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THE GROWING SINO-INDO—AFRICA TRADE AND INVESTMENT RELATIONS: PROSPECTS AND CHALLENGES FOR ZIMBABWE

by

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Abstract

The past 10 years have witnessed a tectonic shift in trade and investment patterns, with China and India having increasingly established themselves, ahead of Europe and North America, as influential trade and investment partners with the African continent. Equally so, there has been a deliberate derive by the Government of Zimbabwe to position itself as Asia's number one trade and investment destination in Africa. This paper makes an attempt to evaluate the prospects and challenges of the increasing trade and investment relations between Zimbabwe and China & India. The study concludes that whilst both trade and investment relations have been on the increase, trade and investment flows from China and India have been largely concentrated in the extractive industries, with Zimbabwe importing finished goods whilst its exports remain predominantly unprocessed goods. The study finds that increased trade and investment with China and India has created some opportunities, including increased revenues through exports, employment and increased competitiveness for local firms. However, the study noted that local firms risk loosing markets if they are not able to compete with imports from these two countries. The study recommends that for the locally produced goods and services to be traded efficiently, sufficient capacity is needed for trade-facilitating infrastructure, institutions, and services to lower trade-related transactions costs. Furthermore, issues around inefficient factor markets, regulatory regimes and governance need to be addressed to enhance trade and investment with both China and India.

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List of Acronyms

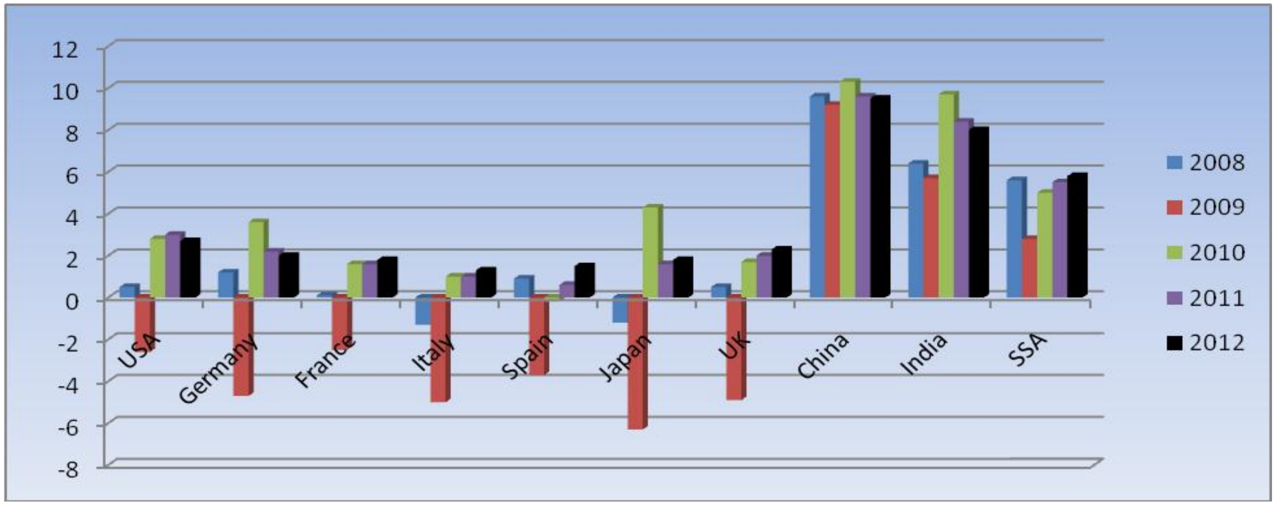
CBMC	China Building Material Corporation
DCFA	Development Cooperation Framework Agreement
FDI	Foreign Direct Investment
FOCAC	China-Africa Cooperation
GDP	Gross Domestic Product
IDC	Industrial Development Corporation
MDA	Market Development Assistance
MDG	Millennium Development Goals
OFDI	Outward Foreign Direct Investment
SADC	Southern Africa Development Community
UK	United Kingdom
USA	United States of America
WEO	World Economic Outlook
ZISCO	Zimbabwe Iron and Steel Company
WTO	World Trade Organisation
SAZ	Standards Association of Zimbabwe

I. INTRODUCTION

Two decades ago, China and India's influence on Africa was limited, as Europe and North America dominated trade and investment flows in Africa. This trend has however reversed over the last 10 years, with China and India having increasingly established themselves as influential trade and investment partners with the African continent. The past 10 years has also witnessed a deliberate drive by the Government of Zimbabwe to position itself as Asia's number one trade and investment destination in Africa. This is in view of the growing constraints regarding growth-enhancing opportunities for trade and investment with both America and Europe.

It is no secret that China and India's economic contributions over the past decade have not been limited to the African continent alone, but to the world economy at large. Resilience of the Asian economy mainly driven by China and India have helped disinflate the world economy and strengthened global growth, battered by the 2008-9 financial and economic crises. Despite sluggish growth in many advanced and emerging economies, the world Economic Outlook Update, January 2011, show that the world economy is projected to grow at 4.4% in 2011 on the back of improved global financial demands and robust growth in China and India as shown below.

Figure 1: Global Output (%) 2008 -2010



*2011 & 2012 figures are projections
Source: *WEO Update, January 2011*

The above graph points to a tectonic shift in global economics that have been witnessed in the recent past, resulting in China and India being more important forces on the global commerce. The above graph shows the effects of the global and financial crises, which has resulted in subdued growth in many of the developing countries. However, notwithstanding the crises, SSA has continued to post reasonable growth mainly due to improved political and macroeconomic conditions as well as the strong economic ties with China and India, who in themselves have posted strong growth over the past decade. The robust GDP growth by China and India, whose annual growth rates averaged above 8% over the last decade has seen China's economy growing to US$5.8 trillion, surpassing Japan's US$5.4 trillion by the end of 2010, hence becoming the World's second largest economy. Analysts project that sustained strong growth of the Chinese economy will see China equaling or surpassing the USA by 2020[1]. Equally so, strong growth in India has left analysts projecting that India will become the third largest economy by 2012, PricewaterhouseCoopers (2010). The Sustained high growth in China and India poses a lot of opportunities for Africa, through enhanced trade and investment within the South-South cooperation framework. Increased South-South cooperation with China and India, which has brought about introduction of new technologies, increased revenue from exports of oil and other commodities of mineral and agriculture, boost employment and enhanced socio-economic development, can be seen as the major reason behind positive growth rates posted by the Sub-Saharan Africa over the past three years, as shown in Figure 1.

The United Nations High Level Trade and Investment Forum of 2004, recognizes that increased South-South cooperation is key in enhancing economic development and progress towards MDGs in many African countries. Specifically, the Third United Nations Conference on the Least Developed Countries, held in Brussels in May 2001 and the International Conference on Financing for Development, held in Monterrey, Mexico in March 2002, encouraged South-South cooperation, in the delivery of aid and emphasized the importance of South-South cooperation in capacity-building and setting best practices, particularly in the areas of health, education, training, environment, science and technology, trade, investment and transit transport cooperation.

To enhance South-South Cooperation, the China-Africa Cooperation Forum was established in 2000, with the aim of bolstering trade and economic relations between China and the African continent at large. Similarly, India Forum on Africa was established in 2008 primarily to enhance economic cooperation between India and Africa. The South- South trade and investment relations are likely to be sustained by the economic complementarities between Africa and Asia, with Africa demanding more of Asia's manufactured goods and machinery whist in return, the two Asian giants' appetite for Africa's natural resources remain high and unmet. The growing populations in China and India with higher incomes are spurring purchases from Africa. At the same time, Africa is importing Asian manufactured products for consumption by households and for use as capital goods in the manufacturing sector, thus enhancing Africa's growth prospects and progress towards the MDGs. These economic complementarities have seen both China and India become increasingly important development partners to the African continent, with total trade between Africa and China having increased by more than 900% from US$10.6 billion in 2000 to more than US$106,8 billion in 2008, before sliding to US90 billion on the back of the economic crisis. Similarly, total trade between Africa and India grewn by more than 315% from US$5.3 billion to

[1] http://www.bbc.co.uk/news/business-12427321

US$22 billion between 2000 to 2006[2]. Similarly, south-South Foreign Direct Investment (FDI) flows are growing, though at a smaller rate than the trade flows. China's investments having grown from US$220 million in 2000 to US$1.44 billion in 2009, whilst Africa's investments in China US$280 million to US$1.3 billion over the same period[3]. In 2006, Africa-Asia FDI flows accounted for 1.8% of global FDI inflows, with China and India dominating investment in Africa than the reverse, Broadman H. G. (2007).

The acceleration of the South-South trade and investment relations is certainly one of the most significant features in the global economy today. Rightly so, a number of studies have analysed the impact of the Sino-Indo-Africa commerce, with a view to inform policy and strategy formulation aimed at optimizing the costs of engagement (Broadman, 2007, Jian-Ye Wang, 2007). Whilst results from these studies suggest that stronger South-South ties could help economic transformation in Africa, there has been little studies at country level, hence ignoring the heterogeneity among African economies. Africa is big and diverse, hence at country level, results that generalize the impact of Sino-Indo relations with Africa needs to be interpreted with caution. African countries differ significantly in terms of their economic and political environment, policy and institutional set up, hence the need for a specific country study to ascertain the impact of the South-South trade and investment relations. This is particularly important for Zimbabwe at a time when the country is increasingly forging ties with the East, on the back of a freeze in relations with its traditional trade and investment partners. Hence, as Zimbabwe continues to go about building its own framework for broad, long-term sustainable engagement with both China and India, that is strategic and economically vital for the mutation of the country's economic fortunes, there is need for a thorough and comprehensive understanding of some of the key elements shaping the Sino-Indo-Africa economic relations. Such an understating will form the basis for policy formulation aimed at transforming the vibrant comradeship with both China and India to leverage economic take off in Zimbabwe.

Although China and India's involvement in Zimbabwe takes three major forms of trade, investment and aid, this paper deliberately focuses on trade and investment, given that these are more sustainable instruments of enhancing economic growth as opposed to aid which is highly volatile and dependent on donor preferences. Furthermore, the role of foreign aid even from China and India remains limited given the country's unsustainable debt burden and arrears to China among other creditors. In this view, Government is recommended to consider other non debt creating flows such as FDI, which is regarded to be substantially more stable and brings along issues of utmost importance for development such an increase in capital stock and increase in the country's labour productivity, output, employment, and incomes (Blomström et al. 1996). In addition to these direct effects, literature suggests that further efficiency gains in the host economy accrue from the increased competition and discipline generated by foreign firms, from technological and managerial spillovers, and from learning-by-doing effects in local suppliers (De Mello Jr. 1997; Huang 2004; Hirschman 1958).

[2] Data accessed from Tralac trade database on Africa - China and Africa – India cooperation
[3] China-Africa trade and Economic Relationship Annual Report 2010

For both Zimbabwe–China and Zimbabwe-India relations, the study examines (i) whether Zimbabwe has strategy on China and India to extract optimal benefits from the emerging trade and investment relations, (ii) trends and composition of exports and imports, (iii) investment trends and the key sectors attracting Sino-Indo investments in Zimbabwe (iv) motivation of both Chinese and Indian investments in Zimbabwe. Jenkins and Peters (2006) noted that there is merit in looking at FDI distinguished by their motivation: natural resource-seeking, market-seeking or efficiency-seeking. In the Zimbabwean context, such distinction is very important to draw policy options for sustainable investment relations with China, India as well as other traditional source, and (v) compare trends in trade and investment between Zimbabwe and its traditional economic partners (UK and America) to those of the Sino-Indo economic relationship. The paper also pays attention towards the role played by the Export and Import Banks of China and India, in facilitating trade and investment flows in Zimbabwe. Moreover, it is worthy noting that the study looks at the impacts on Zimbabwe of China and India's trade and investment, rather than the reverse

Objectives of the Study

The main objectives of the study are to

- Look at the evolution of the pattern of trade and investment flows between Zimbabwe and China & India, which factors are likely to significantly sustain these flows in future;
- Assess Zimbabwe's trade and investment strategy with both China and India and whether China and India has a specific and reciprocal strategy on Zimbabwe.
- Indentify the sectors/industries anchoring the trade and investment relationships;
- Assess the role of the Export-Import banks in these two countries in driving the trade and investment in Zimbabwe;
- Assess the preparedness of Zimbabwe (at policy and strategy level as well as industrial) to emerging threats and opportunities arising from the increased trade and investment; and
- Provide recommendations on the key success factors that will bring tangible benefits from the country's "Look East Policy".

Methodology

The study employs a number of research methods to achieve its objectives including:

i. Situational analysis- assessing the evolution of the pattern and performance of trade and investment flows between Zimbabwe and China & India;
ii. Assess Government policy documents to determine the country's strategy in its engagement with China and India
iii. Interviews with relevant stakeholders such as Ministries of Finance, Economic Planning & Investment Promotion, Industry & Commerce, Zimbabwe Investment Authority (ZIA) the Chinese and Indian Embassies in Harare, Zimtrade, among other potential stakeholders as well as data sources such as Comtrade and the World Trade Atlas; and

iv. Review of Sino-Indo-Africa, policy documents; consultancy reports; documentaries and commentaries by multilateral financial institutions; research institutions; banks and think tanks, among others.

The remainder of the study is structured as follows: Section 2 focuses on China-Zimbabwe trade and investment relations from 2000 to 2009, whilst Section 3 looks at the India-Zimbabwe trade and investment relations over the same period. Section 4 gives a brief comparison of the Sino-Indo economic relations to those of Zimbabwe's traditional partners of UK and USA before proffering some policy recommendations in Section 5.

II. CHINA- ZIMBABWE TRADE AND INVESTMENT RELATIONS

Formal links between Zimbabwe-China dates back to Zimbabwe's liberation struggle against colonial rule, when China provided training and military equipment to the Liberation Movement. However, at independence in 1980, China's involvement in Zimbabwe has been increasingly directed towards broader macro-economic objectives, and in particular towards the development of mutually beneficial linkages with Zimbabwe in the various sectors of the economy, including the construction of sports facilities, hospitals, schools and the development of textile factories. The Chinese Government also contributed to the development of steel manufacturing in Zimbabwe through a 1997 financial package extended through China Export and Import Bank (China Eximbank) loan facility, which financed the construction of the Blast Furnace No4 at the Zimbabwe Iron and Steel Company (ZISCO), as well as the setting up of a cement processing plant (Sino-Zimbabwe Cement project), which was completed in 2000. Furthermore, China provided interest-free loans and grants to Zimbabwe for different infrastructure development projects.

China's economic cooperation with Zimbabwe is enshrined in the broader Forum on China-Africa Cooperation (FOCAC) established 2000, which recognizes the need to vigorously promote China-Africa co-operation in the areas of economic, trade, financial, agriculture, medical care, cultural, education, among others. Consistent with the FOCAC, by 2009 China had China had signed agreements on trade, economic and technical cooperation with 45 African countries, agreements on bilateral promotion and protection of investment with 3l nations, and agreements on the avoidance of double taxation with 10 nations[4], for which Zimbabwe is also included. In addition, China also approved 16 African countries, including Ethiopia, Kenya, Uganda, and Zimbabwe, as destinations for Chinese tourists. This pushed the number of Africa's Chinese tourists to 110,000 in 2005, a 100% increase over 2004, according to Chinese government figures (Eisenman and Kurlantzick, 2006).
According to the China's Africa Policy issued in January 2006, China will:

[4] China-Africa trade and Economic Relationship Annual Report 2010

…unswervingly carry forward the tradition of China-Africa friendship, and, proceeding from the fundamental interests of both the Chinese and African peoples, establish and develop a new type of strategic partnership with Africa, featuring political equality and mutual trust, economic win-win cooperation and cultural exchange.

The general principles and objectives guiding Chinese foreign policy in Africa as set out in this formulation of the Chinese Government policy include: (i) Sincerity, friendship and equality (the political aspect); (ii) Mutual benefit, reciprocity and common prosperity (the economic aspect); (iii) Mutual support and close coordination (the international aspect); and (iv) Learning from each other and seeking common development (the social and cultural aspect)[5]

It is within this framework that the Government of Zimbabwe and the People's Republic of China concluded a Development Cooperation Framework Agreement in July 2005. The agreement spells out areas of cooperation including trade and investment, guided by the principles of equality and mutual benefits. Both sides made an undertaking to support companies and organizations in their respective countries to explore and implement investment projects in energy, natural & mineral resources development, agriculture, transport, telecommunications, manufacturing, aviation, among other areas as mutually agreed upon.

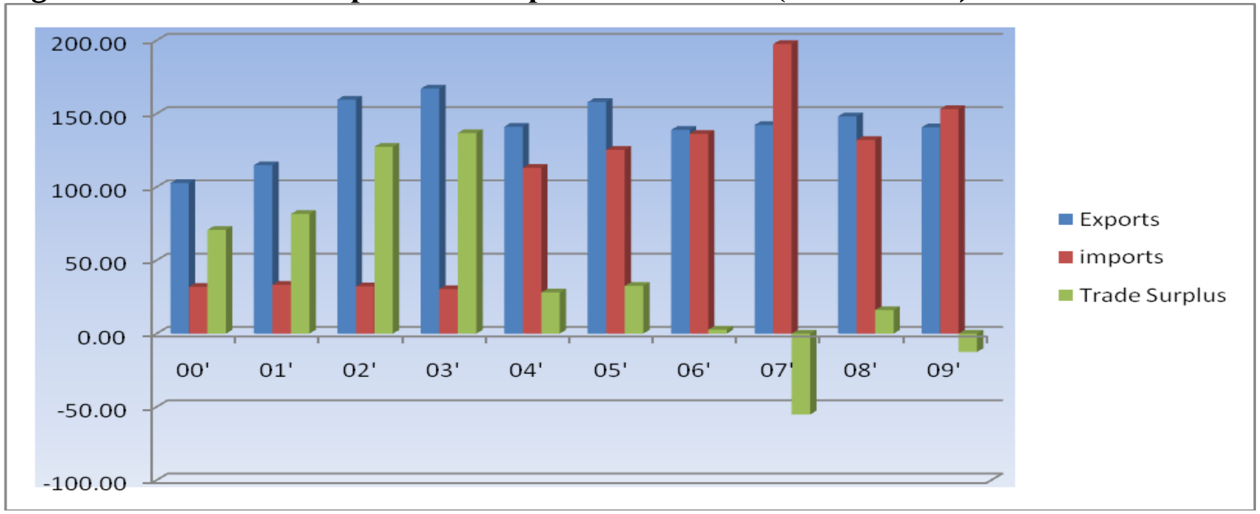
Zimbabwe-China Trade Relations

Trade between Zimbabwe and China has been increasing steadily since 2000, with exports rising from US$100 million recorded in 2000, peaking to US$167 million in 2003 before falling to around US$140 million in 2009. Similarly, imports from China rose from an average of US$30 million between 2000 to 2003 to US$197 million in 2007 before falling to US$132 million in 2008. On the back of strong exports, the country enjoyed trade surpluses for greater part of the period under review except for 2007 and 2009 as shown in the graph below. The trend in export growth is attributable to the deliberate policies by the Chinese government to encourage imports from Africa, which includes, among others: a zerotariff treatment for the products exported from African, series of African Commodities Exhibitions in China. In addition, Chinese trade missions went to Africa to help increase the continent's exports to China.

Interestingly though, despite the evident growth in trade, the annual trade numbers have remained below US$200 million. This can be attributed to the fact that the period under review was one of the most difficult times in the country's history, a period which the country experienced hyperinflation, massive devaluation of currency, price controls and export surrender requirements, which affected the country's export performance. There is, however, potential for trade growth following improvements in the macroeconomic environment since the formation of the Inclusive Government in February 2009.

[5] Chinese MOFA, *China's African Policy*, January 2006 http://www.fmprc.gov.cn/eng/zxxx/t230615.htm

Figure 2: Zimbabwe's Exports and Imports from China (US$ millions)

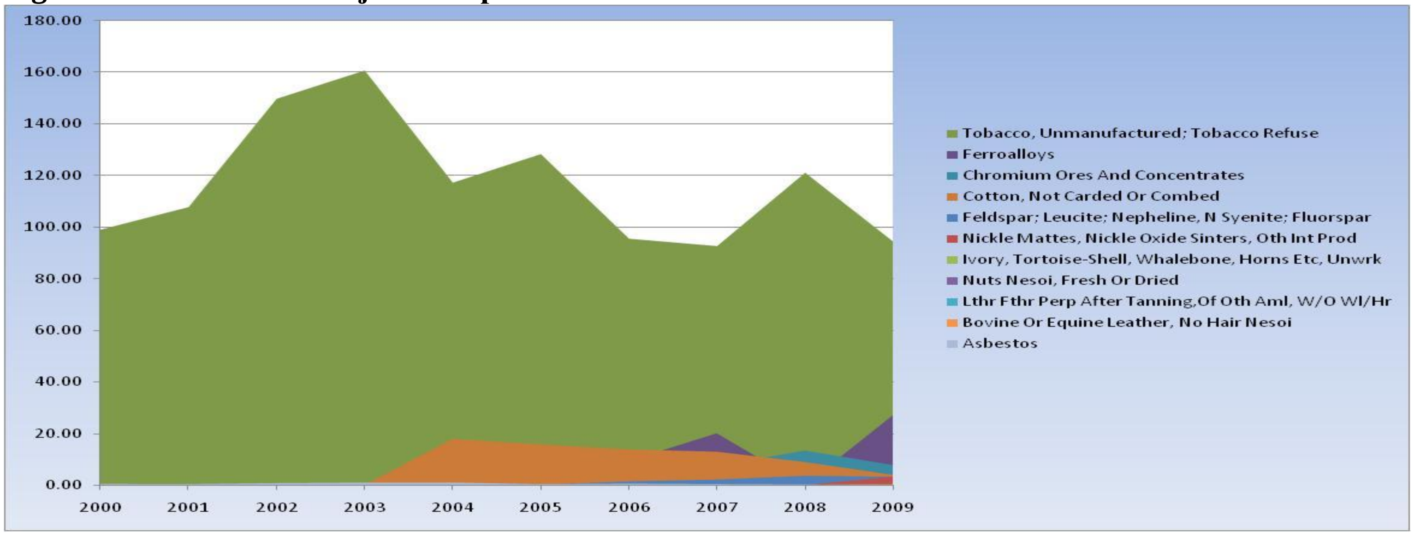


Source: Tralac Trade database 2010

Composition of Zimbabwe's Exports to China

Zimbabwe's exports to China have been dominated by raw and unprocessed goods, with tobacco being the major product. Tobacco exports to China rose from US$95.98 million in 2000 to reach a pick of US$160.65 million in 2003 before falling to below US$100 million in 2006 and 2007 and rose to US$120 million in 2008. Other major sectors contributing towards Zimbabwe's exports to China included agriculture (cotton, nuts nesoi, leather), mining (ferroalloys chromium ores &concentrates, nickel mattes, nickel oxide sinters and asbestos) tourism (ivory), though these have remained in small quantities of less thanUS$20 million annually, as graphically shown below:

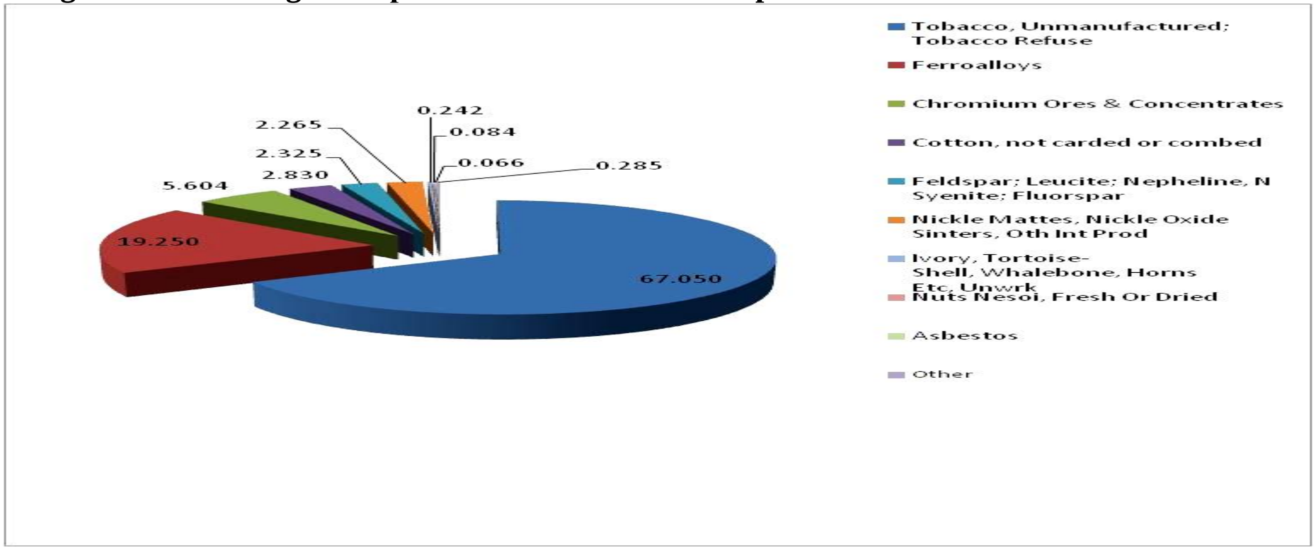
Figure 3: Zimbabwe's Major of Exports to China: 2000-9



Source: Tralac Trade database 2010

Tobacco constitutes the major share of Zimbabwe's Exports to China. By end-2009, Tobacco contributed about 67.05% of Zimbabwe's total exports to China. Ferroalloys contributed 19.25% whilst chromium ores and concentrates accounted for 5.6%, with the remainder of 8.096 being cotton, nickle, ivory, asbestos among other as shown below:

Figure 4: Percentage Composition of Zimbabwe's Export to China as at end-2009



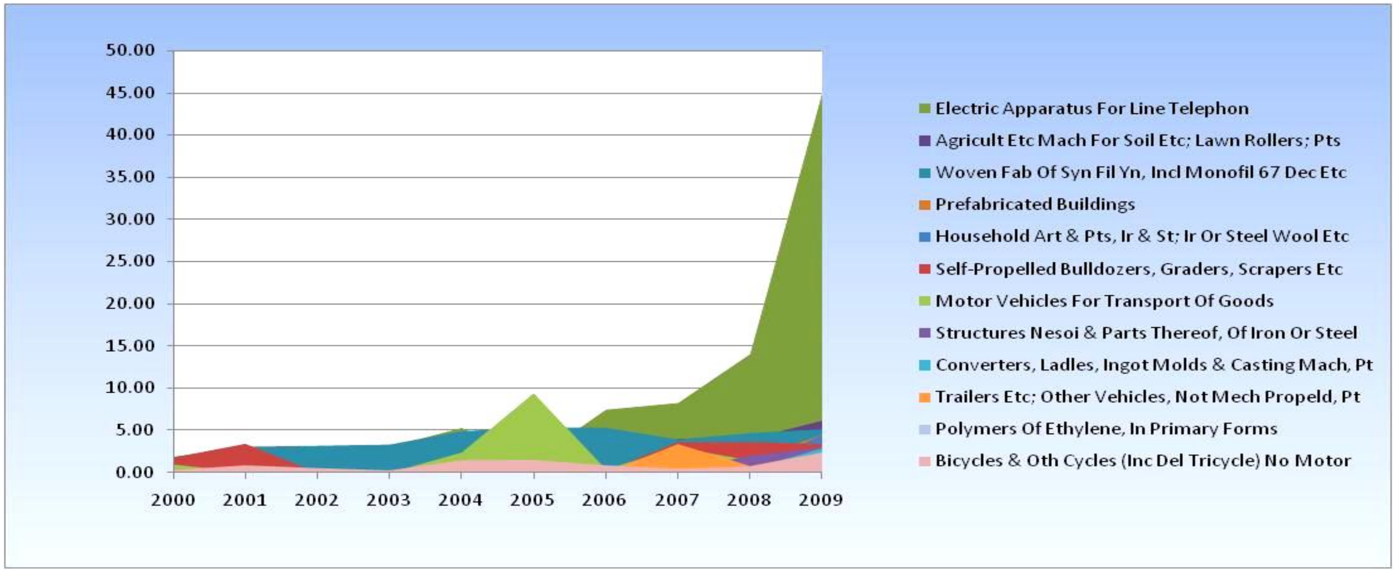
Source: Tralac Trade database 2010

Reliance by the country on tobacco as the major driver of export earnings from China poses severe constraints given the anti-tobacco and anti-smoking campaign and bans in a number of countries, which is now coming like a heavy storm that can wreck havoc on the Zimbabwean economy.

Composition of Zimbabwe's Imports from China

As already alluded to in Figure 2, Zimbabwe's imports from China have been increasing over the period under review, rising from an average of US$30 million between 2000-3 to US$197 million in 2007 before falling to US$132 million in 2008. The 44.9% jump in imports between 2006 and 2007 can be attributed to the agricultural inputs, machinery, equipment and implements imported by the Government of Zimbabwe under a US$200 million export buyer's credit from the China Export and Import Bank (Eximbank) in October 2006. The detailed breakdown of Zimbabwe's imports from China is as indicated below:

Figure 5: Composition of Zimbabwe's imports from China 2000-9



Source: Tralac Trade database 2010

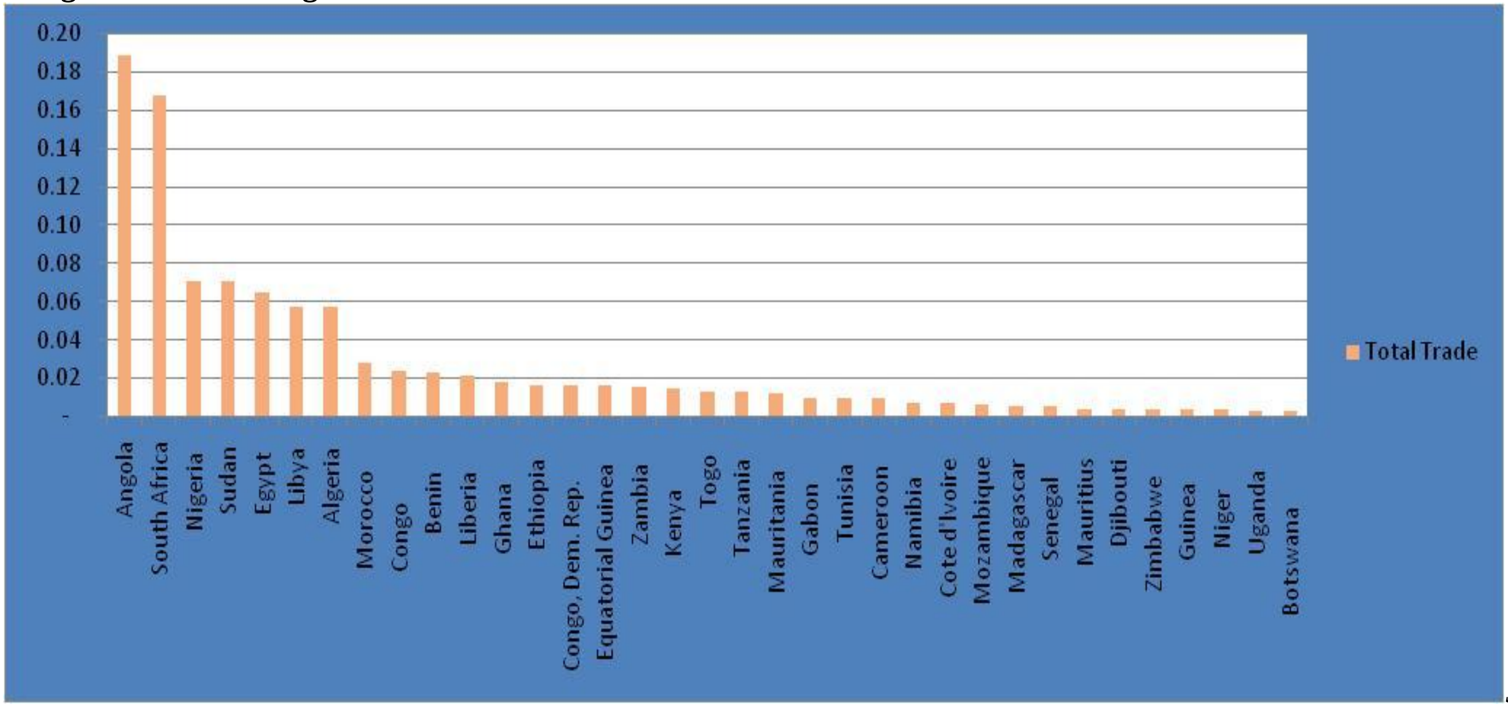
Like many African countries, the composition of Zimbabwe's exports to China has been predominantly agriculture and extractive industries products – minerals and metals whilst imports have been dominantly finished goods ranging from machinery and equipment to vehicles, textiles, clothing and consumer electronics. In essence, Zimbabwe is primarily a source of raw materials and also a market for Chinese finished goods. The trade relationship between Zimbabwe and China is analogous to the developing/ developed country scenario, which is a major contributor to the paradox of growth in GDP not only in Zimabwe but with many other developing economies. Hence, if unchecked, the growing China-Zimbabwe trade relations will produce the same undesirable effect as those of its traditional trading partners of europe and America. Furthermore, unless this is addressed, the role of export-led growth remains limited given the low value exports in raw materials. Measures need to be instituted to transform the nature of the current trade partnership towards a strengthening of the backward and forward linkages between the export sectors and the rest of the economy, if the economic win-win cooperation intended in the Development Cooperation Framework Agereement is to be achieved.
However despite the much publisised Government Look East Policy adopted in 2003, Zimbabwe continues to rank lowly with regards to total trade with China. Friedrich-Ebert-Stiftung (2004) recogns that the Look East Policy is a slogan more than a genuine foreign policy doctrine and is not supported by any sort of public policy document. The lack of a policy strategy in dealing with China, therefore, explains the low volume of trade between the country and China as compared to other African countries. By end- 2009 total trade between Zimbabwe and China accounted for 0.0033% of China's total trade with Africa and the country ranked number 31st out of the 56 African countries with active trade relations with China. China's major trading partners in Africa includes the rich oil

producing nations as shown in Figure 6a below. This suggest China's hunger for petrolium resources, in support of its burgeoning economy. Angola, South Africa, Nigeria, Sudan, and Egypt are China's top five African trading partners. In 2009, their bilateral trade with China stood at US$17.06 billion, US$16.06 billion, US$6.39 billion, US$6.37 billion. and US$5.86 billion respectively[6], compared to Zimbabwe's US$ 293.9 million.

In addition, according to Tralac Africa-China trade statistics (2010), Zimbabwe's trade with China recorded a compounded growth of 13% between 1995 and 2005, compared to Angola (40%), Nigeria (28%), Sudan (33%), and other non-oil producing countries such as South Africa (19%), Zambia (41%), Kenya (20%), Malawi (40), and Botswana (41%), among others. However, Zimbabwe's compunded trade with China shrunk to -4% over the period 2005-2009. Hence despite figure 2 showing an increase in the trade volumes, the country's compounded share of trade with China compared to other countries was actually shrinking. There is however, greater scope for increased trade with China given the Asian giant's demand for the country's vast mineral, agricultural and other natural resources, which provides a fertile ground for enhanced trade with China.

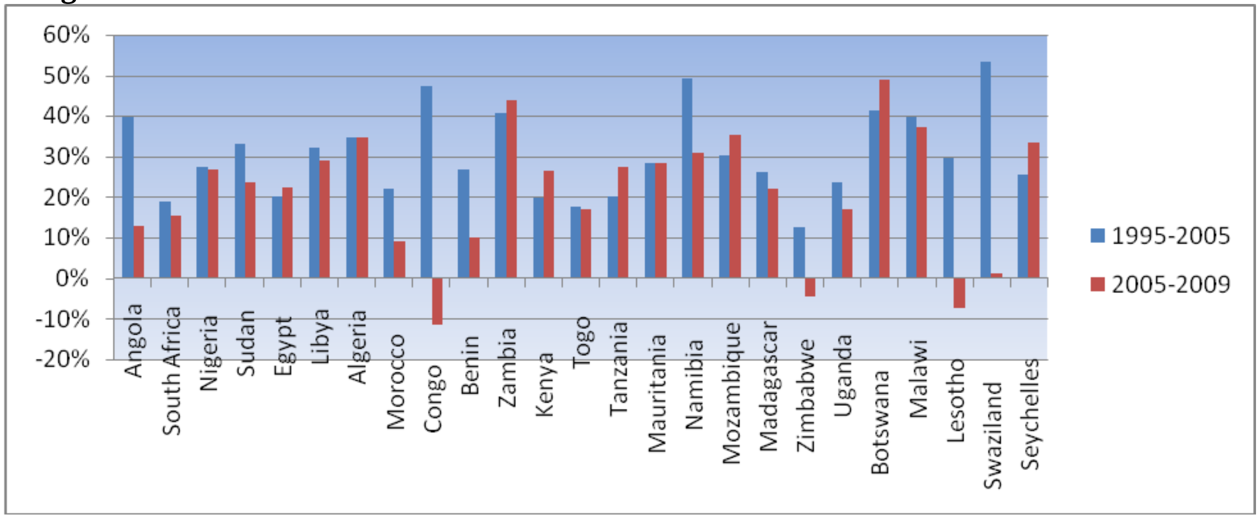
[6] China-Africa trade and Economic Relationship Annual Report 2010

Figure 6a: Percentage Share of China's Total Trade with Africa as at End-2009



Source: Tralac Trade database 2010

Figure 6b: Growth in Total Trade between China and a Selected African Countries



Source: Tralac Trade database 2010

Opportunities and Challenges for Trade with China

Trade relations with China presents a number of opportunities and challenges for the Zimbabwean economy. The major opportunities lie largely on cheap imports and hence affordability, especially by industry and the general populace. Generally, some Chinese imports can be 75% cheaper than equivalent imports from traditional sources of Europe, America or from within the region and up to 50% cheaper than the locally produced substitutes (Ajakaiye, 2006). For a country that has suffered a 54%[7] cumulative decline in GDP between 2000-8, hence declining percapita income and weak purchasing power, this could be an opportunity to improve the livelihoods of the drowning poor. Moreover, it can also be argued that competition from Chinese imports may discourage monopolistic tendancies and profiteering by both traditional trading partners and local producers. The cheapimports can also encourage the producers of local goods to be more efficient and pass on the benefits of such efficiency to the consumers. The net effect of which is price stability and reduced inflationary pressures.

[7] See the 2009 IMF Article IV Report on Zimbabwe

Furthermore, given that customs duty contributes 14.3%[8] of total revenues, growing imports from China can also contributes to higher revenue inflow. Hence, improvement in the Government's fiscal position and at the same time creating additional fiscal space for growth enhancing capital expenditures and precluding inflationary deficity financing.

On the contrary, the major challenge regarding Zimbabwe's trade relations with China is that the terms of trade remains in favour of the former, mirroring the trade relationship with Europe and America. Zimbabwe remains a producer of raw, low value exports to China and a market for Chinese finished goods. Also of concern is the issue of Chinese imports meeting the various quality and safety standards in Zimbabwe. Another is the risk of emergence of Chinese monopolies in the long term after which they may also embark on collusive and predatory business practices as well as extraction of monopoly rents. This is especially the case since the majority of the Chinese enterprises are state-owned or are closely tied to the central government and can be part of the Chinese Government's going global strategy.

Furthermore, reliance on cheap Chinese imports may end-up crowding out locally produced goods. Lessons from Ghana and South Africa shows that domestically produced clothing and furniture manufactures are being displaced by imports from China (Kaplinsky and Morris, 2008). Similar anecdotal evidence can be found with regard to clothing and footwear manufacture in many SSA economies. For example, in Zambia the trades unions assert that imports of Chinese clothes have undermined the clothing and electrical sector, and in Nigeria trades unions blame Chinese imports for the loss of 350,000 jobs (http://www.nzherald.co.nz/). In Zimbabwe, the textile industry is the worst hit sector from cheap Chinese made clothing material flooding the market. The decade long economic decline resulted in fall in industrial capacity utelisation and recovery remains sluggish in many industries including the textile industry, which now faces a host of drawbacks including competition from China, production inefficiencies due to lack of capital, power outages and outdated equipment.The local industries complain that they can not compete with cheap products from China and are forced to close down. "A recent estimation brought to 30,000 the number of directly threatened jobs"[9]. This is not taking into account the effect on upstream or downstream employment. "The affected industries are weaving, spinning and clothing industries as well as manufactures of shoes and producers of leather items

Consistent with the above, increase in Chinese imports need to be viewed with caution as they may result in factory closures and the inevitable job and income losses in the country as industries across the whole economy find it unattractive and challenging to compete with cheap Chinese imports. Hence, derailing and dampening the country's growth prospects and the intended benefits from the trade relations with China. The local industry is at great risk of being overrun by Chinese products given the antiquated equipment in many local industries, which leaves the country not in a position to compete with Chinese imports. Even if funding were to be made available, the local producers will still find it difficult to attain some productive efficiency which will enable them to be competetive.

[8] See Mid-Term Fiscal Policy Statement Review, page 61

[9] Mavis Marongwe (2004), "Zimbabwe needs law to curb cheap goods influx

Zimbabwe China-Investment Relations

The rapid Chinese economic growth, witnessed since the beginning of the 1978 reforms, coupled with dwindling domestic petroleum and mineral deposits have been the major cause for the opening up of the Chinese economy. The late 1990s, saw a deliberate drive by the Chinese government in encouraging outward FDI, when the Chinese Government announced its “going global strategy.” The policy provides a number of incentives aimed at encouraging outward foreign direct investment (OFDI), such as special and general tax incentives, credit and loans, foreign exchange allowances, and a favorable import and export regime.

Although Zimbabwe lacks oil, it has the second-largest deposits of platinum in the world; these riches remain largely untapped, as do Zimbabwe’s deposits of other minerals, including ferrochrome, uranium, gold, silver, diamonds, coalbed methane gas and copper, which provides some fertile grounds for the resource hungry Chinese economy. China-Zimbabwe FDI flows are also growing, but the volume of such flows is more modest than that of trade between the two countries. Due to lack of data on actual investment inflows from China, the study relies on data on investment approvals as captured in the Zimbabwe Investment Authority (ZIA) database. The figures show that total investment approvals between 2000/9 amounted to US$1.055 billion, with a potential to create 15 987 jobs and earning the country a total of US$353.6 million in exports receipts, as shown below:

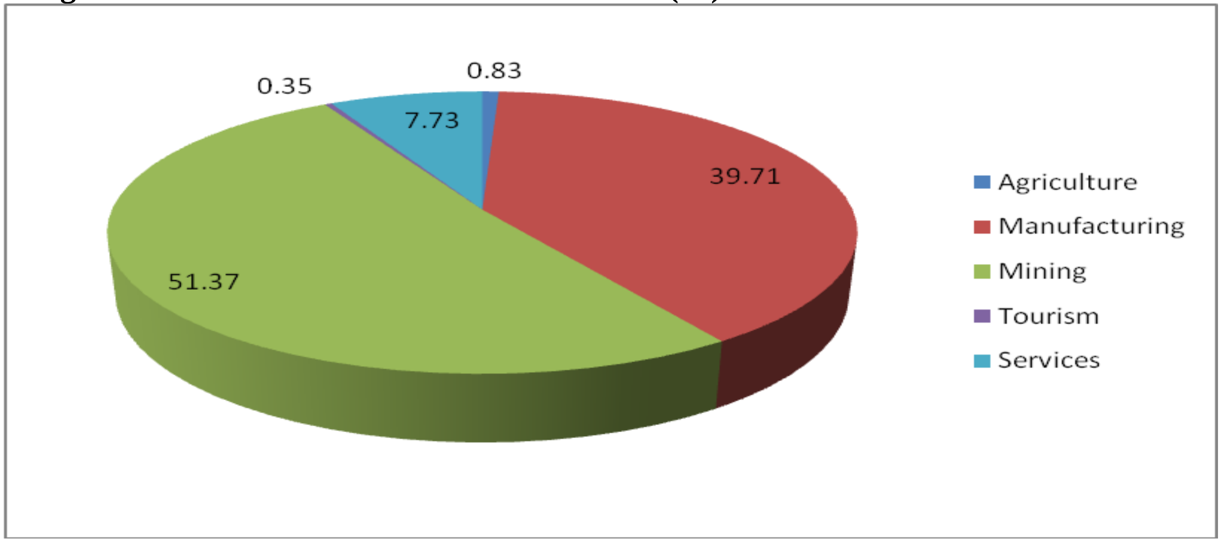
Table 1: China Approved Investments 2000-2009 by Sector, Employment and Export Earnings

Year	Agric	Man	Mining	Tourism	Services	Total	Employment	Exports
2000	-	4,910,385	-	272,092.21	-	5,182,477.94	217	1716840
2001	-	6,704,858	662,600	-	2,858,705.43	10,226,163.65	659	6707929
2002	-	4,144,773	-	-	930,305.24	5,075,078.45	590	8058834
2003	1,054,092	7,332,678	-	596,394.43	-	8,983,165.06	1283	1430783
2004	-	22,654,651	99,560	211,065.30	235,602.98	23,200,879.61	1947	38319378
2005	7,696,163	4,366,075	85,196	-	1,446,670.67	13,594,106.35	3941	3778649
2006	-	5,790,352	6,000,000	2,569,284.21	422,317.09	14,781,953.39	787	52604590
2007	-	120,096,219	436,220,605	-	1,044,800.00	557,361,625.21	1804	111518313
2008	-	222,041,559	14,000,000	-	42,713,515.01	278,755,074.34	1600	81891666
2009	-	19,786,292	83,434,174	-	31,710,000.00	134,930,466.52	3150	47615885
Total	**8,750,255**	**417,827,845**	**540,502,136**	**3,648,836.15**	**81,361,916.42**	**1,052,090,990.52**	**15,978.00**	**353,642,871**

Source: Zimbabwe Investment Authority 2010

It can be seen that in tandem with the surge in trade, Chinese investment in Zimbabwe has also increased dramatically from US$5.2 million in 2000, peaking to US$557.4 million in 2007 before falling to US$134.9 million in 2009. The Chinese investment approvals in Zimbabwe are mainly distributed among five sectors of agriculture, mining, tourism, manufacturing and services. However, these investments can be said to be driven by the a resource-seeking cause given that mining accounts for a cumulative 51.37% of all investments since 2000, closely followed by manufacturing (39.71), services (7.73%), agriculture (0.83) and tourism (0.35%) as shown in the pie chart below:

Figure 7: Sectoral Distribution of Investments (%)



Source: Zimbabwe Investment Authority 2010

In view of the above sectoral concentration of Chinese investments in Zimbabwe, it can be noted that the driving force of Chinese FDI inflows is primarily resource-seeking as opposed to market or efficiency-seeking motive. This is contrary to Chinese investment in OECD countries which are primarily market-seeking, mostly through strategic partnership with enterprises in the host countries. Thus, while some of the Chinese investments and activities in the country are directed at addressing critical gap in the provision of basic infrastructure and food security, these are not comparable to the level at which Chinese are seeking Zimbabwe's resources. The Chinese Government has invested in the establishment of an Agricultural Technology Demonstration Centre at the Gwebi College, which seeks among other things, to boost agricultural production in the country to enhance food security and self sufficiency.

The significant interest shown by Chinese investors in the manufacturing sector is worthy noting as it complement Government policy of value addition. However, to optimise benefits on such investments, there is need for the involvement of indigenous entrepreneurs, through joint ventures. A joint venture has higher potential of positive impact in the economy as the involvement of local expertise and other work force are channels through which technology is transferred and technological capacity is developed, beyond involvement of indigenous entrepreneurs at the management level.

Opportunities and Chellenges in Chinese FDI inflows

The major opportunities with regards to Chinese FDI in Zimbabwe lies in the fact that unlike, western FDI which come from private or publicly owned corporations, much of Chinese FDI, comes from firms that are either partly or wholly state-owned. These firms have access to low-cost capital and preferential loans, among other incentives. Hence, their investment horizon can be of a much longer term since they are not under the same profit maximisation pressures as purely private companies. Furthermore, the investments by state-owned companies are driven not only by economic but also by political, strategic and diplomatic factors, making it imperative and strategic to deepen political and diplomatic relations with China. Furthermore, besides resources-seeking, Chinese investments in Zimbabwe and Africa at large can also be viewed as market-seeking. Chinese businessmen are looking to open new markets for their products.

However, on the downside, technology transfer from Chinese FDI is insignificant because most of the Chinese firms bring into the country finished products and complete sets of equipment and machinery as well as their own Chinese technicians. This is mainly due to efficient gains associated with Chinese workers being familia with equiment and adaptable to working long hours. Hence, to derive some benefits from the investment relations with China, there is need to develop synagies and leankages with local suppliers and workers to enhance technology transfer and sustainable investment. The country can draw some key lessons from Kenya, which has managed to structure their cooperation with China in a manner that encourages technology transfers, as highlighted in the box below.

Box 1: Technology Transfer in Kenya

On technology transfer, most of the Kenyan EPZ firms recruited people without experience in the garment industry who were then trained within the factory (Fukunishi *et al.*, 2006). In this case, the EPZ firms do not compete directly with the local firms. Equally, some former EPZ employees leave formal employment to start their own small-scale garment firms using the training and experience they got while working in the EPZ garment firm. More importantly, some production expatriate workers left EPZ firms to team up with local investors to establish garment factories.

There are some locally-owned (non-EPZ) firms specialised in high value activities such as embroidery, sand-blasting, stone-washing and printing, and that they get regular subcontracts from EPZ firms. In this way local firms are able to participate in the global apparel value chain indirectly. Local garment firms are increasingly purchasing machinery from EPZ firms either when the EPZ firms upgrade their machinery inventory or at times when they close down. The cheap and appropriate capital goods has resulted in local firms using relatively modern technology in their production activities (Kamau, 2007).

In Kenya, there appears to be the growth of small-scale entrepreneurial investment from China, often presaged by the construction of specialised shopping malls retailing Chinese goods. Prospects of technology transfer are real, but along with these emerging trends, here is displacement of existing and potential local producers; less spin-off to local economy than other foreign contractors; while increased Chinese FDI could lead to disinvestment and relocation by other foreign investors (for example, clothing and furniture) (Kaplisnky et al,2007).

Source: Onjala J (2008),

The challenge, therefore, is for Zimbabwe to invest in improving investment climate, developing human resources necessary to support investment in new industries and strengthen the IDBZ and other players in the financial sector to provide financial support to the private investors. Careful monitoring and evaluation processes, including requisite research must be carried out regularly to ensure that Chinese and FDI from other sources and in any sector are beneficial to the country.

There are also fears the Chinese diasporans in Zimbabwe are remitting much of their earnings back to China rather than reinvesting it into the local economy, thus net capital outflow, which affects the country's overal balance of payments position.there is, therefore, need for inward remittance of investment funds to be enforced. look for eperical evidence on Chinese Diasporants

Role of the China Eximbank in Promoting Trade and Investment

Founded in 1994, China Eximbank is wholly owned by the state and operates under the guidance of the central government. China Eximbank and the China Development Bank (CDB) are two of three banks established by the Chinese Government to further national economic policies (the third being Agricultural Development Bank of China). China Eximbank's main focus is to drive the "Go global strategy" of the Chinese government through the promotion of exports, foreign investments and international loans. It is the only Chinese bank authorised to distribute concessional loans. As much as 80% of its funding activity in Africa is dedicated toward infrastructure projects (roads, power plants, oil and gas pipelines, telecommunications, and water projects), whilst its investment loans target the energy, mining, and industrial sectors.

The China Eximbank has been acting as a key channel of policy financing for both Chinese import-and- export of mechanic and electronic products, complete sets of equipment, and high- and new-tech products, undertaking of offshore construction contracts and overseas investment projects by Chinese companies. In line with relevant national industrial, foreign trade & investmnents, financial and fiscal policies of the Chinese Government, the Bank provides the following four types of financial packages:

(i) *Export Seller's Credit*- these are loans taregeted at exporters to finance exports of manufactured or purchased mechanical and electronic products, complete sets of equipment, and high- and new-tech products as well as the provision of labor services.

(ii) *Export Buyer's Credit* - medium and long-term credit provided to foreign borrowers to finance their imports of Chinese products, technologies and services. The Credit is designed to facilitate foreign importer's (or project owner's) upfront payment of commercial contract to Chinese exporters (or contractors);

(iii) *Import Credit* - refers to loans, denominated in either RMB or foreign currencies, designed to finance resource imports by Chinese companies. Prospective borrowers include manufactures and import agents that import resources mainly for internal use or for domestic sales; and

(iv) *Chinese Government Concessional Loan and Preferential Export Buyer's Credit* - medium and long-term, low interest rate credit under the designation of the Chinese Government with the nature of official assistance. The Concessional Loan is designed to; (a) fund manufacturing projects, infrastructure construction projects and social welfare projects in the borrowing country, (b) finance the procurement of Chinese mechanical, electronic products, complete sets of equipment, technology and service and other goods by the borrowing country.

Through the above facilities, the Bank has made a substantial impact in supporting trade and investment in Zimbabwe. Whereas China Exim Bank focuses on infrastructure development in Africa, CDB is more focused on investment and has been working with the IDBZ in infrastructure development in Zimbabwe. In September 2010, IDBZ and CDB agreed to the provision of a US$30 million line of credit to the IDBZ under the Bank's China-Africa Development (CAD) Fund, earmarked for projects in the energy, transport and infrastructure development sectors[10].

Furthermore, the China Eximbank has made efforts to enhance its collaboration with multilateral, bilateral, and private lending institutions active in Africa. The Bank has entered into memorandum of understanding (MoU) with the World Bank and the Afreximbak to improve cooperation, beginning with road and energy projects.

In Zimbabwe, the China Eximbank has supported investment projects by Huawei Technologies worth US$45 million for the network expansion project by Net*One. The loan facility was concluded on 1 June 2010[11] in Harare. Prior to this, the Bank had supported various Chinese exporters CMEC, CATIC, CAMC, CBMC, to exports agricultural machinery, equipment, inputs & implements, cement & steel production as well as exray scanners for Zimra, electrical and aviation equipment, all worth over US$600 million.

[10] http://www.zbc.co.zw/news-categories/business/2847-idbz-seals-deal-with-chinese-bank.html

[11] See The Herald October 21, 2010

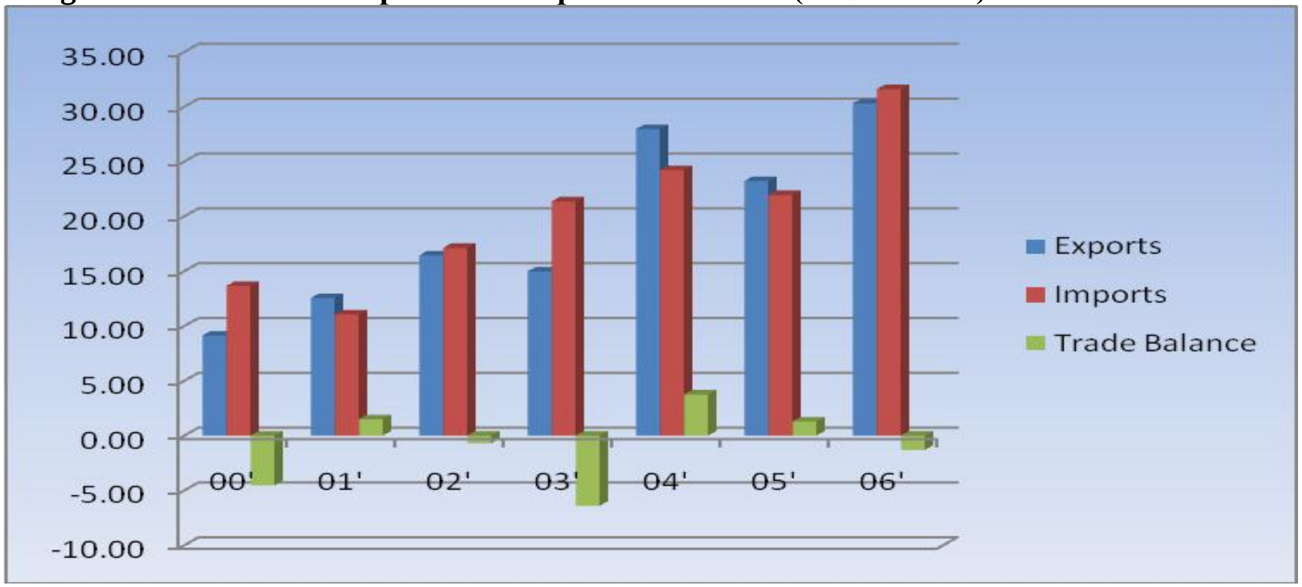
III. INDIA - ZIMBABWE TRADE AND INVESTMENT RELATIONS

India and Zimbabwe enjoy a long standing historical relationship that can be traced back to the 17^{th} century, when Indian merchants established trading relations in textiles, minerals and metals with the Munhumutapa Empire. Like China, India also supported Zimbabwe's liberation struggle. Following the attainment of independence in many African countries, relations moved from political to economic co-operation and Mahatma Gandhi, as cited in Africa Quarterly Volume 48, No2, (May – June 2008), recognize that "Commerce between India and Africa will be of ideas and services, not manufactured goods against raw materials after the fashion of western exploiters". In March 2002 India announced the Focus on Africa Programme backed by the India Export-Import Bank (India Eximbank) Policy for the years 2002-07, with an initial focus on South Africa, Nigeria, Mauritius, Tanzania, Kenya, Ghana and Ethiopia, as the first step towards strengthening trade with Africa. The programme was however extended in April 2003 to all the other countries of the Sub-Saharan African region, where India has Diplomatic Missions i.e. Angola, Botswana, Ivory-Coast, Madagascar, Mozambique, Senegal, Seychelles, Uganda, Zambia, Namibia and Zimbabwe, along-with Egypt, Libya, Tunisia, Sudan, Morocco and Algeria. Under this Programme, the Government of India extended assistance to exporters, Export Promotion Councils, etc. to visit these countries, organise trade fairs and invite African trade delegations to visit India with a view to explore business opportunities.

Zimbabwe – India Trade Relations

As in the case of China, trade between Zimbabwe and India has also been increasing albeit in low volumes. Zimbabwe's exports to India rose by 131% from US$13.66 million to US$31.60 million in 2006. Equally, the volume of the country's imports from India has been increasing from US$9.13 million to US$30.30 million over the same period. Despite the opportunities presented by the rapid economic growth in India, Zimbabwe's imports and exports to India remained below US$30 million as shown in Figure 8. However, with proper policies and strategies targeting at improving trade with India, trade volumes can improved particularly within the service sectors, which has been the major factor underpinning Indian's exceptional growth. Overall, the country enjoyed a positive trade balance for the greater part of the period under review, except for 2000 and 2003, as shown below.

Figure 8: Zimbabwe's Exports and Imports from India (US$ millions)



Source: Tralac Trade database 2010

It is interesting to note that trade between Zimbabwe and India has followed an upward trend since 2000, the same way trade between Zimbabwe and China has modeled over the same period. However, key to note is that the trade volumes between Zimbabwe and India fall far below that of Zimbabwe and China, with cumulative exports to China of US$982.3 million, being seven folds greater than those to India as at end-2006. Similarly, Zimbabwe's imports from China were 3.5 folds greater than India's US$140.9 million, during the same period. This difference can be attributed to the differing foreign policies and structure of the major drivers of their respective economies. Chinese economy is mainly driven by rapid industrialization hence more demand for raw materials into manufacturing which inturn is sold back to Zimbabwe and other markets as finished goods. To the contrary, economic evolution in India is driven by an emerging service sector, which attracts low volumes of raw materials. In addition, China has since 2000 pursued a rigorous foreign policy to increase cooperation with Africa; whilst India has until the first 2008 India-Africa Forum acknowledged that Africa is an important source of resources and future markets that will fuel its economic growth and development. Until then, India's African focus was mainly in East Africa, where there are significant expatriate Indian communities.

Composition of Trade between Zimbabwe and India

As shown in Tables 1 & 2 below, trade between India and Zimbabwe is dominated by the exports of raw and unprocessed goods, whilst imports comprise finished goods. Asbestos is the major export earner for Zimbabwe in its trade relationship with India. The exports of Asbestos rose by about 300% from US$4.81 million in 2000 to US$19.2 million in 2006. This creates serious challenges given the ban on the use of asbestos due to health concerns, thus affecting global demand and exports of asbestos. Another major export earner is nickel, which reached a peak of US$14 million in 2004 before falling to US$6.47 million and US43.45 million in 2005 and 2006 respectively. The other commodities among the top 10 exports to India remained below US$5 million over the period under review as reflected in the table below.

Table 2: Top 10 Commodities Exported to India

PRODUCT	2000	2001	2002	2003	2004	2005	2006
Asbestos	4.81	6.61	5.81	5.52	3.31	11.47	19.21
Nickel, Unwrought	0.00	0.63	4.05	0.94	14.02	6.47	3.45
Tobacco, Unmanufactured; Tobacco Refuse	0.44	0.23	0.15	2.44	2.57	1.12	2.84
Tanning Ext of Veg Origin; Tannins & Its Salts Etc	1.79	2.35	3.93	5.07	3.10	3.40	2.48
Copper Waste And Scrap	0.00	0.00	0.02	0.02	0.00	0.00	1.18
Syn Org & Inorg Tanning Subst; Tan Prep; Enz Prep	0.02	0.00	0.00	0.00	0.00	0.02	0.42
Precious Nesoi & Semiprec Stones, Not Strung Etc	0.24	0.09	0.02	0.36	0.06	0.30	0.25
Pepper, Genus Piper; Genus Capsicum Or Pimenta	0.07	0.09	0.03	0.09	0.17	0.00	0.14
Automatic Data Process Machines; Magn Reader Etc	0.00	0.00	0.01	0.00	0.00	0.00	0.12
Parts For Television, Radio And Radar Apparatus	0.00	0.00	0.00	0.00	0.00	0.00	0.06

Source: Tralac Trade database 2010

Table 3: Top 10 Commodities imported from India (US$ millions)

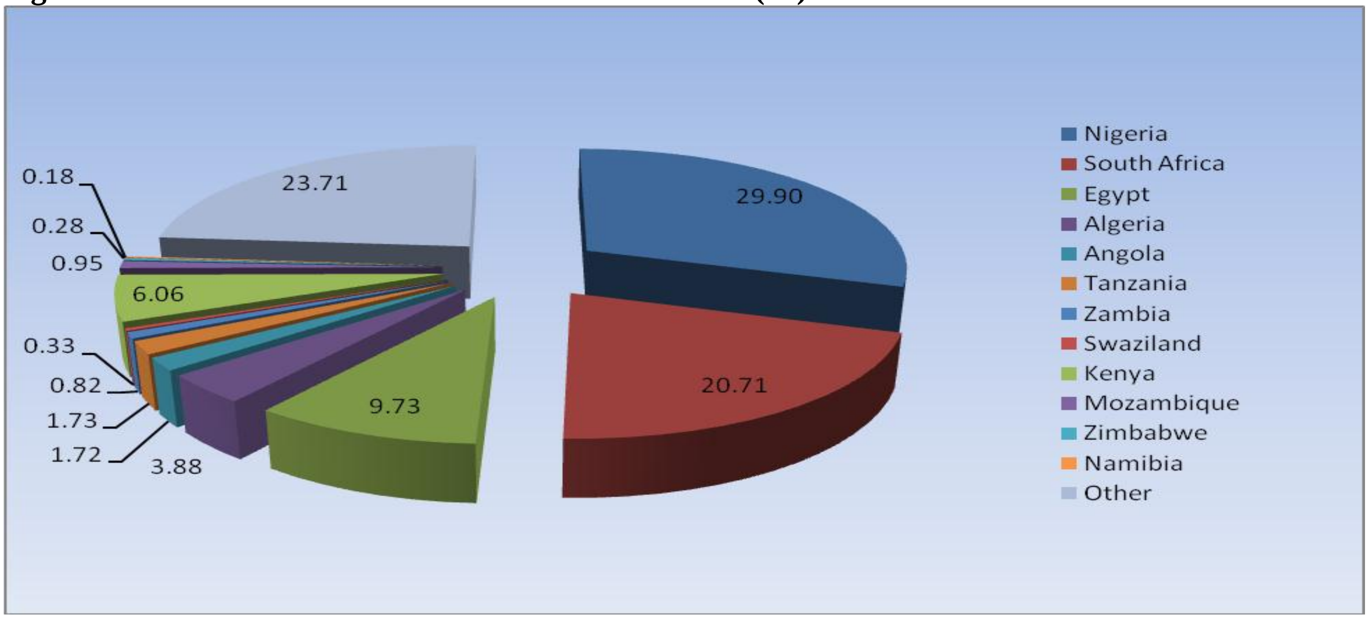
Description	2000	2001	2002	2003	2004	2005	2006
Medicines, mixed or not, in dosage fm	1.26	2.04	3.79	3.21	5.18	6.06	14.48
Sacks & Bags of Textile Material For Packing Goods	0.01	0.03	0.20	1.31	1.36	1.46	2.03
Tobacco, Unmanufactured; Tobacco Refuse	0.00	0.00	0.23	0.09	0.92	0.49	1.81
Organic Compounds Nesoi	0.25	0.13	0.08	0.16	1.39	0.56	1.40
Machines Etc having individual functions nesoi, pt	0.21	0.13	0.15	0.32	0.26	0.84	1.11
Machinery etc for temp chang treat mat; w heat, pt	0.00	0.00	0.02	0.01	0.05	0.18	0.59
Medicaments Nesoi Of Mixtures, Not Dosage Etc Form	0.27	0.24	0.03	0.26	0.34	1.14	0.49
Central Heat Boilers Nesoi, And Parts	0.00	0.00	0.00	0.00	0.00	0.04	0.48
Insecticides, Rodenticides; Fungicides Etc, Retail	1.36	0.32	1.13	0.38	0.89	0.79	0.44
Auxiliary Machinery For Use With Textile Machines	0.02	0.01	0.02	0.01	0.01	0.01	0.41

Source: Tralac Trade database 2010

Whilst the country's exports to India have been dominated by unprocessed goods, Zimbabwe's imports from India are predominantly finished goods with medicines being the dominant product. Table 2 above, shows that imports of medicines rose drastically from US$1.26 million in 2000 to over US$14 million in 2006. Other imports (sacks, machines, insecticides, textiles machinery) remained insignificant at below US$3 million.

As a share of India's total trade with Africa, Zimbabwe accounted for a mere 0.28% as at end 2006. This points to the lack of an aggressive strategy by Zimbabwe to enhance trade. There is great potential though, given that some non-oil producing countries such as South Africa (20.7%), Kenya (6%) and Tanzania (3.88%), have done well compared to Zimbabwe. the country needs to learn from these countries as it designs its own strategies aimed at maximizing the benefits of increased trade with India. India's major trading partners in Africa included Nigeria (29.9%), Egypt (9.73%) and Algeria (3.88%). Figure 9 gives a picture of the share of India's trading relations with African countries.

Figure 9: Share of India's Trade Relations with Africa (%)



Source: Tralac Trade database 2010

Zimbabwe – India Investment Relations

Indian investments in Zimbabwe cover five main sectors of manufacturing, mining, tourism, transport and services. Over the period 2000-2009, the Zimbabwe Investment Authority (ZIA) approved Indian investments amounting to US$52.14 million, about 5% of the total investment approvals from China. The US$52.14 million investment approvals were projected to earn the country US$297.54 million in export receipts and creating 2 100 jobs. As shown below, investment approvals from India peaked to US$18 million in 2004 before falling drastically in 2005 to below US$300 000. This growth in investment interest from India can be attributed to the nascent economic stability recorded in 2004.

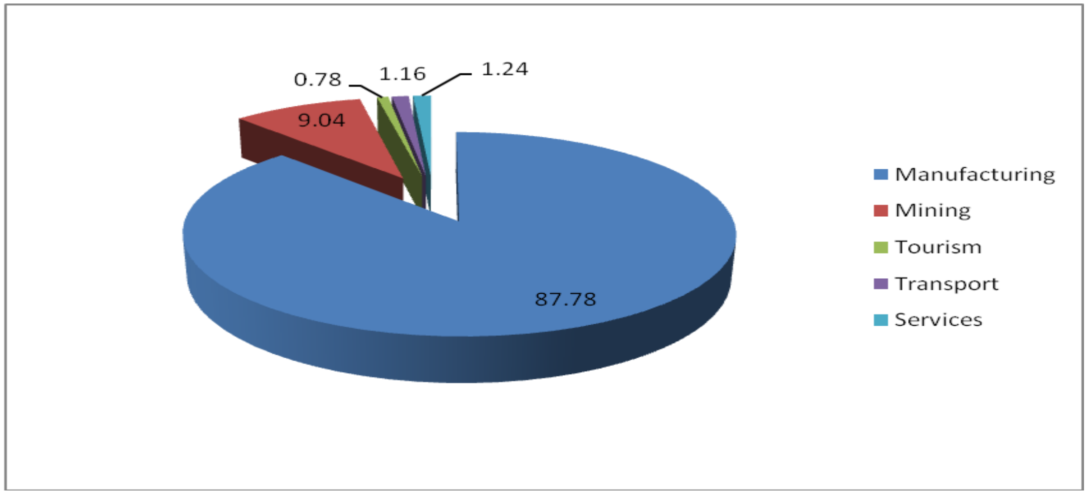
Figure 10: Investment Approvals from India: 2000-9 in US$

Source: Zimbabwe Investment Authority 2010

Unlike Chinese investment interest for which 87.78% are concentrated in mining and agriculture, Indian investments in Zimbabwe are in the manufacturing sector as evidenced by the recent investments by Essar Africa Holdings in ZISCO Steel in November 2010. The investment was reportedly worth US$355 million[12]. Mining accounts for 9% compared to China's 51.37%. It can thus be concluded that Indian investments are motivated by efficient seeking motives as opposed to resources-seeking agenda of the Chinese economy. Figure below gives the sectoral breakdown of the Indian investments in Zimbabwe over the period 2000-9.

Figure 11: Sectoral Concentration of Approved Indian Investments in Zimbabwe (%)

[12] The Herald Business, 10 November 2010



Source: Zimbabwe Investment Authority 2010

Opportunities and Challenges for Trade and Investment Relations with India

As already alluded to, trade relations between Zimbabwe and India are characterized by exportation of raw materials by Zimbabwe, whilst on the flip side, Zimbabwe imports manufactured goods in return. Therefore, the country continues to lose out on the advantages of value addition and industrialization.

Whilst this may be true, it has been noted that Indian firms are also present in the manufacturing sectors which creates opportunities for the country to increase its productive capacity and export earnings. Reference is also made to a recent visit (October 2010) by an Indian business delegation which expressed interest in partnering Government in the construction of a Diamond Technology Centre for cutting and polishing diamonds.

Furthermore, it is worthy mentioning that the growing trade relations with both India and China are emerging as a viable alternative for Zimbabwe's economic development, through employment creation and increased export earnings. If only the Indian and Chinese firms can support Zimbabwe to move beyond natural resources into a broad array of industries, it may lead to more sophisticated products being produced, thus enhancing the economic growth and the country's participation in world trade. The country can also exploit the knowledge spillover from Indian and Chinese investments. This will have significant long term benefit for the industrialization process in Zimbabwe, which is more for sustainable economic growth and development than the current trade and investment flows.

However, challenges in commerce with India lie in the fact that unlike China, India's involvement in Zimbabwe and Africa at large are mainly led by the private sector. Boston Consulting Group (2006) shows that more than two-third of all Chinese companies investing in Africa are state owned or state controlled, with the remaining companies having mixed ownership or privately owned. However, the share of Indian companies are divided among private owners, strategic investors and general public. These differences, among other factors, explains the modest commerce with India, as private companies operate on different profit maximization margins to those of state enterprises, who enjoy a number of incentives. This also highlights the fact that Chinese policies are more coordinated and the state plays a much more proactive role in OFDI.

Role of the Indian Eximbank

Through the Eximbank, India has also stepped up its trade and investment relations with the Zimbabwe and the continent at large as well as to boost its products in the African market. Under the Focus on Africa programme launched as part of the Eximbank Policy 2002-2007 strategy, the Indian Government provides financial assistance to various trade promotion organisations, export promotion councils and apex chambers in the form of Market Development Assistance (MDA).

The Indian Eximbank was set up by an Act of Parliament in 1981 and is wholly owned by the Government of India, with the mandate of providing financial assistance to exporters and importers, and for functioning as the principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services with a view to promoting the country's international trade.

The Indian Eximbank extends Lines of Credit to governments, parastatal organizations, commercial banks, financial institutions and to regional development banks to support the export and imports of eligible goods on deferred payment terms. By June 30, 2008, the Eximbank had 93 operative lines of credit amounting to US$3.1 billion in developing countries. In support of OFDI, the Indian Eximbank provides financial and technical assistance (Pre-investment advisory services) and finance through debt and equity towards, greenfield projects and brownfield expansion as well as overseas acquisitions directly or through special purpose vehicles. The Bank also undertakes direct equity participation in Indian ventures abroad to enhance credibility and acceptability of Indian ventures overseas as well as facilitating joint investments by Indian and overseas company in third country markets in addition to facilitating investments into India.

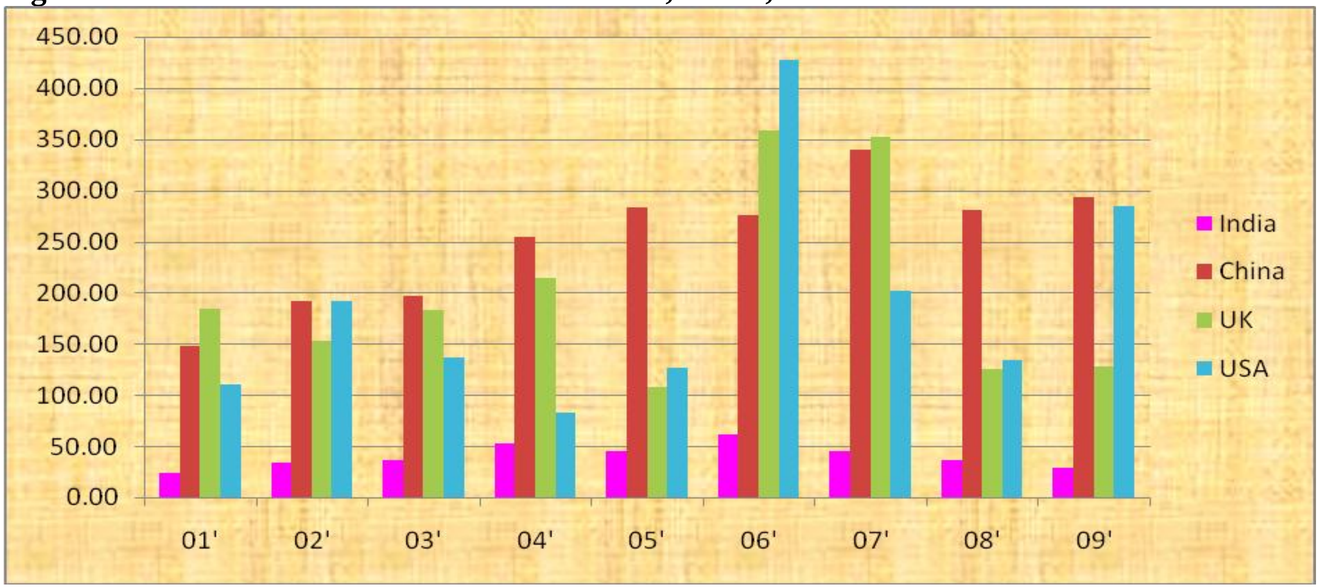
The Indian Eximbank has rendered technical assistance to a number of institutions world-wide including the development of international trade finance for the IDC of South Africa, feasibility study for setting up the Afreximbank, feasibility study on establishing an Export Credit Guarantee Company in Zimbabwe, and produced the blueprint for establishing Eximbank in Zimbabwe in 2008.As reflected by the low volumes of trade and investment between Zimbabwe and India, the Indian Eximbank has not been as active as it has been in many other African countries.

IV. ZIMBABWE TRADE RELATIONS WITH ITS TRADITIONAL PARTNERS

This section draws some comparisons between Zimbabwe's trading relations with its traditional trading partners of UK and the USA to that with China and India. This is particularly important as a way of evaluating the Government's Look East Policy as well as guide policy formulation.

It can be noted that whilst the Government has been pursuing a Look East Policy, its turning out that focus is more on China than India as reflected by the trade volumes between the two countries. Total trade (exports and imports) between Zimbabwe and India have remained modest over the period under review compared to those between Zimbabwe and China. It can also be noted that the country's trade relations with India do not compare to those with both the UK and the USA. Furthermore, despite the freeze in relations between Zimbabwe and the UK & USA, both remain important trade partners with Zimbabwe. Trade volumes between Zimbabwe and the USA compete favourably with that of China. As shown below, total trade with China has been rising from US$148 million in 2001, peaking to US$339.8 million in 2007 before falling to US$293.8 million. Similarly trade with the USA has remained strong over the years, reaching a peak of US$427 million in 2006 and averaged above US$150 million annually, during the period under review.

Figure 12: Zimbabwe Trade relations with India, China, UK and the USA



Sources: *Tralac Trade database 2010* & Worls Trade Atlas

Consistent with the above, China dominated both Zimbabwe's import and exports over the period 2001 – 2009. Cumulatively, Zimbabwe imported more from China compared to UK (US$1. 23 billion), USA (US$672.36 million) and India's (US$ 228.55 million). However, the country imported more from the USA than from both India and China as shown in Figure 13a & b below. There are striking similarities with regards to the composition of trade between Zimbabwe and the two Asian giants and with its traditional trading partners, UK and the USA. Zimbabwe's exports to both the UK and the USA are predominantly unprocessed goods from agriculture and mining, whilst the country imported finished and processed goods. Specifically, Zimbabwe exports to the UK and the USA comprised of tobacco, cotton, coffee, tea, copper, nickel, raw hides, and artifacts, among others. The Country's imports from both the UK and the UK comprised vehicles, cereals, machinery, electrical and electronic equipment and pharmaceuticals among others.

Figure 13a: Cumulative Exports in US$m (2001-09)

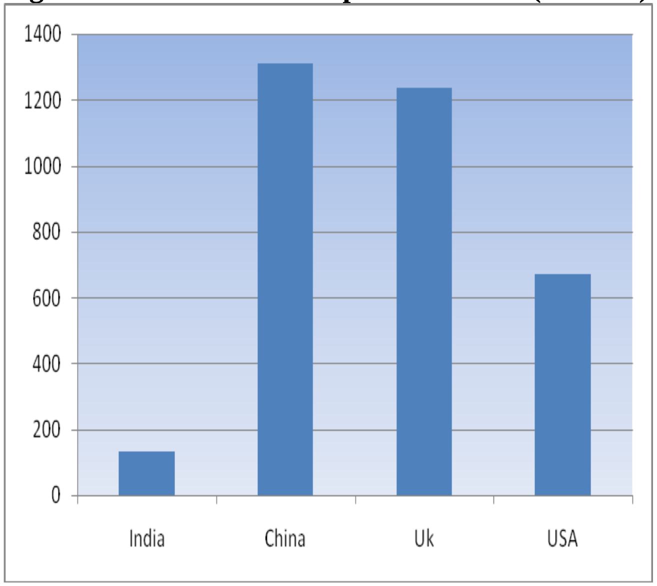
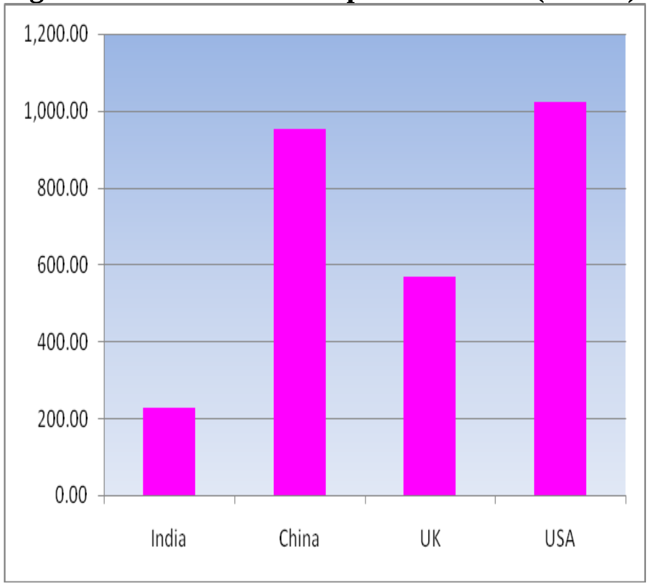


Figure 13b: Cumulative Imports in US$m (2001-9)



Sources: *Tralac Trade database 2010* & Worls Trade Atlas

Major Issues affecting growth in FDI inflows from China and India

Whilst the country has pursued a Look East Policy since 2003, it is quite baffling to note that there is no documented strategy to that effect or specific strategy on dealing with China or India or any of the Asian nations. Although the Government entered into an agreement with China, the Development Cooperation Framework Agreement, there seem to be no agreement of promoting cooperation with India. Furthermore, the Development Cooperation Framework Agreement with China is just a memorandum of understanding which is not compelling and aggressive enough to drive economic cooperation. Hence, the trade and investment flows that have been noted in this paper may actually be attributed to initiatives and policies by both China and India's to open up their economies in search for markets and resources, rather than a direct intervention by the Government of Zimbabwe.

Furthermore, trade and investment between Zimbabwe and China continue to be affected by a number of factors, which have been highlighted during interviews with representatives of Chinese and Indian investors in Zimbabwe. Some of the areas of concern discussed include but not limited to the following:

i. **Quality of infrastructure services** - Extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, through enhanced trade and in attracting investments. However, Zimbabwe continues to score lowly with regards to the state of infrastructure, and is ranked 129 out of the 139 countries surveyed (Global Competitive Report 2009). The poor quality of infrastructure increases the cost of doing business and affect investment decisions by investors. An effective infrastructure with an ubiquitous transport system, including quality roads, railroads, ports, and air transport, enable entrepreneurs to get their goods and services to market in a secure and timely manner. Another factor is the quality of the energy infrastructure, which has resulted in erratic power supplied that is not able to meet more than 50% of the national Demand (Ministry of Finance 2010) ,hence negatively impacting on businesses and factories production capacities. More so the country's telecommunication systems still lags behind that of regional countries (Ministry of Finance 2010)[13]. The lack of a solid and extensive telecommunications network limits the rapid and free flow of information, which undermines the overall economic efficiency. Therefore, an improvement in the country's infrastructure of road, rail, telecommunication and uninterrupted energy supplies will certainly assist in attracting trade and investments from China and India and beyond.

ii. **Inefficient factor markets** – It has been pointed out that the country's labour market are not flexible enough to allow for wage fluctuations without much social disruption and in ensuring a clear relationship between worker incentives and their efforts (Ministry of Finance 2010)[14]. Furthermore, there are also issues around limited skilled labor due to brain drain, coupled with language and cultural barriers which affects trade and investment relations with China, in particular. Moreso, limited access to local finance, given the liquidity position in the market, leaves investors to rely on more costly offshore financing. The country is ranked 128 out of 183 countries surveyed with regards getting credit (Doing Business Survey 2010).

[13] The 2010 Mid Term Fiscal Policy Review Statement, Page 98
[14] The 2011 National budget Statement, page 136

iii. **Unfavorable regulatory regimes** – During interviews with both the Chinese and India Embassies in Harare, concern was raised with regards to indigenization regulations, which in their view will have a negative effect on foreign investment inflows.. Whilst this is a measure aimed at encouraging participation by locals in the economy, it is recommended that this should be implemented in a manner consistent with the need to attract FDI.

iv. **Weak governance practices** – IMF 2010 noted that there is a general consensus among donors, civil society and investors that respect for property rights, security of tenure and security of investment is essential for reviving investment and economic growth. The country continue to score lowly on the doing business indicators. Out of the 183 countries survetyed, Zimbabwe is ranked 157 on easy of doing business, 120 with regards protecting investors, (Doing Business Survey 2010). Although both the Chinese and Indian businesses have not been affected, they fear that this could happen to them. Concern was also raised with regards to the bureaucratic and rent seeking activities during processing of work permits as a factor discouraging FDI. Closely linked to this, is the lack of proper and well laid down investment procedures. The establishment of a "One stop Shop could help facilitate ease and shorten the investment process.

CONCLUSION AND POLICY RECOMMENDATIONS

The study analysed the trade and investment relations between Zimbabwe and China & India over the period 2000 – 2009. The study concludes that whilst both trade and investment relations have been on the increase, both trade and investment flows from China and India have been largely concentrated in the extractive industries, with Zimbabwe importing finished goods whilst its exports remain predominantly unprocessed goods. Although the country's vast mineral and other natural resource exports to China and India is providing short-term benefits in employment and income, Zimbabwe need strategies to leverage the current economic cooperation with both Chin and India to create opportunities for long-term economic benefits, critical for economic recovery and growth as well as progress towards attaining the 2015 MDGs.

However, to draw maximum benefits from this economic cooperation, the country needs to embark on massive value addition projects on its exports. Value addition is a key imperator if the country is to maximize the benefits of the existing economic relations with both China and India. Furthermore, value addition would entail that the country moves beyond natural resources into a broad array of industries, leading to more sophisticated products, thus enhancing economic growth and the country's participation in world trade. This would be also important in transforming the current trade relationship, which mirrors the traditional trade relationship with Europe and America wherein the country is an importer of finished goods and exporter of raw materials.

The study also notes that FDI and trade complement each other rather than substitutes, i.e., inward stock of FDI is associated with higher exports. Hence, the key, therefore, is for Zimbabwe to use this power in commodities to its best advantage in its relations with both China and India, particularly in the exploitation of its vast mineral resources and in the provision of related infrastructure, to attract investments, which would translate into higher exports. Zimbabwe, therefore, needs to address the following four elements that have been pointed out as increasing the cost of doing business in the country by Chinese and Indian firms:

- quality of infrastructure services (power supply, internet access),
- inefficient factor markets (limited skilled labor due to brain drain, rigidities in the domestic labor market, and limited access to local finance),
- unfavorable regulatory regimes (implementation of the indigenization regulations in a manner consistent with attracting FDI), and
- weak governance disciplines (rent seeking in processing work permits and well laid investment down procedures).

In that regard, Zimbabwe needs to do more in dealing head-on with domestic constraints affecting the growth potential of trade and investment relations with both China and India and beyond. His Excellency, Jakaya M. Kikwete, President of the Republic of Tanzania recognized that China and India will not transform Africa; Africans will transform Africa (World Economic Forum on Africa, 2006:). He was also reported to have said that ultimately, it is up to Africa to start rowing the boat. Instead of Sino-African

relations transforming the continent, the China-India two-some could lend assistance to the transformation and development process (China Monitor, June, 2006).
Consistent with this assertion is that it is more pragmatic for Zimbabwe to focus on designing strategic partnership arrangement aimed at taking maximum advantage of the opportunities presented by the emergence of China and India on the world stage and ameliorating the adverse effects of the challenges it may pose. This is particularly important if the ascendancy of China and India onto the world stage is to assist in transforming Zimbabwe on the path of sustainable economic growth and development. This could be achieved through key reforms including reducing domestic barriers to entry and exit and establishing institutions that foster vigorous domestic competition between companies; putting in place effective incentives and discipline to bring about sound governance; and pursuing policies that make domestic labor and capital markets more flexible as well as enhancing productive efficiency and identifying markets. Such policies will certainly transform the country from accounting for 0,033% and 0.028% of Africa’s trade relationship with China and India respectively, to the levels attained by fellow neighbour, South Africa.

Consistent with the above, increased and deepened South-South co-operation continue to offer the best prospects, for pursuing development and more effective engagement in the global economy. Zimbabwe should not remain a "resource basket" for other economies but instead the country should realise efficiency gains by extracting values from its natural resource endowment. Put simply, the vast natural resources should allow Zimbabwe to launch value-added activities. There is also scope for improving the productivity of existing industries, through deliberate targeting of value chains (for example, forestry, timber and furniture) rather than individual firms or sub sectors.

Whereas the intensification of ties with China and India holds benefits including increased revenues through exports, improved opportunities for direct employment and better conditions for local firms, the study noted that local firms risk loosing markets if they are not able to compete with imports from these two countries. Like other developing countries, Zimbabwe possess a rather thin base of internationally competitive private sector enterprises coupled with poor infrastructure, which makes it difficult for them to be able to engage in sustainable and commercially attractive international products. Under these circumstances, there is limited supply response to any beneficial reforms in trade and investment policies. Hence to optimize on the new trade and investment opportunities, the country’s industrial and productive base needs to be strengthened. At the same time, for the goods and services produced to be traded efficiently, sufficient capacity is needed for trade-facilitating infrastructure, institutions, and services to lower the trade-related transactions costs.

The study also highlighted the need for the country to protect its industry and populace of cheap, low standards goods from China. China is exporting quality to Europe, America among other destinations of its products. Then the question to ask is why is Zimbabwe not getting quality? There is need to strengthen the Standards Association of Zimbabwe (SAZ) as well as to fully embrace the World Trade Organization’s (WTO) anti-dumping laws to protect local industry, encourage fair competition and protect consumers from sub-standard goods.

To enhance technology transfer, the study notes the need to develop synagies and leankages with local companies and workers, through joint venture investments between foreign companies and indigenous companies. Involvement of indigenous entrepreneurs, through joint ventures has the potential to positively impact on economic growth and development, as the involvement of local expertise and other work force are channels through which technology is transferred and sustainable technological capacity is developed, beyond involvement of indigenous entrepreneurs at the management level.

Furthermore, Zimbabwe needs to identify niches for its exports to China and India, as a measure of enhancing the country's export competitiveness with the Continent. Equaly important is the need to actively seeking investment linkages with the both Chinese and Indian corporate as well as other sources to benefit from being part of some industrial supply chains within the global economy.

Finally, the study notes the need for improvement in the quality of data to enhance economic analysis and sound policies. The Zimbabwe Investment authority keeps data on investment approvals but there are no mechanisms or follow-up to capture the actual investments. For a well informed analysis and policy advice to Government, data on actual investments would be very important. In this regards, it is Government is strongly recommended to invest in improving the quality of economic data through capacitating institutions such as the Zimstats and ZIA.

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