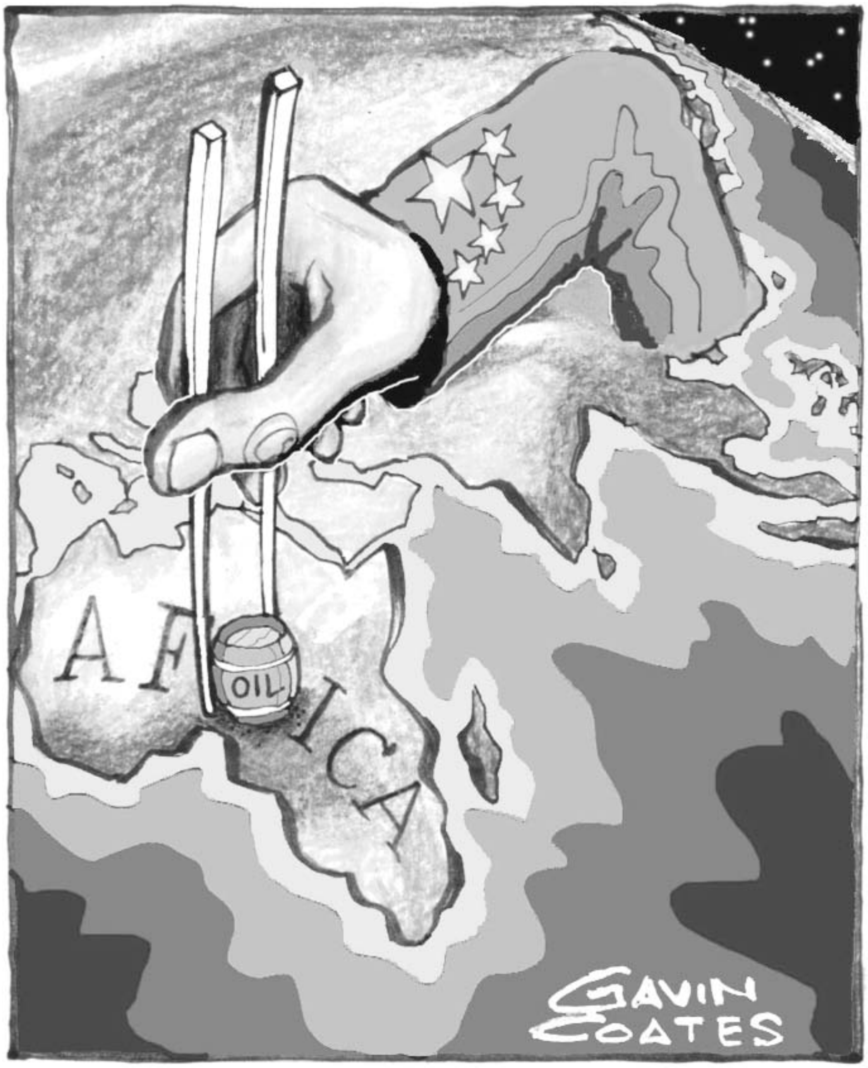
At current growth rates, poverty levels in Africa could halve by 2015, and if China and India are excluded, sub-Saharan Africa is experiencing faster economic expansion than the rest of Asia. Investors have benefited dramatically. Between 1995 and 2005, African stock markets showed an average compound annual growth of 22 percent, and torrid growth continues.

Impressive results are not confined to the financial sector. Nollywood, Nigeria's booming film industry, is the world's third-largest producer of feature films, after Bollywood and Hollywood. In 13 years, it has grown from nothing into a $250 million-a-year industry building on Nigerian entrepreneurship and digital technology. The industry now boasts some 300 filmmakers, who produce their films on digital cameras, using common computer-based systems for editing. In many cases, these auteurs peddle DVDs directly to customers in the marketplace. Nollywood films are popular across English-speaking Africa, aired on African satellite television networks and even on stations in Britain.

Privatization has transformed the loss-making state-owned airline industries, crucial to a continent with poor roads and communications systems so locked into colonial patterns that phone calls and travelers between neighboring countries often had to be routed via Paris or London. All of this is changing fast. Kenya Airways, partially privatized in 1995 after years of troubles, is now the most profitable major airline in Africa. Upstarts Virgin Nigeria, South Africa–based Kulula, and Kenya's Flamingo Airways are opening new routes and catering to a newly empowered middle class. Nairobi airport is becoming a pan-African hub and a magnet for growers and other export enterprises—or was, until the recent outbreak of violence in the wake of the country's disputed elections. Even if a lasting political settlement is secured, higher energy costs are a threat to Kenya's exports, as well as those of other African countries.

An important factor in Africa's new growth has been the mobile phone industry, now worth close to $10 billion a year. With subscriber growth across Africa running at 40 percent annually, prospects are so inviting that mergers and acquisitions have been

commonplace. Kuwait's Mobile Telecommunications paid $2.8 billion in 2005 to buy Dutch-registered Celtel, which serves 15 African countries. In Kenya and Tanzania, mobile operators have swiftly become the biggest companies and largest taxpayers.



China will soon replace Japan as the world's second-largest oil importer after the United States, and is eagerly prospecting for new sources in sub-Saharan Africa, which now supplies 28 percent of its needs.

Mobile phones help small farmers, since access to real-time market prices means that intermediaries can no longer charge different rates or manipulate local markets. The phones have cut the need for costly and time-consuming travel and allowed farmers and contractors to deal directly with customers. Africa is far ahead of the United States in implementing the use of cell phones for banking tasks such as making payments and managing microcredit accounts and remittances from family members abroad. Applications such as these lower costs and attract new users; for instance, local surveys suggest that 50 percent of all bank accounts in South Africa will be administered via cell phones by 2011.

China may yet come to reconsider the way its investments have helped create future competitors. In many African countries, factory productivity in low-end manufacturing, particularly textiles, has risen close to Chinese levels. In Kenya, Tanzania, and Senegal, productivity in textile plants is running at 80 percent of Chinese levels, and 90 percent of Indian levels. And African wages are currently less than half of those in Guangdong. The "total factor productivity" (including purchasing, selling, and distribution) of African firms is still much lower than that of competitors in China and India, but given decent management, African companies could catch up fast.

In his 2007 book *Africa's Silk Road: China and India's New Economic Frontier*, World Bank economic adviser Harry Broadman noted that exports from Africa to Asia had tripled since 2002, turning Asia into

Africa's third-largest trading partner (27 percent), after the European Union (32 percent) and the United States (29 percent).

"China and India each have rapidly modernizing industries and burgeoning middle classes with rising incomes and purchasing power," Broadman wrote. "These societies are demanding not only natural resource–extractive commodities, agricultural goods such as cotton, and other traditional African exports, but also diversified, nontraditional exports such as processed commodities, light manufactured products, household consumer goods, food, and tourism. Because of its labor-intensive capacity, Africa has the potential to export these nontraditional goods and services competitively to the average Chinese and Indian consumer and firm."

There are still severe constraints on Africa's growth potential, from the ravages of the HIV/AIDS epidemic to a legacy of poor governance, from the ominous threat of climate change and water shortages to a lack of education. UN figures suggest that 46 million African children—nearly half the school-age population—have never set foot in a classroom. But Kenya, Malawi, Mozambique, Tanzania, Ethiopia, and Ghana are among countries that recently abolished fees for children to attend school.

HIV still rages, but not as fiercely as it did. A decline in HIV prevalence among young women in Uganda has been under way since the mid-1990s. In Kenya, infection levels are dropping in urban centers in response to targeted intervention policies. Tanzania and Malawi have seen rates decline slightly or stabilize. Aid organizations have used the response to HIV as a way to rebuild a basic public-health system in much of Africa, reaping a variety of positive changes. With all of its challenges, Africa is in better shape to face the future.

AS THE MEDITERRANEAN, Atlantic, and Pacific proved in their own periods of surging trade growth, commercial highways can easily become battlegrounds.

What is building around the Indian Ocean is far larger than simply Africa's future, and larger than Asian-African trade. The flowering of a commercial system is under way, a new form of that infamous triangular trade that helped finance Britain's 18th-century industrial revolution, with cheap British beads and mirrors being sold in West Africa for slaves, who were shipped to the Americas, and the proceeds used to ship tobacco and sugar back to Britain. The new triangular trade of the Indian Ocean sees the Middle Eastern countries export oil to Asia, then use the proceeds to export capital to Asia and Africa. Asia sends cash, consumer goods, and remittance workers to the Middle East, and investment capital, skills, and aid to Africa, which in turn sells oil and agricultural products to Asia, investing some of the proceeds in new industries, from mobile phones to Nollywood films.

But the rivalry for resources is intense. The Indian Ocean is also witnessing the beginnings of an arms race, with China building ports that can also serve as naval bases at Gwador, Pakistan, which is near the mouth of the Persian Gulf, and at Sittwe in Myanmar, on the Bay of Bengal. Alarmed by China's ambitions, India has been boosting its own forces with a new fleet of French-built Scorpene stealth submarines, a program to build three aircraft carriers, and development of the Agni-3 missile, which could, in theory, carry a nuclear warhead to Shanghai.

The economic promise of CHIMEA is dazzling, but the geopolitical and strategic implications are sobering. As the Mediterranean, Atlantic, and Pacific proved in their own periods of surging trade growth, commercial highways can easily become battlegrounds in their turn. And with the CHIMEA nations poised in this century to become the globe's center of gravity, the stakes in the Indian Ocean promise to become very high indeed. ■