Development & Globalisation

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Overview
The relentless shift of the global economy eastwards and southwards.

Keeping up with the ‘jans’ and ‘stans’
Paul Guinness looks at the Central Asian countries that have recorded very high economic growth rates over the past decade and are attracting significant levels of direct foreign investment.

Delivering the MDGs to sub-Saharan Africa
David Holmes considers how the squeeze on aid as a result of low global growth rates is likely to affect progress towards the achievement of the Millennium Development Goals by 2015.

The rise of Indian TNCs
Paul Guinness examines the remarkable recent growth of Indian transnational corporations (TNCs) that have rapidly increased in both size and global spread.

The Arab Spring – a generation in waiting?
David Redfern analyses the wave of discord that is taking place in the Arab world and asks what the implications are for the people and for the global economy as a whole.

The Southern Silk Road
David Redfern discusses the increasing influence of China in Latin America and southern Asia, including the prospect of an alternative ‘dry’ Panama Canal and China’s economic intentions along the Indian Ocean coastline.
Overview

The global economy is changing fast. The economic powerhouses of the USA and the European Union are being challenged by new ‘drivers’ of economic growth – Brazil, Russia, India, China and several other emerging nations. The impacts of the worldwide recession have been so great that even these ‘new kids on the bloc’ are examining what they have to do to maintain their economic energy. However, at the other end of the economic spectrum, the least developed nations are still faced with widespread poverty and need.

Among the more recent emerging areas in the global economy are the relatively new, post-Soviet era, central Asian nations such as Azerbaijan and Kazakhstan. Paul Guinness examines the varying reasons for their growth and the variety of ways in which growth is manifested. They will be interesting to observe as they begin to address some of their underlying internal issues – social, financial and cultural.

Sub-Saharan Africa continues to be the economically weakest area in the world, despite the attentions resulting from the UN Millennium Development Goals (MDGs). David Holmes analyses the degree to which the MDGs are likely to be met in this region, and considers what needs to be in place once the initial deadline of 2015 has passed. After consideration of several case studies, he suggests that there should be a more effective combination of strong governance and targeted community action.

India is now well established as a global economic superpower, with several of its own transnational corporations (TNCs) extending their influence overseas. Paul Guinness looks at the growth of Indian TNCs both within and beyond India, with a particular focus on Tata which has a strong connection with the UK. It will be intriguing to see whether India’s huge population welcomes such overseas investments, particularly when all is not satisfactory at home.

The theme of change in an ever-changing world is also well illustrated by the recent and ongoing events in the Middle East and countries of north Africa (known as the Arab Spring). Here, social and political unrest has resulted from unease among a growing number of young and educated adults who are discontented with their political systems. David Redfern analyses the possible impact of this discord on the economic environment of the region and on the global economy. The region has the potential for a huge demographic dividend. How long can this continue to be unfulfilled?

The main new economic powerhouse is China, with its huge population as a potential market and workforce and its massive financial current account that has been built up in recent decades through its trade in exports. However, the country needs to continue to feed this economic growth and to find new markets overseas. David Redfern reviews three geo-political developments that are under consideration by China: an alternative to the Panama Canal; enhanced port access to the Indian Ocean; and improved connectivity of rail systems in the Southeast Asian region. This spread of China’s influence in the developing world has been dubbed the ‘Southern Silk Road’ – perhaps a manifestation of the relentless shift of the global economy eastwards and southwards…

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The five Central Asian countries of Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan and Tajikistan, together with the neighbouring West Asian country of Azerbaijan (Figure 1), have all recorded high rates of economic growth in recent years with the potential for significant further growth. The development of these economies has attracted much outside interest, not least because of large deposits of important natural resources (particularly oil and gas), other potential investment opportunities and the strategic position of the countries. A growing number of transnational corporations (TNCs) are investing in this emerging economic region.

A diverse region

Although media reports often refer to the region as a whole, there are significant geographical variations between this group of six landlocked countries. Kazakhstan is by far the largest, with an area of 2.7 million km², while Azerbaijan, the smallest, has an area of only 87,000 km² (Figure 1). Table 1 shows that this is not a heavily populated part of the world. Population density varies between 6 per km² in Kazakhstan to 107 per km² in Azerbaijan. There are significant variations in rates of natural increase, with a high of 2.3% in Tajikistan and a low of 1.3% in Azerbaijan. The level of urbanisation also varies considerably, as does GNI (gross national income) per capita. The GNI data are at purchasing power parity (PPP), which takes account of variations in the cost of living. Kazakhstan and Azerbaijan both have the highest levels of urbanisation and GNI per capita.

Agricultural production and the extraction of natural resources have always been central to the economy of this region. Kazakhstan, Turkmenistan, Uzbekistan, and Azerbaijan have significant natural resources. Uzbekistan’s economy has long been dominated by cotton, but the country has some resources of natural gas and gold. In contrast, Kyrgyzstan and Tajikistan are resource poor, with both countries being oil and gas importers in sharp contrast to their neighbours in the region. It is therefore not surprising that these two nations have the lowest GNI per capita in the region (Table 1). One-third of GDP in Kyrgyzstan and a half of GDP in Tajikistan come from remittances from abroad, illustrating the limited economic opportunities within these two countries.
Economic trends since 1991

These countries are all former Soviet republics. They were essentially forced to become independent when the Soviet Union dissolved in 1991. They have a broad common historical background and shared the characteristic of being the least industrialised and poorest parts of the Soviet Union. As well as being landlocked, which is a considerable disadvantage in terms of trade, they are remote from important markets. The economic role of Russia remains very significant. Since 1991 these countries have gone through a difficult period of transition from the central planning of a communist system towards a market economy. A high level of corruption and the violation of human rights are seen as considerable problems in the region. The following periods of growth can be recognised:

- 1990s – economic difficulties as a result of the transition from communism;
- 2000s before the global financial crisis – a period of considerable growth (Figure 2) based largely on the region's natural resources, with economic restructuring and growing foreign investment;
- 2008–09 – a decline in output during the global financial crisis, though with considerable variations from country to country;
- 2010 onwards – economic growth returns across the region, with very positive forecasts for the near future.

The economic diversity of the region is illustrated by the composition of the six countries’ exports (Table 2).

Country profiles

Kazakhstan

Kazakhstan is often referred to as the region’s economic powerhouse, as it has become the focus of much foreign direct investment (FDI) by TNCs. It is the largest of the former Soviet republics, excluding Russia, with a population that is 70% Muslim. The World Bank classifies it as an upper-middle-income country. Kazakhstan has abundant natural resources that include oil, natural gas, uranium, chromium, lead, zinc, manganese, copper, coal, iron and gold. The economy is strongly focused on the extraction and processing of natural resources. Industry contributes 43% to the country’s GDP, with the service sector accounting for 52% and agriculture making up 5%. However, agriculture accounts for almost 30% of employment, with significant production of livestock and grain, making it very important for large sections of the population.

Oil alone accounts for 60% of total exports.

Table 1: Basic country contrasts

<table>
<thead>
<tr>
<th>Country</th>
<th>Population, 2012 (millions)</th>
<th>Rate of natural increase (%), 2012</th>
<th>% urban 2012</th>
<th>GNI PPP per capita, 2010 ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>9.3</td>
<td>1.3</td>
<td>53</td>
<td>9270</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>16.8</td>
<td>1.4</td>
<td>55</td>
<td>10,770</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>5.7</td>
<td>2.0</td>
<td>35</td>
<td>2070</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>7.1</td>
<td>2.3</td>
<td>26</td>
<td>2140</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>5.2</td>
<td>1.4</td>
<td>47</td>
<td>7490</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>29.8</td>
<td>1.9</td>
<td>51</td>
<td>3110</td>
</tr>
</tbody>
</table>


Table 2: The major exports of each country

<table>
<thead>
<tr>
<th>Country</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>Oil and oil products, ferrous metals, chemicals, machinery, grain, wool, meat, coal</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>Cotton, wool, meat, tobacco, gold, mercury, uranium, natural gas, hydropower, machinery, shoes</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>Aluminium, electricity, cotton, fruits, vegetable oil, textiles</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>Gas, crude oil, petrochemicals, textiles, cotton fibre</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>Energy products, cotton, gold, mineral fertilisers, ferrous and non-ferrous metals, textiles, food products, machinery, automobiles</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>Petroleum and natural gas, petroleum products, oil field equipment, steel, iron core, cement, chemicals, textiles</td>
</tr>
</tbody>
</table>


Figure 2: Growth in real GDP of the Central Asian economies (%)
Oil production is forecast to double from its current level when the Kashagan Caspian Sea oilfield comes on line between 2015 and 2020, along with other oil developments in the country. This, and other growth sectors, will provide a major boost to GDP. Non-resource sectors such as retail, pharmaceuticals and transport are showing significant development. Overall the economy is predicted to grow up to threefold by 2020! The country’s major trading partners are Russia, China and Germany. Figure 3 shows the origin of FDI in 2010.

**Azerbaijan**

In the post-Soviet era, Azerbaijan (Figure 4) has developed into a major oil-based economy. An important development was the construction of the Baku-Tbilisi-Ceyhan pipeline, which became operational in 2006. This allows oil from the Caspian Sea to be exported to Turkey’s Mediterranean Sea coastline. Other important sectors of the economy contributing to growth in recent years are cotton, natural gas and agricultural products. In 2010, 94% of FDI came from Turkey, with 5% from the EU.

**Uzbekistan**

Uzbekistan is among the region’s most rapidly expanding economies as a result of broad industrial expansion. Government development of rural infrastructure and housing has benefited the construction industry. High world prices for cotton, gold and gas have pushed up growth rates. In 2010, 73% of FDI came from Russia.

**Turkmenistan**

This sparsely populated country has the world’s fourth largest reserves of natural gas and substantial oil reserves. The Karakum Desert covers over 80% of the country. Intensive agriculture occurs largely in irrigated oases. The main crops are cotton and wheat. Turkmenistan is an important exporter of cotton. In 2010, 47% of FDI came from the EU, with 26% from Russia and 25% from Turkey.

**Kyrgyzstan**

Kyrgyzstan has the lowest per capita income in the region. It is a poor mountainous country with a dominant agricultural sector. The economy depends heavily on gold exports. Remittances from migrant workers, mainly in Russia, are very important to the economy. In 2010, 15% of FDI came from Kazakhstan, 12% from China and 9% from the EU. Political instability in recent years has been a serious problem.

**Tajikistan**

This was the only country that did not emerge peacefully from the dissolution of the Soviet Union, with civil war between 1992 and 1997. This put back development significantly. Less than 7% of the land area is arable, and cotton is the most important crop. Economic opportunities are limited and about one million people work abroad, mainly in Russia. In 2010, 68% of FDI came from Russia, 12% from Kazakhstan and 10% from the EU.

**Important issues**

Significant economic growth in the region in general has tended to mask some important issues. International reports have referred to the following problems:

- Political and social reforms need to improve in all countries to varying degrees.
- Economies need to diversify outside the natural resources sector.
- Measures are required to improve economic competitiveness.
- A recent IMF report highlighted the need for Kazakhstan, Tajikistan and Kyrgyzstan to improve their banking sectors.
- Increasing global food and energy prices threaten to increase poverty in the lower-income countries, particularly Kyrgyzstan and Tajikistan.
- Islamic revivalism and ethnic tensions need to be carefully managed.

This emerging economic region is forecast to maintain a high rate of economic growth in the short term, but there is a strong expectation of social and political reform and it will need to address the issues raised above in order to ensure its long-term economic success.
REVIEW

Key points

- Central Asia has recorded very high rates of economic growth since the turn of the century. This is an emerging economic region!
- This is a diverse region with significant reserves of natural resources in four of the six countries.
- The poorest countries in the region, Kyrgyzstan and Tajikistan, are resource poor.
- The development of natural resources, particularly oil and gas, has attracted considerable FDI from TNCs.
- Kazakhstan is the economic powerhouse of the region, with a wide range of natural resources.
- Although growth rates in the region remain favourable, international reports have identified a range of issues that need to be addressed.

Pause for thought

- Why do you think this region is seen as strategically important in a political sense?
- Why are resource-rich countries likely to be more affluent than those that are resource poor?
- Can you think of a resource-poor country that is highly developed? How has it become rich despite few natural resources?
- Apart from the countries discussed in this article, which other countries used to be part of the former Soviet Union?
- If you were to visit just one of the countries in this region, which country would it be and why?

Context

This article examines Central Asia as an emerging economic region. While there has been strong growth, international reports have highlighted ongoing problems in the region that could affect its long-term prospects. These issues include:

- authoritarian rule, which is a legacy from the former Soviet Union – there are growing demands for proper democratic systems to emerge in the near future;
- serious social problems, particularly a lack of opportunities for young people;
- high levels of corruption, which can impact on FDI as well as causing other problems;
- a lack of economic diversification characterised by a heavy reliance on natural resources;
- ethnic tensions in some countries.

RESPONSE

Assimilation

1. Describe the geographical location of Central Asia.
2. Comment on the economic growth rates illustrated by Figure 2.
3. Produce a brief bullet-point analysis of the information presented in Table 1.
4. Outline the different periods of economic growth in Central Asia since 1991.
5. Why is Kazakhstan considered to be the region’s economic powerhouse?
6. Describe the data presented in Figure 3.

Evaluation

1. With reference to Figure 1 and Table 1, examine the basic geographical variations between the six countries in the region.

    **ANSWER PLAN**

    - Considerable differences in land area, ranging from 2.7 million km² in Kazakhstan to only 87,000 km² in Azerbaijan.
    - Kazakhstan is the most northerly country in the region, extending beyond 50°N.
    - Kazakhstan, Turkmenistan and Azerbaijan border the Caspian Sea while Kazakhstan and Uzbekistan border the Aral Sea.
    - The two most populous countries are Uzbekistan (29.8 million) and Kazakhstan (16.8 million). All of the other four countries have populations below 10 million.
    - Tajikistan, Kyrgyzstan and Uzbekistan have relatively high rates of natural increase, while the other three countries have much lower rates of natural increase.
    - Kyrgyzstan and Tajikistan have very low rates of urbanisation, which are well below those of the other four countries. There is only a limited variation in the urbanisation rates of the latter group of countries.
    - Within the region, Kazakhstan and Azerbaijan have by far the highest GNI per capita (PPP). Turkmenistan follows in third place. The remaining three countries have much lower per capita incomes.

2. Describe the economic characteristics of each of the six countries.
3. Outline the problems that the Central Asian countries need to address in order to ensure socio-economic progress in the future.

Extension

1. Visit the US Central Intelligence Agency website (www.cia.gov) to find out much more about each of the six countries covered in this article.
2. Figure 2 shows economic growth rates for the region as a whole from 2000. Try to find data for each of the six countries for the same time period. Comment on the ways in which the individual countries have deviated from the average figures.
3. Using Wikimedia, compile a series of images to illustrate the characteristics of the region.
The changing global economy is creating unprecedented challenges and opportunities for continued progress in human development. Traditional global economic and political systems are being tested at a time when the world faces recurrent financial crises, a changing climate and in some places growing social unrest.

A brief introduction to the MDGs

The Millennium Development Goals (MDGs) are eight international development goals that were established following the Millennium Summit of the United Nations (UN) in 2000 (Figure 1). All 193 UN member states have agreed to achieve these goals by the year 2015.

The goals have specific stated targets and dates for achieving them. In order to accelerate progress, the World Bank, the International Monetary Fund (IMF) and the African Development Bank have cancelled some debt from the poorest countries in an attempt to rechannel the resources into social programmes for improving health and education and alleviating poverty. The latest Human Development Report (2013) describes the ‘rise of the south’ – an emergence of many developing countries onto the global economic stage. However, patterns of progress are uneven, and parts of Africa are still making slower progress than hoped.

Analysis of development in sub-Saharan Africa

Compared to other regions, sub-Saharan Africa (SSA) still has the lowest average national Human Development Index (HDI) of anywhere in the world. In SSA the number of people living in extreme poverty ($1 a day or less) rose from 217 million in 1990 to 290 million in 2000, the majority of whom were women. However, since 2000, 11 of the 14 countries in the world that recorded HDI gains of more than 2% annually are in the SSA region. These top performers of HDI include a mix of countries with or without resources as well as diversified and high-performing agriculturally based economies like Angola, Ethiopia, Mauritius, Rwanda and Uganda, with Sierra Leone showing the second-highest HDI improvement in the world since 2000. There are wide

David Holmes considers how the squeeze on aid as a result of low global growth rates is likely to affect progress towards the achievements of the Millennium Development Goals by 2015.
variations in the levels of development, even though Africa’s overall progress towards the MDGs is gaining momentum (Table 1).

Both the rate of poverty and the absolute number of poor in Africa declined during 1990–2008. In SSA the rate of poverty in Africa fell from 56.5% to 47.5% (Figure 2), driven in part by the strong economic growth of the past decade and a decline in the proportion of workers below the poverty line ($1.25 a day).

Overall, then, development in SSA countries is gaining momentum, with many places making progress on most of the goals. Indeed, in some areas of Africa rates of development have exceeded regions such as Southeast Asia, Latin America and the Caribbean, and Western Asia.

What are the key drivers of development in the ‘South’?
Countries that have succeeded in stimulating and sustaining growth in incomes and human development have not followed one single model. However, in the lower-income parts of the world (the ‘South’, including SSA), three key drivers of development are significant:

- a proactive developmental state;
- tapping of global markets; and
- determined social policy innovation.

A strong, hands-on and responsible government that develops policies for both the public and private sectors based on a long-term vision and good leadership is important. Some countries have policies dealing with market regulation, export promotion and industrial development. Governments can stimulate new industries that would not otherwise work because of incomplete markets, especially those that are technology driven. This has enabled several countries of SSA to turn inefficient industries into early drivers of export success as their economies have grown. For instance, Mauritius has created special export zones that have led to dramatic progress in its manufacturing and service industries. Footwear and plastics manufacturing businesses in Nigeria have succeeded despite competition from other emerging economies. In addition, lessons from outside Africa (as well as from within the region itself) have been used to generate new opportunities for the poor. For example, Asian-built mobile phones have made cellular banking cheaper and easier (e.g. MPESA), leading to better market performance and increased profits for small farmers, as seen in Kenya, Niger and Uganda.

Development has also encouraged people-friendly policies. Investment in people’s capabilities through health, education and other public services has expanded basic social services. This is linked to the expansion of quality jobs in formalised sectors.

Fighting HIV transmission in Cameroon
Adult HIV prevalence in Cameroon (ages 15–49) was estimated at 5.3% in 2009. However, between 2009 and 2011 Cameroon has had a 24% decline

<table>
<thead>
<tr>
<th>Goal</th>
<th>Progress ready for 2015</th>
<th>Summary comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Eradicate extreme poverty and hunger</td>
<td>Off track</td>
<td>$1.25-a-day poverty in Africa (excluding North Africa) declined from 56.5% of the population to 47.5% during 1990–2008 (Figure 2).</td>
</tr>
<tr>
<td>(2) Achieve universal primary education</td>
<td>On track</td>
<td>Issues of quality of teachers and support remain, but average enrolment of children now exceeds 80%.</td>
</tr>
<tr>
<td>(3) Promote gender equality and empower women</td>
<td>On track</td>
<td>Good progress at primary level, but weaker equality in secondary and tertiary levels of education. High representation of women in parliament.</td>
</tr>
<tr>
<td>(4) Reduce child mortality</td>
<td>Off track</td>
<td>Health indicators such as infant, under-five and maternal mortality are still improving, but not fast enough to achieve the goals.</td>
</tr>
<tr>
<td>(5) Improve maternal health</td>
<td>Off track</td>
<td>Maternal health is only improving slowly.</td>
</tr>
<tr>
<td>(6) Combat HIV/AIDS, malaria and other diseases</td>
<td>Off track</td>
<td>HIV/AIDS on the decline, especially in southern African countries, due to behavioural change and access to antiretroviral therapy.</td>
</tr>
<tr>
<td>(7) Ensure environmental sustainability</td>
<td>On track</td>
<td>Although on track, few SSAs have robust reforestation plans, for example. However, success has been made in terms of reducing the use of ozone-depleting substances.</td>
</tr>
</tbody>
</table>

Source: Adapted from MDG Report 2012 |
in the number of new paediatric HIV infections – from 8900 to 6800. This has come about largely by preventing mother-to-child transmission of the disease. Although the uptake of preventative mother-to-child transmission services (PMTCT) is still limited in Cameroon, there has been a big increase in HIV testing of pregnant women (17% in 2005 to 41% in 2010). This has allowed better uptake of PMTCT – approximately half of pregnant women living with HIV (54%) received ARVs (antiretroviral therapy) for PMTCT in 2011 compared to only 27% in the year before. Nevertheless, major challenges for the project remain in terms of improving access to PMTCT and ARVs, and reducing the high dropout rates for women. Figure 3 shows that more investment through an ‘intervention scenario’ could dramatically reduce mother-to-child transmission by 2015.

**Football for development**

Anchored within national development strategies in many African countries, the MDGs have also provided a vehicle for broad-based, community participation in development, including decision making at the grassroots level. This progress has been coupled to an increase in trade, investment and development cooperation with the emerging economies of Brazil, China and India that has succeeded in pulling millions out of poverty.

Football for Development (2009–11) was a project that brought together football stakeholders (football clubs, national associations, players and spectators), sport-for-development actors and (sport) media from Europe and Africa. The project was based on the idea that the impact of football can be used to promote the MDGs and positive social change in SSA.

The project made use of the FIFA World Cup 2010 in South Africa to create awareness of social and development issues. The programme had some successes in promoting gender awareness and encouraging the use of sport as a resource for dialogue in post-conflict areas; it also helped to promote female role models. It has been recognised, however, that football itself cannot resolve conflicts and that it can therefore only have limited impact in terms of progress towards MDGs.

**An overview of problem areas – the ‘sticking points’**

There are several problems preventing better progress in SSA:

- Although poverty is declining slowly, good jobs are hard to find. (There is a high level of ‘vulnerable’ employment in the informal sector.)
- Global food price increases remain a barrier to reducing malnutrition.
- Keeping children in primary school is difficult, with high dropout rates.
- There is still much work needed for promoting gender equity and empowerment.
- Funding cuts threaten progress in tackling HIV/AIDS.
- Climate change is likely to cause increasing strain on the environment and put more pressure on forest and water resources.

The cost and availability of resources from other parts of the world remain key limiting factors. Despite significant recent political and socio-economic achievements, Sierra Leone, for example, will not meet its targets for the Millennium Development Goals (MDGs) by 2015. The total cost of investment required from 2009 to 2015 is estimated at $19 billion. Almost 60% of this cost is for infrastructure, especially building and maintaining roads.

**Conclusions**

There has been broad progress in the human development of many developing countries, including those in SSA. However, the UN’s *Human Development Report* (2013) states that continued human development progress is unlikely if inequality and environmental destruction are not moved to the forefront of policy discussions. Debate has also surrounded adoption of the MDGs, focusing on lack of analysis and justification behind the chosen objectives, the difficulty or absence of measurements for some of the goals, and uneven progress towards reaching the goals. Questions remain regarding the post-2015 Development Agenda (especially funding, organisation and control) and how it can build on the lessons learned from the initial Millennium Summit of 2000.
REVIEW

Key points
- The MDGs were created in 2000, with 189 countries agreeing the Millennium Declaration.
- The MDGs are commitments made by countries in order to achieve a world in which fewer people are affected by poverty, hunger, diseases, ignorance and environmental degradation.
- Primary education (2), gender equality (3) and environmental sustainability (7) are on track in SSA for 2015.
- There have been several key drivers of development in SSA, but a hands-on government seems to be central to long-term growth.
- There remain a number of problems in SSA, preventing better progress in development.

Pause for thought
- Why is the availability of resources and a strong government so important in achieving progress towards 2015 goals in many countries in SSA?
- Outline some of the problems in the measurement of the MDGs to track progress (especially equality of rights and opportunities).
- Which are the most problematic of the ‘sticking points’ to overcome and why?
- What should be the key priorities for the MDGs for SSA post-2015 and how might future climate change slow rates of progress on development in SSA?

Context
This article on the MDGs and development within the context of SSA is relevant to a number of wider geographical issues that are important in modern geography:
- There is a strong interrelationship between development and globalisation, linked through a ‘shrinking world’; the countries of SSA must be players on the global stage to embark on the development pathway.
- Strategies for development must consider government intervention at all levels and the importance of international trade and commodity prices. They may also involve decisions about border control and migration.
- The MDGs have been a ‘game changer’. Although an aspirational model with no legal standing, this framework for cooperation may be a template for other policy makers in the future.

RESPONSE

Assimilation
1. Briefly describe the history and purpose of the eight MDGs.
2. Summarise the levels of development in Africa and SSA countries.
3. Which MDG targets are likely to be missed in SSA in 2015 and why?
4. Explain the importance of the Football for Development Project.
5. Summarise the key development factors and drivers in the ‘South’.
6. What are the key points from the 2013 Human Development Report?

Evaluation
1. Study Figure 2. Analyse and offer an explanation for the changes in the proportion of people living below $1.25/day in the period 1990–2008. The graph shows a number of ideas:
   - For all regions during 1990–2008, there has been an overall decline in the number of people on less than $1.25/day.
   - East Asia and Pacific shows the biggest relative decline (from around 55% to around 15% in 2008); the Middle East and North Africa has also seen a large drop in extreme poverty.
   - SSA (i.e. excluding North Africa) has experienced a decline, though slower and over a longer period of time.
   - The biggest drops can be seen in many regions in the late 1990s.
   - Explanations could include the impact of the MDGs, but the most likely explanation is a combination of factors, e.g. influence of globalisation/world trade, improved cooperation between governments, targeted aid, etc.
2. What types of industries and activities have some countries in SSA used to advance their own development?
3. With reference to examples, research the extent to which the MDGs have become a ‘game changer’.

Extension
1. What is the relevance of HDI? Use internet research to outline its strengths and weaknesses and to make valid comments about the way the index is derived. To what extent can development in SSA be attributed to the MDGs?
4. Look at this infographic from New Internationalist: http://newint.org/features/2013/03/01/world-progress-the-facts-infographic/. What are the main points it raises in terms of changes between 1970 and 2010? What do you think about the selected range of indicators?
Indian companies, both private and government-owned organisations, are becoming increasingly transnational in their operations. Transnational corporations (TNCs) are firms that have the power to coordinate and control operations (even if they do not own them) in more than one country.

Twenty years ago the vast majority of the world’s TNCs had their headquarters in North America, Western Europe and Japan. However, over the last two decades the emerging economies of the newly industrialised countries such as South Korea, China and India have been accounting for an increasing slice of the global economy. Much of this economic growth has been achieved through the expansion of their most important companies, first domestically (as national corporations) and more recently internationally (as transnational corporations). Investment in other countries is called ‘outward foreign direct investment’ (outward FDI) and is a major element of the globalisation process.

India really emerged as a newly industrialised country in the 1990s when important economic reforms began to open up the country to foreign investment and make it easier for Indian companies to forge international links and to operate abroad. Other significant policy changes since 2000 have contributed to the recent rapid growth of Indian outward FDI. Although a number of Indian companies have operated abroad since the 1960s, this activity was almost exclusively confined to developing countries, and the overall level of investment was very limited compared with that of recent years.

Other reasons for the significant increase in outward FDI from India since the 1990s have been:
- rapid domestic growth based on a large population and an increasingly skilled labour force along with low labour costs;

Paul Guinness examines the remarkable recent growth of Indian transnational corporations (TNCs) that have rapidly increased in both size and global spread.
• the increasing competitiveness of Indian TNCs;
• the increasing desire to venture abroad to expand markets;
• international developments in trade and investment, which encouraged a greater level of involvement by Indian companies;
• the perceived need to operate near clients/customers;
• the desire to acquire technology and brand names.

How Indian TNCs have become more globalised

Indian TNCs have become more globalised in a number of ways. Many have initially developed by producing goods for the expanding Indian domestic market. With a population of 1.2 billion, India is the second most populated country in the world after China. Production for the domestic market has often involved adapting the products of TNCs from developed countries such as Japan for low-income consumers. This is sometimes called ‘frugal innovation’. Such goods have then been exported to other developing countries. When sales in other developing countries reach a certain level, it may then become expedient to open branch plants in these countries if overall costs can be reduced.

Another strategy has been for Indian companies to buy foreign firms in order to increase their market share. A classic example has been the purchase of steel works and car manufacturing plants in the UK by the Tata Group. The objective has often been to buy world-renowned brands that are synonymous with high quality. If a brand name is well known, it becomes much easier to increase sales in foreign markets if the company is being well managed.

Outsourcing has been a major global strategy deployed by Indian companies. India’s low-cost labour has been used to provide ICT and other services to companies in developed countries. For example, many British and American companies have call centres in Bangalore and other Indian cities. Medical transcription and expert knowledge services are other aspects of the back-office functions that India supplies to large companies elsewhere in the world.

Indian TNCs have also steadily moved up the ‘value chain’ by producing more sophisticated and higher value products, often by combining low-cost production with high-level technology from western countries and then exporting these products back to western markets.

The changing balance of inward and outward FDI

Table 1 shows both inward and outward FDI stocks for India for 1995, 2000 and 2011. FDI stocks are the cumulative level of investment for the year stated. In 1995, outward FDI stocks were less than 9% of the value of inward stocks. By 2011 the balance had changed to over 55%. The narrowing of the gap between inward and outward FDI is characteristic of a maturing economy. Current outward FDI flows from India are across a wide range of economic sectors. Economists see this as a healthy situation rather than having ‘all the eggs in one basket’.

<table>
<thead>
<tr>
<th>Direction</th>
<th>1995</th>
<th>2000</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inward</td>
<td>5641</td>
<td>16,339</td>
<td>201,724</td>
</tr>
<tr>
<td>Outward</td>
<td>495</td>
<td>1733</td>
<td>111,257</td>
</tr>
</tbody>
</table>

Not only has outward FDI from India risen rapidly in absolute terms, but the country has narrowed the outward FDI gap with other emerging economies such as South Korea and Brazil which were initially quicker to invest abroad. As Indian TNCs establish a growing presence across the globe, the reputations of these corporations have become more established. Indian TNCs are following a path previously set by more developed countries such as Japan and South Korea.

Figure 1 shows the direction of India’s outward FDI for 2009–10. According to a recent analysis, India’s outward FDI is not strongly influenced by access to raw materials or superior technologies. Market-related factors are much more important, as is the presence of a significant Indian diaspora in host countries.

An increasing presence in the Global 500

Table 2 shows the Indian TNCs represented in Fortune Magazine’s Global 500, an annual survey of the world’s largest 500 companies by revenue. There are various league tables of transnational corporations, but the Global 500 is the most widely referenced. Eight Indian companies have made the 2012 Global 500, a considerable increase on the situation 10 years previously. In 2012 both Indian Oil and Reliance Industries were placed in the top 100 companies in the world by revenue,
with both corporations recording total revenue in excess of $75 billion. Six of the eight Indian companies in the Global 500 have their headquarters in Mumbai. It is worth noting that if the revenues of the Tata companies were put together rather than shown separately (because they are separate organisations and legal entities), Tata would be one of the largest TNCs in the world!

Table 3 lists the countries with the largest number of TNCs in the Global 500 in 2012. Newly industrialised countries such as China and India are much better represented than they were even 10 years ago. This trend is likely to continue.

Tata – a global brand
Tata is India’s best-known global brand. Two of the Indian companies in the Global 500 are part of the Tata Group of companies. Tata Group is an Indian transnational conglomerate company that remains family owned. It has over 100 companies, with each of them operating independently. Some of the largest of these companies are Tata Steel, Tata Motors, Tata Consultancy Services, Tata Power, Tata Chemicals, and Tata Global Beverages. Tata Group has operations in more than 80 countries and receives more than 58% of its revenue from outside India.

Tata has a considerable presence in the UK. Key acquisitions have included:
- Corus Group by Tata Steel for $13 billion in 2007;
- Jaguar and Land Rover by Tata Motors for $2.5 billion in 2008;
- In 2011 the Tata Group as a whole employed about 45,000 people in the UK with 19,400 in Tata Steel and 19,000 at Tata-owned Jaguar/Land Rover. Other Tata companies active in the UK are Tata Consultancy Services and Tata Global Beverages.

Tata Group has set great store on its reputation for social responsibility (Figure 2), which began in India but has spread abroad in more recent years. It was awarded the Carnegie Medal for Philanthropy in 2007.

Future trends
The development of Indian TNCs has been rapid since the turn of the new century, albeit from a relatively low base. India’s representation in the Global 500 should increase significantly over the course of the present decade. The country has developed a strong entrepreneurial spirit with a growing confidence in international markets. Its population continues to grow at a significant rate and will overtake China’s by about 2030, making India the most populous country in the world. The number of middle-income households in India is also increasing at a considerable rate. This growing domestic market is a good foundation for greater investment abroad. The names of large Indian TNCs are likely to become much more familiar in the UK in the years to come.

Table 2 Indian companies represented in Fortune Magazine’s Global 500

<table>
<thead>
<tr>
<th>Country rank</th>
<th>Company</th>
<th>Global 500 rank</th>
<th>City</th>
<th>Revenue ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Indian Oil</td>
<td>83</td>
<td>New Delhi</td>
<td>86,016</td>
</tr>
<tr>
<td>2</td>
<td>Reliance Industries</td>
<td>99</td>
<td>Mumbai</td>
<td>76,119</td>
</tr>
<tr>
<td>3</td>
<td>Bharat Petroleum</td>
<td>225</td>
<td>Mumbai</td>
<td>44,582</td>
</tr>
<tr>
<td>4</td>
<td>Hindustan Petroleum</td>
<td>267</td>
<td>Mumbai</td>
<td>38,885</td>
</tr>
<tr>
<td>5</td>
<td>State Bank of India</td>
<td>285</td>
<td>Mumbai</td>
<td>36,950</td>
</tr>
<tr>
<td>6</td>
<td>Tata Motors</td>
<td>314</td>
<td>Mumbai</td>
<td>34,575</td>
</tr>
<tr>
<td>7</td>
<td>Oil &amp; Natural Gas</td>
<td>357</td>
<td>Dehradun</td>
<td>30,746</td>
</tr>
<tr>
<td>8</td>
<td>Tata Steel</td>
<td>401</td>
<td>Mumbai</td>
<td>27,739</td>
</tr>
</tbody>
</table>

From the July 23, 2012 issue

Table 3 Countries with the largest number of TNCs in the Global 500

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of TNCs</th>
<th>Country</th>
<th>Number of TNCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>132</td>
<td>Netherlands</td>
<td>12</td>
</tr>
<tr>
<td>China</td>
<td>73</td>
<td>Canada</td>
<td>11</td>
</tr>
<tr>
<td>Japan</td>
<td>68</td>
<td>Australia</td>
<td>9</td>
</tr>
<tr>
<td>France</td>
<td>32</td>
<td>Italy</td>
<td>9</td>
</tr>
<tr>
<td>Germany</td>
<td>32</td>
<td>India</td>
<td>8</td>
</tr>
<tr>
<td>UK</td>
<td>26</td>
<td>Brazil</td>
<td>8</td>
</tr>
<tr>
<td>Switzerland</td>
<td>15</td>
<td>Spain</td>
<td>8</td>
</tr>
<tr>
<td>South Korea</td>
<td>13</td>
<td>Russia</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Data from Fortune’s Global 500, 2012
Key points

- Indian companies are becoming increasingly transnational in their operations.
- India emerged as a newly industrialised country in the 1990s when important economic reforms began to open up the country to foreign investment.
- Indian TNCs have become more globalised in a number of ways. They have steadily moved up the ‘value chain’ by producing more sophisticated and higher value products.
- Not only has outward FDI from India grown rapidly in absolute terms but the country has also narrowed the outward FDI gap with other emerging economies.
- Eight Indian companies have made the 2012 Global 500, a considerable increase on the situation 10 years previously.
- Tata is perceived to be India’s best-known global brand.

Pause for thought

- What is the difference between a newly industrialised country like India and a developing country?
- Suggest two reasons why an Indian company with a history of domestic operation might wish to become transnational.
- Consider the reasons for the rapid increase in outward FDI from India in the last two decades.
- How does India compare with the other newly industrialised countries in the Global 500 (Table 3)?
- What are the characteristics of a global brand like Tata? Which global brands have particularly impressed you in recent years?

In context

Some key issues have emerged from the development of India as an NIC and the increasing global prominence of its major TNCs:

- How many more Indian TNCs will enter the Global 500 in the near future?
- How soon will Indian TNCs feature to a greater extent at the top of the Global 500?
- Can the global image of India’s major brands grow to rival the largest companies in the world?
- Will the wealth created by India’s economic growth filter down more quickly to the majority of India’s population?
The revolutionary wave of protests, demonstrations and civil wars taking place in the Arab world that has become known as the ‘Arab Spring’ began in Tunisia in December 2010. To date, rulers have been forced from power in Tunisia, Egypt, Libya and Yemen (Figure 1). There have been civil uprisings in both Bahrain and Syria – many now class the latter as a civil war. Protests have also taken place across other parts of the Middle East and North Africa (MENA) in countries such as Algeria, Iran, Jordan, Morocco and Sudan. Within the same region, and not totally unconnected, there have been signs of conflict between the Palestinian states of Gaza and the West Bank, and Israel. On the other hand, the situation has remained largely calm in the oil rich nations of Saudi Arabia, the United Arab Emirates (UAE), Qatar, Kuwait and Oman, where the ruling families have managed, at the time of writing, to remain in power.

**Definition**

The MENA region stretches from Morocco in the west to Oman in the east. It encompasses the Maghreb countries of northwest Africa plus the Mashriq and Persian Gulf states in the Middle East. This Arabic-speaking region is mainly Muslim. The MENA region has a population of around 400 million people.

**Common characteristics of the protests**

There have been prolonged campaigns by the people of the countries involving mass strikes, marches, rallies and demonstrations where key parts of cities have been occupied, such as Tahrir Square in Cairo and the Pearl roundabout in Manama, the capital of Bahrain. There has been the effective use of social media – Facebook and Twitter – to organise, communicate and raise awareness in the face of state repression and censorship of the internet. Many western news organisations now depend on such social media to provide information on, and images of, a country like Syria where many western journalists are...
banned from operating (though several report illegally).

Perhaps the key common feature of the Arab Spring is the fact that it has been driven by the largest youth cohort in the region’s history. The MENA has undergone a significant demographic transition. The bulge in the young demographic across the region is unprecedented: an overwhelming proportion of its population (in many countries almost 70%) now consists of young people under the age of 35. A growing number of the protestors are not only young but also female, educated and aspiring. Geographers refer to this phenomenon as the demographic dividend (Figure 2 and Table 1).

**Definition**

The demographic dividend occurs when a country’s fertility rate declines during the demographic transition. The result is fewer dependent children and relatively more productive young adults in the population. A large body of young, educated and aspirant people can boost economic growth.

Many Arab Spring demonstrations have met violent responses from authorities, as well as from pro-government militias and counter-demonstrators. In some cases these attacks have been answered with violence from protestors, but mostly the protests have been largely peaceful, though vocal and disruptive. A common slogan, or rallying cry, of the demonstrators has been ‘Ash-shab yurid isqat an-nizam’ – the people want to bring down the regime.

**The social and economic background**

In recent years Arab countries have had a resounding success in expanding access to education. In fact, of the top ten countries that made great progress in human development during the

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**Table 1: Demographic characteristics of selected countries, 2011 (%)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Population under 15</th>
<th>Population 65 and over</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>27</td>
<td>5</td>
</tr>
<tr>
<td>Egypt</td>
<td>31</td>
<td>5</td>
</tr>
<tr>
<td>Jordan</td>
<td>37</td>
<td>3</td>
</tr>
<tr>
<td>Libya</td>
<td>31</td>
<td>4</td>
</tr>
<tr>
<td>Palestinian territory</td>
<td>43</td>
<td>3</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>31</td>
<td>3</td>
</tr>
<tr>
<td>Sudan</td>
<td>40</td>
<td>4</td>
</tr>
<tr>
<td>Syria</td>
<td>37</td>
<td>4</td>
</tr>
<tr>
<td>Tunisia</td>
<td>24</td>
<td>7</td>
</tr>
<tr>
<td>Yemen</td>
<td>45</td>
<td>3</td>
</tr>
<tr>
<td>UK</td>
<td>17</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: World population data sheet 2011

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**Figure 2: Growth in the youthful population (aged 15–24 years) of MENA countries, 1995–2010, and projected growth, 2010–25 (%)**

---

**Figure 1**

The distribution of the Arab Spring

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Source: World population data sheet 2011
last 40 years, five were from the Arab world. The key problem, however, is that there are few jobs to go around for these young people. Middle Eastern countries today have some of the highest rates of youth unemployment. Many of these young people are not only unemployed but also unemployable. This is a failing of both the education system and the economic structure. Educational institutions have churned out graduates, from both internal and overseas universities, whose skills and preferences are more aligned with those of service industries – medicine, finance, the military, etc. While the service sector generates high wage jobs for nationals, the primary and manufacturing sectors rely mostly on expatriate workers who are more willing to be part of a competitive job market, often with short-term contracts.

Many Arab countries have developed an economy that has relied overwhelmingly on fuel exports, foreign aid and remittances from overseas earnings by its citizens. Reliance on such unearned income streams is a weakness. More than 80% of total exports in many Arab countries consist of oil and gas. Where oil is scarce, foreign aid takes over. Aid revenues have often stifled economic and political incentives, turning economies away from production to patronage. Egypt and Jordan, by virtue of their strategic location, have derived significant external funds through foreign aid. In Egypt alone two-thirds of foreign exchange revenues are derived from oil, aid and revenues from the Suez Canal. The relative unpredictability of oil revenues also poses a structural risk to Arab economies. Public finances remain vulnerable to the fluctuations of oil markets. When compared to countries with similar levels of development and resource riches, oil exporters in the Middle East are much more vulnerable to external trends.

While the role of oil dominates several of the economies in the Middle East, the influence of aid is often downplayed. It may come as a surprise that as a region, according to the World Bank, the MENA overall received the highest overseas development assistance on a per capita basis in 2008 ($73, compared to $49 in sub-Saharan Africa).

**The political background**
Traditionally, Arab states have preserved order through a combination of repression and redistribution of resources (such as money and food) between each other. For decades, regardless of whether the regime has been a monarchy or republic, it has ruled through the fear of its security services. However, the rise of electronic and social media has changed this, and repression has become less effective. The cost of the redistribution of resources has also risen significantly in the face of the changing demographic structure and growing global food prices. Arab governments are now spending a vast proportion of their budgets on providing subsidised food – a policy that is likely to be even more unsustainable in the face of recent predictions about further increases in global food prices.

The governments of many of these states are inefficient, controlled by a tiny clique of elite families tied to ruling regimes. An extensive network of patronage is encouraged. High personal income in these countries depends less on entrepreneurial abilities and more on access to power. There are echoes of this throughout the Arab Spring – witness the former influence of the Trabelsi family of Tunisia, Ahmed Ezz of Egypt or Rami Makhlouf of Syria. Western observers call this ‘crony capitalism’, which denies a ‘level playing field’ to potential entrepreneurs and restricts social mobility. This has become a common concern for those who see themselves systematically excluded from the system.

**Conclusion**
After emergency laws are lifted, new constitutions are drafted and elections are held, policy makers in the MENA will face a tough practical challenge: how do they create economic opportunities for the region’s millions? The Arab revolutions have had a clear economic underpinning: they were fuelled by poverty, unemployment and lack of economic opportunity. While political repression in the Middle East remains a subject of continuous discussion in media and political circles, the scale and intensity of the region’s economic repression has gone relatively unnoticed. The region’s excessive dependence on natural resources has prevented the emergence of a strong manufacturing sector, which in turn has prevented economic diversification.

While coping with the demographic trends is a challenge, it is also an opportunity, especially at a time when population growth rates are falling across the developed world. The Middle East is certainly not the only region to have witnessed such demographic changes; other emerging market economies, like Malaysia and Brazil, have successfully harnessed their demographic dividend for development. The Arab Spring may have created a generation in waiting.  

![Image](Development & Globalisation 2014|2015 16)
REVIEW

Key points

● Many countries in the MENA region have experienced and continue to experience popular uprisings against autocratic rule.
● The uprisings have ranged from sporadic street protests to all-out civil wars that have toppled governments.
● Social media seem to have played an important role in some of these uprisings.
● The MENA region has large proportions of young and educated people who desire more meaningful employment and a greater say in the running of their countries.
● The economies of the region have depended too much on exports of fuel, development aid and remittances.
● Governments have largely been run by elites, where patronage has thrived and alternative viewpoints have been repressed.

Pause for thought

● To what extent should the rest of the world become involved in conflicts that are taking place within other countries?
● Why did the West intervene openly in Libya, but not in Bahrain or in Syria?
● Why did the governments of the MENA invest so much money in subsidising food prices for their inhabitants?
● To what extent can it be argued that economic and political developments are interrelated?

Context

This article examines a series of contemporary events that will have moved on since the time of writing. You should be aware of recent developments. The MENA is an important area of the world, not only because of the oil and gas resources that are found there but also because of the large numbers of previously disenfranchised people who live there. Major social and political changes are taking place that will impact greatly on economic conditions in the region. The rest of the world is watching these developments with considerable interest, knowing that the political changes that are taking place are likely to have an impact on the global economy.

RESPONSE

Assimilation

1 Using Figure 1, describe the pattern of uprisings that has taken place in the MENA region.
2 Explain why social media have played such a key role in these uprisings.
3 Why does the demographic dividend apply to the MENA region?
4 Summarise the main elements of the economies of the MENA region. Why are these elements described as ‘unearned’?
5 Explain how autocratic regimes such as those in the MENA can be described as ‘inefficient’. How have they managed to survive for so long?

Evaluation

1 Critically evaluate the process of globalisation.

ANSWER PLAN

● Definition(s) of the term ‘globalisation’.
● Identification of the various forms of globalisation: e.g. business and trade, communication networks, production systems, political systems, demographic trends and movements.
● Discussion of the various ‘drivers’ of globalisation: e.g. communication technology, transport technology, global businesses (TNCs), removal of trade barriers, cultural factors.
● Discussion of negative consequences: e.g. sweatshops, outsourcing, environmental damage, ‘McDonaldisation’.
● Overall assessment of the impact(s) of the process.

2 Study Figure 2. Describe and comment on the changing pattern of growth in the youthful population (aged 15–24) in the MENA countries shown.

3 ‘An evolving demography but a rigid economic structure.’ Is this statement a reflection of the development of the countries of the MENA?

4 To what extent can development be sustainable?

5 ‘Conflict has a significant geographical impact on the area(s) affected.’ To what extent do you agree with this statement?

Extension

1 At the time of writing, events related to the Arab Spring are still unfolding. Use the following websites to help you keep up to date (they cover a range of news organisations):
   ● BBC (UK): http://www.bbc.co.uk/news/
   ● Al Jazeera (Qatar): http://www.aljazeera.com/
   ● There is an interesting video on the Arab Spring by Russia Today at http://www.youtube.com/watch?v=9iqLaPS4Zv8
   ● Fox News (USA): http://www.foxnews.com/

2 Use the internet to research the influential role of one or more of the following people mentioned in the article: the Trabelsi family of Tunisia; Ahmed Ezz of Egypt; Rami Makhlouf of Syria.
Change is afoot in the global economy. The up-and-coming economic superpower China, with its huge capital excess resulting from trade, cannot hope to expand further unless it is able to increase trading opportunities beyond the developed world and gain greater access to the world’s scarce resources. China is already the world’s biggest consumer of key raw materials and it needs to maintain their availability through guaranteed connections with the rest of the world. These connections will depend on an expansion of relationships with the developing world – named as the ‘Southern Silk Road’. China’s expansion into Africa is already well documented (see Topic Eye: Development & Globalisation, 2012/13 edition), but what of its move into other areas of the economic ‘South’?

The ‘dry’ Panama Canal

The most ambitious example of China’s aims in Latin America has been termed the new ‘Panama Canal’, even though the proposed new investment has nothing to do with Panama, nor indeed canals. Today, when China trades with Brazil, it has a choice of routes for its goods: overland across the Andes, which is challenging; through the Panama Canal, which it perceives to be under USA control; or around Cape Horn, which is also difficult.

The new plan, reflecting strong relationships between Beijing and Bogota, is to build a Chinese funded $8 billion railway that will connect Colombia’s Pacific and Atlantic coastlines, between Cupica (Pacific) and Uraba (Atlantic) – a distance of only 136 miles (Figure 1). The scheme would also involve a new port being constructed on the Atlantic coast near Cartagena. This ship-to-rail system would make it easier for China to import Colombian commodities – mainly supplies of coal and soya beans – and to export Chinese electronics and other goods to the continental region. However, perhaps Zhou Quan, the commercial...
attaché at the Chinese embassy in Bogota, has pointed out China’s real motive: ‘This will benefit all of Latin America. If there are problems with the Panama Canal, like too much ship traffic, this would be an alternative’.

Politically the plan has caused unease in the USA, as the latter has invested a great deal of military aid in Colombia combating guerrillas and drug cartels, and it regards Colombia as its closest ally in South America. However, there has been a delay in the signing of a free trade agreement between the USA and Colombia, due to concerns over human rights violations in Colombia, and it is not therefore surprising that Bogota is looking for new economic relationships.

‘The string of pearls’

Energy security is a key imperative for China. The Shanghai Cooperation Organisation (SCO) has been created in response to this. Its key members are China, Russia and the central Asia republics of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan (see article on pp. 2–5). India, Iran, Mongolia and Pakistan have observer status. China has invested heavily in the oilfields of Iran and Kazakhstan. Once again this investment clashes with the political ambitions of the USA, which has actively sought international sanctions against Iran in response to the latter’s nuclear programme.

Although the SCO provides some political security for oil, China is keen to maintain the physical reliability of supplies from Iran and possibly elsewhere in the Gulf region. China has made naval access arrangements with ports in the Indian Ocean (the so-called ‘string of pearls’), focusing on Gwadar in Pakistan, Chittagong in Bangladesh, Hambantota in Sri Lanka, and Sittwe in Myanmar (Figure 2). In exchange for access, China provides financial and technical assistance to these relatively poor nations. As these ports develop, they will provide not only security for the Chinese but also greater access to the outside world for Pakistan, Bangladesh, Sri Lanka and Myanmar. The strategy includes the construction of a railway line through Cambodia and Laos (see below) in order to provide China with direct access to the Gulf of Thailand.

There has been some concern that there are military intentions behind this ‘naval access’. It has been suggested that Beijing could use these bases to threaten India’s security, menace global shipping lanes and challenge the United States for regional naval primacy. However, Beijing has stated that it is merely interested in conventional shipping facilities designed to connect China’s landlocked western provinces to maritime trade routes in the Indian Ocean. Of course, this does not mean that the ports lack strategic value. The South Asian harbours and their overland connections to China will permit some Chinese-bound tankers to offload Persian Gulf oil without having to sail all the way to its eastern ports. Such arrangements will reduce China’s dependence on precarious shipping routes through the Malacca Strait ‘chokepoint’, where Beijing fears that its tankers could be blockaded by US warships already deployed in the region. Hence such facilities offer a degree of flexibility for China’s otherwise vulnerable Indian Ocean supply lines, across which roughly 80% of Beijing’s imported crude oil must travel.
The Trans-Asian Railway

If the Colombia rail project mentioned earlier seems ambitious, it pales into insignificance relative to the UN-sponsored and Chinese/Indian/Russian-financed Trans-Asian Railway (TAR). The key aim, from a UN perspective, is to give land-locked countries in Central Asia access to ports, enabling them to take advantage of new trading opportunities with the rest of the world. From a Chinese perspective, it would also add to, and further enable, the use of the ‘string of pearls’.

The TAR concept is not new. It was proposed in the 1960s with the objective of providing a continuous 14,000 km rail link between Singapore and Istanbul (Turkey), with possible onward connections to Europe and Africa. Such a link would reduce transit times between countries and regions, while also acting as a catalyst for trade expansion, economic growth and cultural exchanges. The idea was revived in the 1990s at the end of the Cold War. Given the extent of the territory covered, the differences in gauge sizes and the differences in the levels of technical development between railways in the region, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) adopted a step-by-step approach to define the TAR network (Figure 3). The network was initially divided into four major components:

- a northern corridor connecting the rail networks of China, Kazakhstan, Mongolia, Russia and the Korean Peninsula;
- a southern corridor connecting Thailand and the southern Chinese province of Yunnan with Turkey through Myanmar, Bangladesh, India, Pakistan and Iran, with Sri Lanka also part of the corridor;
- a subregional network covering Laos, Thailand, Myanmar, Vietnam, Cambodia and Malaysia;
- a North–South corridor linking Northern Europe to the Persian Gulf through Russia, Central Asia and the Caucasus region.

The Trans-Asian Railway Network Agreement was signed in November 2006 by 17 nations involved. The plan has been called the ‘Iron Silk Road’ in reference to the historic Silk Road trade routes that existed in medieval times. The agreement came into force in June 2009. In August 2009 a goods train carrying containers travelled from Islamabad, Pakistan, to Istanbul, Turkey. Trains now run regularly between the two. Technically it is possible to introduce a train service, passenger and freight, on the rail route between Istanbul and Dhaka in Bangladesh, with a break of gauge at Zahedan on the Iran–Pakistan border.

**Figure 3** The Trans-Asian Railway network

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### Table 1 China’s percentage export share by continent and economic area, 2010 and 2050 (predicted)

<table>
<thead>
<tr>
<th>Continent/ economic area</th>
<th>Export share 2010</th>
<th>Export share 2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>4.6</td>
<td>8.1</td>
</tr>
<tr>
<td>Middle East</td>
<td>4.3</td>
<td>9.3</td>
</tr>
<tr>
<td>Asia (not Japan)</td>
<td>30.9</td>
<td>43.6</td>
</tr>
<tr>
<td>Central and Eastern Europe</td>
<td>2.4</td>
<td>5.1</td>
</tr>
<tr>
<td>Russia and Mongolia</td>
<td>3.5</td>
<td>6.2</td>
</tr>
<tr>
<td>Africa</td>
<td>3.4</td>
<td>5.9</td>
</tr>
<tr>
<td>North America</td>
<td>20.5</td>
<td>9.1</td>
</tr>
<tr>
<td>Western Europe</td>
<td>20.6</td>
<td>8.9</td>
</tr>
<tr>
<td>Other advanced (inc. Japan)</td>
<td>9.8</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Sources: IMF (2010 data); HSBC (2050 data)

### Conclusion

From these examples of developing infrastructure, it is clear that the balance of power in the world economy is shifting eastwards and southwards. China is a key driver in this (Table 1). The relative importance to China of North America and Western Europe is diminishing while the relative importance of the ‘southern world’ is increasing – hence the ‘Southern Silk Road’. In short, we are witnessing a significant reshaping of global economic geography.
REVIEW

Key points

- China is seeking to use its capital surplus to finance infrastructural improvements in a number of developing world countries in order to protect its future economic interests.
- As an alternative to the Panama Canal, China is aiming to build a new land rail route connecting the Pacific and Atlantic oceans through Colombia.
- In southern Asia, it has established naval access agreements to a number of ports in Pakistan, Bangladesh and Myanmar.
- China is also involved in a major UN project to build new, and interconnect existing, railway networks across Asia.
- All of these projects present economic and geopolitical challenges to key players in the rest of the world.

Pause for thought

- Why is China seeking to reinvest its current account (trade) surplus in infrastructural improvements in other countries, rather than to improve the lot of its own inhabitants, many of whom are still very poor?
- Consider the role Colombia is playing with two global superpowers, receiving military aid from the USA and yet also receiving financial support from China. Is this wise?
- Why do the USA and, to some extent, India look at the ‘string of pearls’ with a degree of concern?
- To what extent will the completion of the TAR be an opportunity for western business rather than a threat?

Context

This article examines the spread of Chinese economic influence around the world, other than in Africa. This is taking the form of major infrastructure investments in the developing world, financed by the current account surplus that China possesses. These investments should ease the difficulties of trade to and from China, but there are wider geopolitical implications that some developed countries, particularly the USA, find worrying. On the other hand, private investors in the developed world are likely to view these improvements in infrastructure as an opportunity to reach new markets in the developing world, often encouraged by trade delegations to the region.

RESPONSE

Assimilation

1. Why does China feel the need to assist other countries in developing infrastructure?
2. What are the reasons behind China's desire to build an alternative to the Panama Canal?
3. Describe the location of the ‘string of pearls’ in the Indian Ocean.
4. What are the practical difficulties with the construction of the Trans-Asian Railway system?
5. Why are there so many references to a ‘Silk Road’? What was the original ‘Silk Road’?

Evaluation

1. Outline and explain the economic growth that has taken place in China.

ANSWER PLAN

- China is the world’s fastest-growing major economy, with an average growth rate of 10% for the past 30 years.
- A number of factors have played a role in the growth of China:
  - the move from a centrally planned to a more market orientated economy under the leadership of Deng Xiaoping;
  - the encouragement of FDI in 'special economic zones' (SEZs) along the coast, including Shanghai and Shenzen, providing tax benefits and other advantages;
  - China’s entry to the WTO in 2001, allowing better access to global markets.
- Include detailed and specific description/reasons that clearly apply to China.

2. Study Table 1. Describe and comment on the changing pattern of Chinese exports to the areas shown between 2010 and 2050.

3. Summarise the main drivers of globalisation – the means by which China’s influence can spread.

4. A Chinese proverb states: ‘If you want to be rich, build a road; if you want to be very rich, build a railway’. To what extent is the government of China following this proverb on a global scale?

5. ‘The global economy has moved on from the developed world. The future now lies elsewhere.’ To what extent do you agree with this view?

Extension

1. A short discussion on Radio Australia regarding the geopolitical aspects of the ‘dry’ Panama Canal project can be heard at: http://www.radioaustralia.net.au/international/radio/onairhighlights/china-railway-dubbed-dry-panama-canal

2. Laos is the least developed country in southern Asia. Find out what benefits the TAR will bring to Laos. The following link includes a useful video: http://clpmag.org/article.php?article=Trans-Asian-Railway-Unlocks-Laos-Borders_00360
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