

Foreign Affairs, Defence and Trade Committee

Department of the Senate

PO Box 6100

Parliament House

Canberra ACT 2600

**SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES
COMMITTEE**

**Re: Inquiry into Australia's trade and investment relationships with the countries of
Africa**

Dear Committee Secretariat

My name is Nikola Pijovic and I am writing to you with a submission regarding the Committee's 'Inquiry into Australia's trade and investment relationship with the countries of Africa'. In February 2017 I finished a PhD on the topic of Australia's engagement with Africa, and have over the past few years published a number of academic and media articles on this topic. I am, therefore, one of the few foreign policy experts in Australia who specializes in the country's engagement with Africa.

I am writing this submission in my private capacity as an interested citizen, and subject matter expert. I am not representing any institution. I hope you will find this submission informative and helpful in drafting recommendations for the government to help support Australia's trade engagement with African states. I am also available to expand on all points raised in my submission, and provide further details on this topic in person, at the Committee's convenience.

Kind Regards

Dr Nikola Pijovic

SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE REFERENCES COMMITTEE

Inquiry into Australia's trade and investment relationships with the countries of Africa

Summary

Since the early 2000s, many African economies have been growing steadily, and commercial opportunities abound. Although Australia's commercial engagement with African states remains strongest in the handful of states with Australian diplomatic representation, the country's ability to seize commercial opportunities in Africa is constrained by four main issues:

- political partisanship resulting in varying degrees of governmental support for, and interest in engaging with Africa;
- an Australian diplomatic deficit in Africa;
- a one-dimensional focus on the resources sector in Africa;
- high levels of ignorance about doing business in Africa.

While the fourth issue may be beyond the government's ability to remedy, the first three are not.

Recommendations

The Australian government should be proactive in supporting commercial opportunities in African states, and this will require an enhanced level of political interest in engaging with Africa, as well as enhanced diplomatic presence across the continent:

1. **The committee should recommend to parliament and the government a bipartisan commitment to opening four new diplomatic posts in Africa in the next 15 years (suggested countries: Senegal, Cote D'Ivoire, Algeria, and Mozambique).**
2. **The government should commit to ensuring, in the quickest possible timeframe, that there are Austrade representatives staffing all of Australia's diplomatic posts in Africa.**

Discussion of key terms of reference

a. Australia's existing trade and investment relationships with African states

I have provided tables with detailed data on Australia's existing trade relationship with African states in Appendix 1, and will only focus briefly on some key dynamics.

Australia's trade with African states has grown steadily in the past two decades, and its most important exports markets are in Southern (South Africa and Mozambique), and Northern Africa (Egypt, Algeria, Morocco, and the Sudan) (Table 1. and Graph 1.). Those exports are mostly made up of alumina, and agricultural produce, such as wheat, meat, and dairy (Table 3.).

The country's main sources of imports from Africa have been volatile, changing significantly since the late 2000s. South Africa remains the only major import source country offering processed merchandise to the Australian economy (largely motor vehicles – where most BMWs bought in Australia are made). From 2008 onwards, Australia's thirst for African oil saw Nigeria, Gabon, the Republic of Congo, and Libya become highly prominent sources of imports from Africa. Imports from these countries peaked between 2012 and 2014, and exhibited the kind of volatility usually associated with booming commodities cycles (Table 2. and Graph 2., Table 3.).

Australia's investment relationship with African states has been largely one-dimensional. What little we know of Australian investments in these states (and we don't know a whole lot) suggests that they are overwhelmingly in the resources sector. There are hundreds of Australian mining exploration, development, and services companies operating across Africa, the majority of them being small and medium-sized companies. According to speeches by Australian foreign ministers, the estimated investments these companies have made and intend on making in Africa are somewhere in the range of \$AUD 20-30 billion, but it is unknown how much of this is due to investments by the two big multinational companies, Rio Tinto and BHP Billiton.

b. d. Emerging trends and opportunities to expand trade and investment across Africa

Emerging business trends in Africa offer opportunities to expand Australian commercial interests beyond the resource sector. As successive Ernest & Young *Africa Attractiveness Surveys* and reports have highlighted since 2013, greenfield foreign direct investment (FDI) into Africa is gradually moving away from the resources sector, towards construction, transport and logistics, technology and telecommunication, consumer products and retail, financial services, and automotive manufacturing.

Australia has comparative advantages in some of these industries, especially technology and telecommunication, and financial services. Additionally, international education has been a booming industry in Australia since the mid-2000s, and the growing middle-class in Africa has been fueling some of that growth. There are, therefore, opportunities for Australian education to capture even more of the African market.

The growth in FDI in Africa has centered on regional hubs or 'anchor economies': countries such as Nigeria, Egypt, Morocco, South Africa, and Kenya (see Appendix 2). These are the handful of countries where Australia has had continuous residential diplomatic representation. This is a strong foundation on which the government can build in helping expand Australian investment across Africa.

c. Barriers and impediments to trade and investment

Unfortunately, Australia's trade and investment in Africa states is impeded by several important factors:

1. **Political Partisanship:** One of the key impediments to growing trade and investment with Africa is the high degree of political partisanship and ideology that has marred Australia's engagement with Africa since the mid-1990s. This has evidenced itself in many ways, from rapidly changing diplomatic priorities, to a differing level of political and policy-making interest in engaging with Africa states. This political partisanship effectively prohibits Australian policy-makers from developing long-term and strategic assessments of Australian interest in Africa, and how commercial opportunities and economic links feed into those interests. As a result, Australia's engagement with Africa is perceived in highly cynical terms, which has also made it crudely transactional and short-term.
2. **Diplomatic Deficit:** Australia is the third wealthiest G20 nation (in per capita terms), yet it is tied with Mexico as the G20 nation with the least diplomatic posts in Africa (both have 8). It is punching below its weight, and does not have the diplomatic and trade coverage on the continent to be able to offer successful long-term promotion and support to Australian companies operating in Africa.
3. **Ignorance about African markets:** Unfortunately, ignorance is a major factor. Simply put, the Australian public discourse is ignorant about Africa. The Australian media generally shun news from Africa unless they are reporting on famine, crime, and war. There are no equivalents in Australia to, for example, CNN's 'Inside Africa' program which focuses on business in Africa. Australian businesses and investors overwhelmingly do not know the business climate in African states and those who want to do business in Africa usually find it much easier to raise funds on the Johannesburg, London, or Toronto Stock Exchanges, rather than the Australian Stock Exchange.

e. The role of government in identifying opportunities and assisting Australian companies to access existing and new markets

The Australian government has a significant role to play in supporting commercial engagement (trade and investment) with Africa. The foundations for this are set as the Department of Foreign Affairs and Trade and the Australian Trade Commission already support Australian mining and resources companies operating across Africa. This support is most prominently displayed at two large annual global expos on mining in Africa: the Mining Indaba conference in Cape Town, and the Africa Down Under conference in Perth. However, to be proactive and take advantage of future trends in trade with Africa, the government needs to extend that support beyond just the mining industry.

My research into Australia's engagement with Africa, and the numerous interviews I have conducted with Australian diplomats and business officials operating across Africa, suggests that governmental presence and support is necessary to help foster private sector engagement, and assist companies in accessing existing and new markets in Africa. This is necessary because of the culture of doing business in many African states. Three reasons are key:

1. **Personalization of Business:** Many African societies although quite literate, are still predominantly 'oral' societies; that is, the spoken word has greater value than the

written word. This means that making representations in person, and having someone speak on your behalf is valued more than emails, letters, and written contracts. This is not to suggest that contracts are not valued, but that inter-personal dynamics play a more prominent role in doing business than they perhaps do in Australia. The importance of personalities is also evidence by the nature of personalized rule in many African states.

2. **Public vs Private:** The clear-cut separation between the public and private sector that exists in Australia is not present in many African states, particularly key regional economies like Egypt, South Africa, Nigeria, or Kenya. African states have gone through various iterations of economic governance, many starting after independence with a socialist model of public ownership, turning towards a highly neo-liberal free-market model in the 1980s, and currently exhibiting a mixed model similar to many Asian economies, and especially China. This means that many of the key local businesses are either partially or fully owned by the state, and there is often an implicit assumption that Australian businesses operating in Africa have some level of connection to the government.
3. **Promotion:** Having personal Australian diplomatic representation and support is important as it can help open doors to companies and markets, highlight Australia's support for a given Australian company, and promote 'brand Australia'. Also, even a minimal level of diplomatic support helps those Australian companies build credibility with local interlocutors, but can also help them fight corruption and ensure contracts are honoured.

Appendix 1.

Table 1. Australian merchandise exports to African countries, 1996-2016, \$AUD Million.

Year	Country											
	South Africa	Egypt	Mozambique	Sudan	Mauritius	Ghana	Tanzania	Algeria	Kenya	Libya	Nigeria	Morocco
1996	947	435	8	10	101	34	12	19	44	19	9	24
1997	1020	453	14	36	91	73	38	28	43	91	20	32
1998	1064	534	21	38	102	54	48	55	41	90	10	53
1999	912	471	23	61	106	57	82	55	76	47	22	12
2000	1263	554	93	87	120	57	93	44	94	34	17	29
2001	1298	740	191	128	137	67	130	70	94	40	40	48
2002	1295	667	181	146	139	59	111	78	81	88	41	78
2003	1328	236	226	148	99	67	54	52	28	9	30	7
2004	1593	646	354	193	123	93	76	70	39	13	28	31
2005	1868	355	423	218	101	98	40	90	41	14	30	54
2006	2292	417	419	294	118	94	30	113	56	12	46	34
2007	2535	353	418	140	86	104	31	67	50	15	32	15
2008	2450	359	445	253	110	174	67	88	65	51	42	24
2009	1497	433	319	312	97	125	102	40	32	15	57	40
2010	1803	497	375	183	97	147	100	22	39	31	56	36
2011	1645	561	405	203	99	173	98	21	57	9	45	15
2012	1523	511	329	253	106	204	80	4	52	29	75	24
2013	1322	489	421	291	94	122	126	2	95	11	166	33
2014	1191	481	405	186	110	53	58	48	88	23	221	33
2015	1076	444	402	71	82	50	106	13	63	4	216	46
2016	975	416	369	8	88	119	52	6	67	1	191	23

Source: Author's calculations based on ABS 5368.0 Table 14a.

Note: Figures have been rounded.

Graph 1. Australian merchandise exports to African countries, without South Africa, 1996-2016, \$AUD Million.

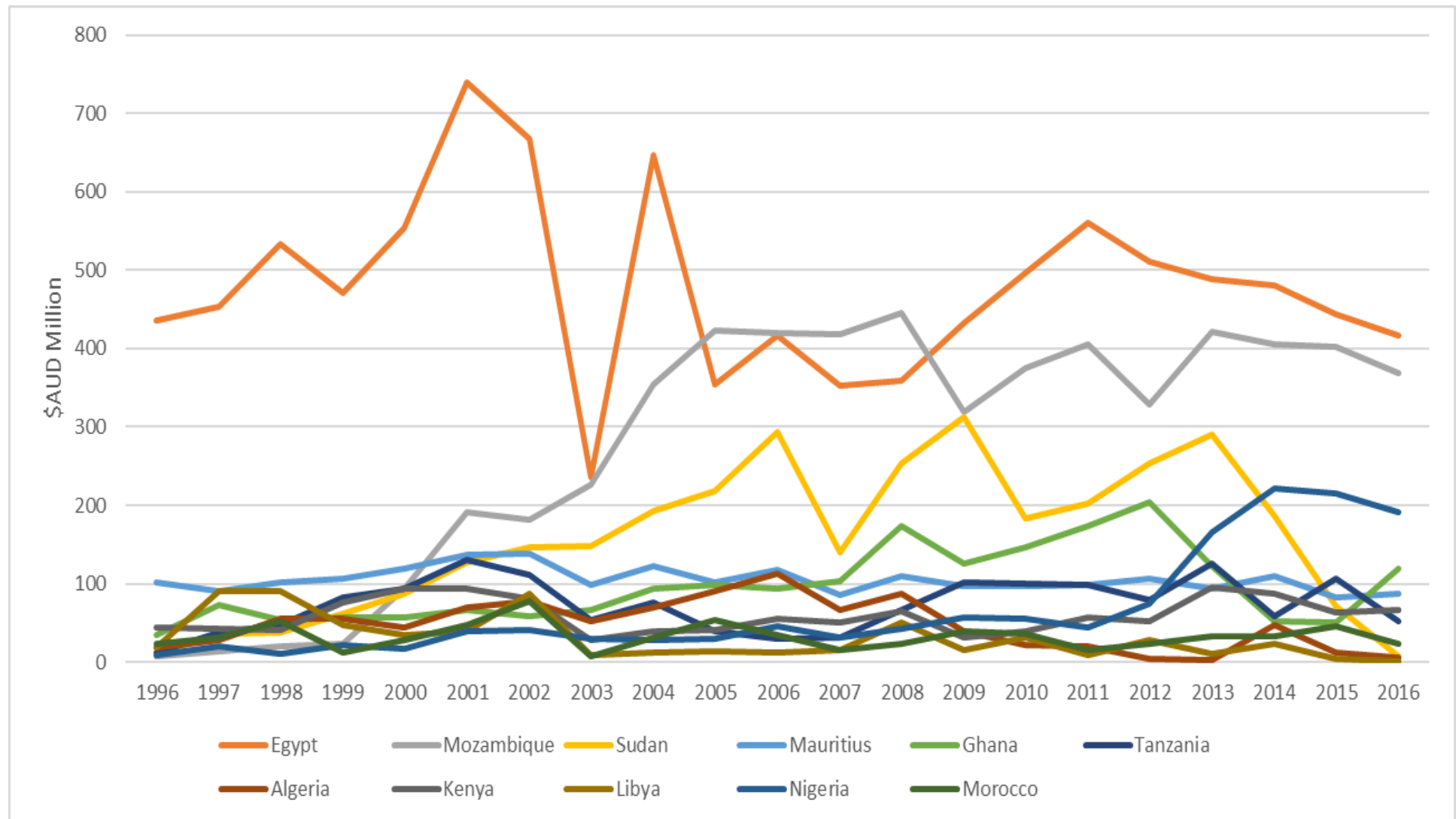


Table 2. Merchandise imports from African countries, 1996-2016, \$AUD Million.

Year	Country								
	South Africa	Nigeria	Morocco	Algeria	Gabon	Kenya	Egypt	Congo	Libya
1996	454	58	13	0	18	13	10	0	0
1997	473	58	14	0	0	14	13	58	0
1998	562	0	23	1	20	19	14	11	0
1999	640	39	22	0	18	18	15	24	0
2000	851	34	34	5	0	18	15	0	0
2001	860	1	38	2	0	21	13	0	0
2002	966	0	28	56	55	23	28	0	0
2003	1136	0	31	0	0	20	16	0	0
2004	1250	0	21	0	0	15	35	0	0
2005	1533	0	61	0	130	15	14	4	43
2006	1578	0	52	48	0	16	15	0	0
2007	1347	0	47	151	0	17	17	73	0
2008	1591	0	221	242	0	12	22	0	0
2009	912	245	28	151	0	12	34	0	50
2010	1103	787	52	147	396	19	25	202	354
2011	841	2046	91	281	909	13	49	683	199
2012	872	2630	44	0	1120	14	54	895	1120
2013	906	1871	28	82	976	30	26	942	761
2014	913	1615	87	2	1130	34	39	866	0
2015	1186	0	28	0	506	36	29	129	0
2016	1059	0	66	370	604	30	34	268	0

Source: Author's calculations based on ABS 5368.0 Table 14.b.

Note: Figures have been rounded.

Graph 2. Merchandise imports from African countries, 1996-2016, \$AUD Million.

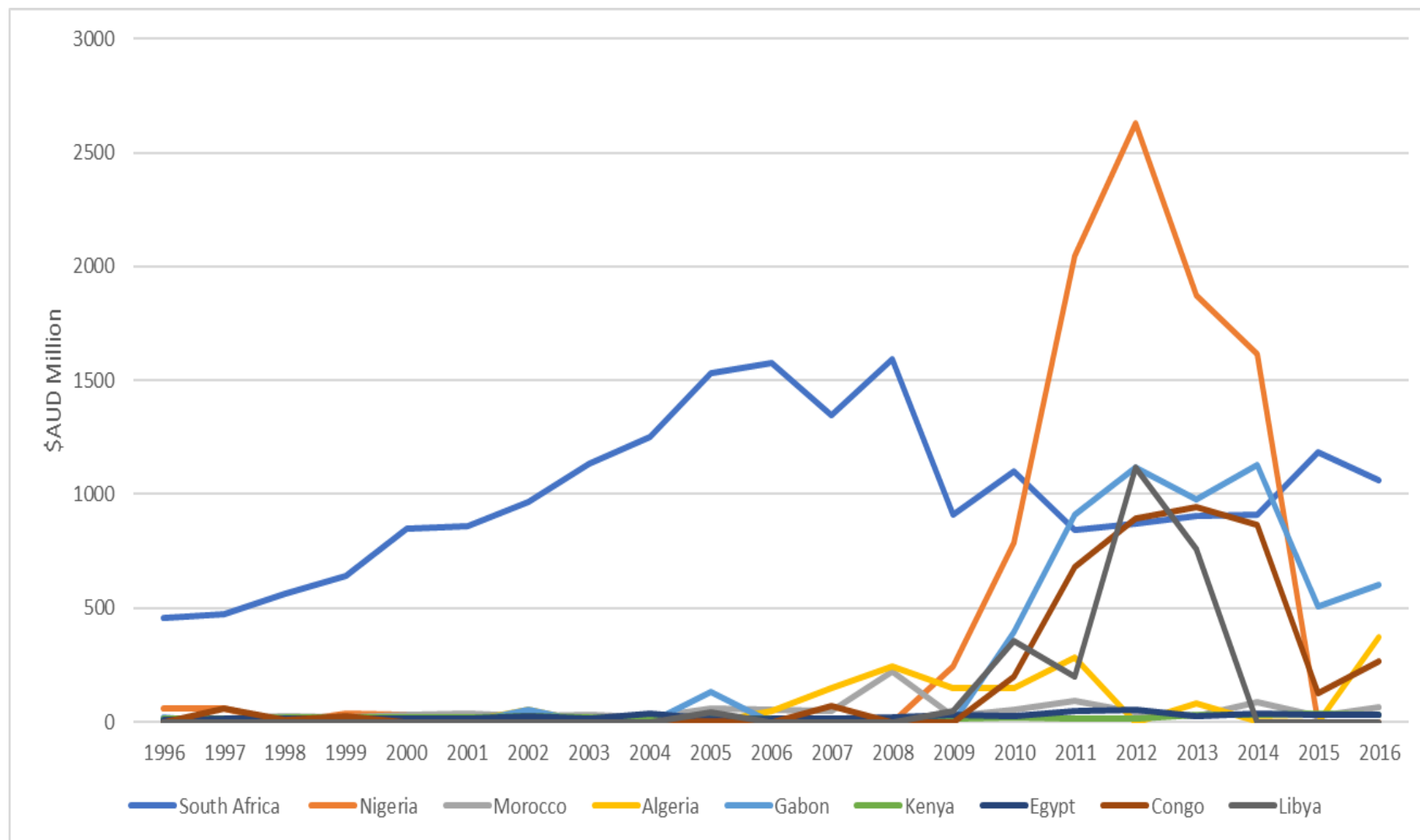


Table 3. Composition of major Australian exports to, and imports from, African countries.

Exports		Imports	
Country	Type(s) of major export merchandise	Country	Type(s) of major merchandise imports
South Africa	Aluminium (Alumina), ¹ coal, and wheat	Nigeria	Crude petroleum
Egypt	Wheat and vegetables	South Africa	Passenger motor vehicles
Mozambique	Alumina and wheat	Gabon	Crude petroleum
Sudan	Wheat	Republic of Congo	Crude petroleum
Ghana	Civil engineering equipment and specialized machinery and parts	Libya	Crude petroleum
Mauritius	Wheat, cheese, and meat	Algeria	Crude petroleum
Tanzania	Wheat	Morocco	Crude fertilisers
Nigeria	Wheat	Swaziland	Fruit
Kenya	Wheat	Egypt	Floor coverings
Algeria	Meat and dairy produce	Tunisia	Clothing

Source: Based on DFAT country fact sheets.

¹ Australia's exports of aluminium ores and concentrates (including alumina) to Africa and the Middle East are not published in Australian Bureau of Statistics (ABS) international trade data as they are classified as a 'confidential export'. The major confidential component in this code is Alumina (aluminium oxide). The reason why these items are considered confidential is because usually there is only a single producer, and reporting the value of trade could reveal much about that company's sales.

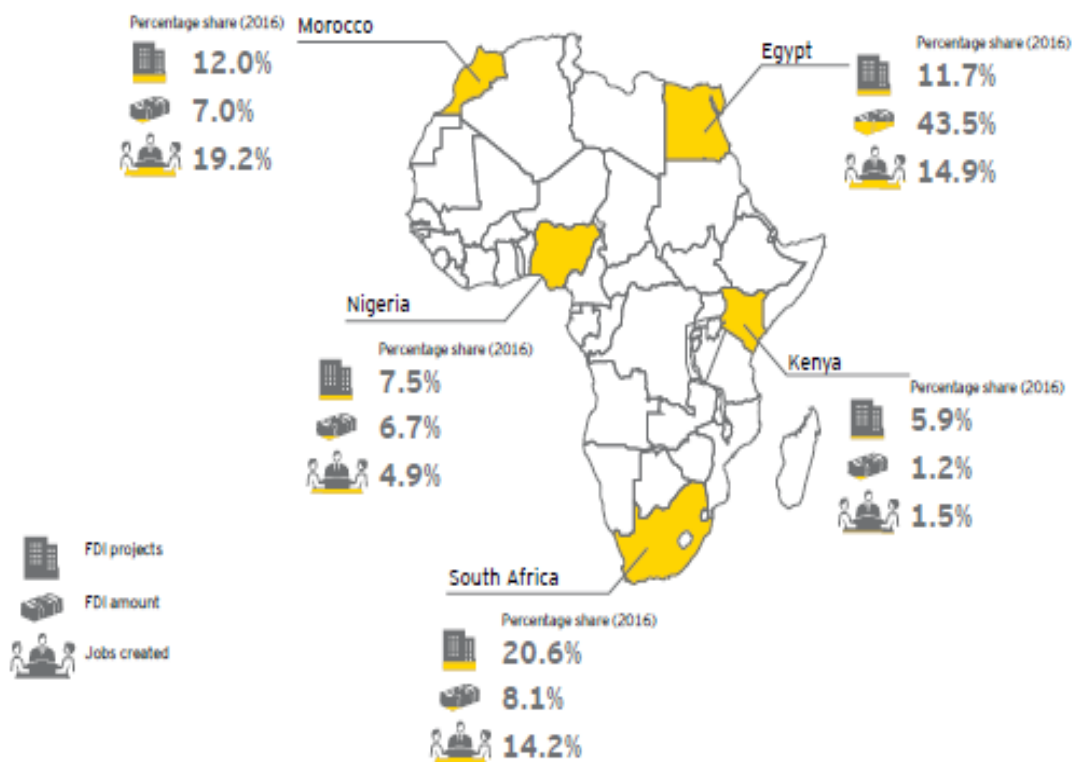
Appendix 2.

Figure 1. Africa's 'anchor' economies for Foreign Direct Investment, 2017.

More FDI flows to the hub economies, with new clusters emerging in East and West Africa

Investors prefer Africa's anchor economies

Africa's hub economies account for the majority of FDI



Source: FDI Markets.

Source: Ernst & Young, *Africa Attractiveness Program May 2017*, <http://www.ey.com/za/en/issues/business-environment/ey-attractiveness-program-africa-2017>.

Appendix 3.

Table 1. G20 countries' diplomatic missions in Africa.

