

BRICS Economic and Trade Cooperation with Africa

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I. The BRIC rise together with Africa

At the end of the Cold War, especially after the globe-sweeping financial crisis, the world economic and political landscape has undergone profound changes, thus led to the constant adjustment of interest distribution. Traditional economic powers witnessed sluggish growth while emerging economies represented by the BRIC have become important engines in international economy with their eye-catching growth. According to IMF estimate, the BRIC countries' share of global output has climbed from 13.7 percent in 2007 to 17.5 percent in 2010; by 2015, their share will further increase to 22.1 percent. In addition, Goldman Sachs Group which firstly coined the popular term 'the BRIC' forecast that by 2027 the sum of BRIC GDPs may outrun that of the Group of Seven. As the BRICS cooperation mechanism gradually gets refined, their international influential shall be bigger and stronger.

Meanwhile, the African economy has won worldwide attention by its strong performance. Since mid-1990s, the GDP of Africa has grown at an average annual rate of 5 percent. After the occurrence of international financial crisis, Africa has demonstrated good response capacity by growing steadily and inclusively which highlighted the world economy. By now, international authorities generally agreed that the foundation of African economic growth has become more solid than it was, therefore a positive development outlook is preferred. The current round of economic growth in Africa is not a one-time event. Rather it may be the starting point for the economy to really take off.

The Fifth BRICS Leaders Meeting will be held in Durban of South Africa on 26th to 27th, March 2013. It will focus on full range cooperation between the BRICS and Africa. The population of the BRICS and Africa take up 57 percent and their output accounts for 21.7 percent of the world's respectively. What's more, their total trade value represents 17.1 percent of the whole world's. It's undeniable that the prospect of cooperation between the two emerging groups is worth a long look.

Table: The Basic Indicators of BRICS and Africa in 2011

	Area		Total Population		Total GDP		Total trade Value	
	Thousand Km ²	percentage of the world	Billion	percentage of the world	Trillion of US \$	percentage of the world	Billion of US \$	percentage of the world
BRIC	3938.9	26.4	2.9791	42.7	13.67	19.61	5313.448	14.55
BRICS	3816.9	25.6	2.9286	42.0	13.26	19.02	5088.172	13.91
Africa	3032.3	20.4	1.045	15.0	1.87	2.69	1159..83	3.17

Resource: UNCTAD, *Handbook of Statistics 2012*

II. Cooperation with the BRICS Brings New Opportunities for African Economic Development

There are many reasons leading to this round of continuous improvement of African economy. First, the engine of growth does not solely lie in energy industry, but also demographic dividend, urbanization construction and increasing domestic demand from growing middle class. Besides, African economic growth attributes to external factors, in particular its cooperation with China, India and other new partners.

In fact, as early as before the BRIC cooperation mechanism established, China, India, Russia and Brazil had formed good bilateral economic and trade relations with African countries. Especially China and India, in the past several decades, have made large amount of trade-related investment in Africa. However only after the overall rise of the BRICS in the first decades of 21 century, the BRICS made a greater positive impact on African development.

First, the value of bilateral trade between BRIC states and African countries is growing rapidly. According to UNCTAD statistics, the proportion of the BRIC states exports over African imports climbed from 8.17 percent in 2001 to 18.58 percent in 2010. At the same time, the BRIC states imports to African exports ratio rose from 7.7 percent to 20.7 percent. Therefore, Standard Bank of South Africa argues that it is the BRIC rather than the developed countries which redefined the function of Africa in the world economy. That is business demand and interest sharing.

Second, the FDI flows to Africa from BRIC states increased significantly. Since the beginning of 21st century, Brazil's investment in Africa was rising. Based on the study of FDI in 2003-2009 of Standard Bank of South Africa, the amount of Brazil's investment in Africa reached US \$10 billion involving 25 projects with an average of US \$400 million for each.¹ From 2001 to 2008, the stock of direct investment in Africa is US \$11.2 billion, representing approximately 6.4 percent of Brazil's total.² Brazil's major investment goes to agriculture, oil, mining, infrastructure as well as bio-energy production and others. Its target investment countries are Angola, Mozambique, Equatorial Guinea, Nigeria, Zambia, and South Africa.

China's FDI in Africa has steadily climbed up. From 2000 to 2004, China's FDI in Africa rose from US \$216 million to US \$317 million. After 2006 FOCAC Beijing Summit, China's FDI in Africa witnessed another phenomenal growth from US \$520 million in 2006 to US \$1.574 billion in 2007 to US \$5.491 billion in 2008 which made the historical high. With the impact of the international financial crisis in 2009, China's FDI in Africa dropped to US \$1.439 billion and quickly rebounded to US \$2.112 billion in 2010 exceeding the level of 2007. From 2004 to 2010, the average annual growth rate of China's FDI in Africa is as high as 115 percent far more than that of China's total FDI which is 63.4 percent. Currently, Africa is ranked as the fourth largest destination of China's OFDI. In 2011, the flow of China's FDI in Africa is US \$1.7 billion, by the end of 2011, the stock of China's FDI reached US \$14.74 billion 20 times of that of 2003. If coupled with investment via third country, China's investment in Africa would amount to more than US \$40 billion. While the scale of investment is growing, China's investment in Africa shows a trend of diversifying investor, expanding investment fields and broadening ways of cooperation. Now, China has set up more than 2000 direct investment enterprises hiring over 80 thousand local employees in 49 African countries especially in South Africa, Algeria, Nigeria, Sudan and Zambia. They conduct businesses involving mining, manufacturing, construction, trade, transport, and agriculture, etc. Among them, mining, manufacturing, construction and financial industry are relatively concentrated.

And India's FDI in Africa showed an upward tendency. In the early 1990s, India's FDI

¹ Standard Bank, Africa: BRIC and Africa, 14 October 2009.

² BNDES, The Financing of Brazilian Companies in Africa, 12 August, 2010.

only went to a handful of Commonwealth African countries. However with deepening domestic dependence on overseas market and energy, India's investment in Africa expanded from Mauritius to 31 countries including Sudan, Egypt and Angola in 2009. From April 2000 to March 2009 India's FDI in Africa amounted to US \$8.976 billion accounting for 12.3 percent of India's total FDI. From 2003 to 2009, India invested in more than 130 projects in Africa taking up 5 percent of newly established foreign direct projects.³ Thus India became the ninth largest source of foreign investment in Africa.⁴

Although Africa was not the focus of Russia's foreign investment, but it began to be a new growth point. In recent years, the number of projects invested by Russian transnational corporations has increased significantly with scale expanding. Statistics show that from 2005 to 2008, Russia has completed cross-border mergers and acquisitions totaled up to US \$250 million.⁵ In June 2009, Gazprom injected US \$2.5 billion to set up a joint venture with the Nigerian National Petroleum Corporation. Although this was the highest record of one-time attracting foreign investment in Nigeria, but the overall size of Russia's direct investment in Africa is relatively small and Africa's share of Russia's foreign investment remains limited.

It is worth noting that South Africa played the role of locomotive in terms of African capital flow. South Africa is the economic giant of African continent. Due to its unique advantages in resources and prowess, it outputs more and more capital to other African countries. According to a report of South Africa Institute of Race Relations, South Africa's direct investment growth in Africa ranks first in its overall foreign investment, far more than in other regions. According to statistics, South Africa's total direct investment in African sums up to Rand 115.7 billion, accomplishing a 31 times growth compared with Rand 3.8 billion in 1994. Although South Africa only put 8 percent out of its total foreign investment in Africa in the last 15 years, but its growth rate is increasing. In term of the stock of South Africa FDI, Africa's share rises from less than 5 percent before 2000 to 22 percent in 2008. Investors from South Africa are mainly financial institutions and mining giants. The major areas of investment in Africa not only include South Africa's traditional competitive industries such as mining, civil engineering construction, agriculture, tourism, manufacturing and service industry, but also add energy industries (oil and gas) and newly emerging information and communication technology industries.

Third, the BRIC states aid to Africa is increasing day by day.

In short, the ever closer economic and trade ties between the BRIC and Africa has become the propellant of African economic development.

III. Africa Will Benefit all round from the BRICS Cooperation Mechanism

As previously mentioned, the bilateral trade and economic relations of the BRIC and Africa have made positive impact on African economic development. Currently South Africa, the bellwether of Africa economy, has already joined the BRIC and is ready to host the fifth BRICS Leaders Meeting and other supporting events. It provides closer view for the BRICS

³ The African Development Bank Group, India's Economic Engagement with Africa, *Africa Economic Brief*, volume 2, Issue 6 11 May, 2011, p.7.

⁴ Standard Bank, BRIC and Africa: New sources of foreign capital mobilising for Africa, complementing and competing with traditional investors, *Economics*, 4 August 2010, p.9.

⁵ Andrei Panibratov, Kalman Kalotay, "Russian outward FDI and its policy context", Vale Columbia Center, October 13, 2009.

to understand African countries' demands and priorities, thus better safeguards the African interests. Here comes the question of how to better the role of the BRICS to promote African development, propel industrialization and integration. As a Chinese scholar who has been doing research on African economy and Sino-Africa economic and trade cooperation, I hereby would like to give several humble suggestions.

First, establish a partnership with African sub-regional integration organizations as soon as possible so to enhance the overall development capacity of Africa. Due to the increasing role of African regional integration organizations in promoting economic and social development in Africa, the western developed countries and international organizations take them as one of the important partners to cooperate with. The BRICS shall take quick action to establish multilateral economic and trade cooperation mechanism with African regional integration organizations. Under this mechanism, we can explore trade facilitation, transnational infrastructure construction, investment and financing support, financial cooperation and so on. In particular, they should learn from the experience of international cooperation, and step by step begin negotiation on the establishment of free trade area with African sub-regional organizations. The preferred negotiation partner shall be the Southern African Customs Union (SACU) centered by South Africa and then the negotiation can gradually expand to the Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC).

Second, foster industrial development of African countries and focus on investing in African manufacturing. The BRICS member states and their financial institutions shall encourage and support their enterprises to invest in mineral process, agricultural process, home appliances and textile. To combine Africa's advantage in resources and BRICS' in capital and technology, we could turn made-in-China and made-in-India to made-in-Africa, therefore we improve the value of African products and assist Africa in setting up its own industrial system to have more to export. Since African integration organizations achieved little success in view of production cooperation, I recommend that BRICS powerful enterprises look into the market and regulations of member states in customs unions and free trade areas, and then choose specific countries to build cement plants, glass plants and metal refineries and so on. In order to lay a good foundation for long-term cooperation with host country, the investor shall enter Africa in a flexible way. In addition, the BRICS shall pace up technology transfer and employee training so that to create more jobs.

Third, set up African infrastructure development fund for the BRICS to engage in African transnational / cross-border infrastructure planning, feasibility studies and project implementation. BRICS countries, especially China, shall continue to encourage enterprises by preferential loans to participate in African infrastructure construction and operation to explore and promote cooperation in transnational power, telecommunications and transportation network and hub. Meanwhile Chinese financial institutions are encouraged to support African infra construction and interconnection projects via various forms of financing, solve bottleneck problems of infra construction in trade and investment so as to reduce the cost of trade contact, which enhances intra-Africa and foreign trade development and integration process. In regard to the choice of cross-border infra construction projects, the BRICS shall begin with SADC located in South Africa, support southern Africa grid and transportation network projects at first, and then spread to financing western Africa mining development plan, power development plan, west-east rail/road project and eastern Africa agriculture cooperation planning and so on. Of course, the specific projects shall base on the needs of the BRICS and Africa whereof diversified portfolio is founded. I suggest establishing funds which may be opposed by some delegates here with consideration of emerging economies deceleration or financial obstacles facing by countries in transition. However

what's emphasized here is that the BRICS countries shall work on coordination and solidarity and make practical efforts for Africa so that long-term cooperation mechanism is possible. Only with solid South-South cooperation, the BRICS can stand with greater influential and power.

Fourth, expand the aid, highlight livelihood improvement projects and improve African self-development capacity. As emerging donor countries, the BRICS are obliged to meet the legitimate requirements of African development, expand the scale of assistance and highlight agriculture, education, health care, public health and poverty alleviation so as to transfer technology and improve livelihood of African people. It should also be noticed that human resources cooperation and training is vital to enhance Africa's self development capacity.

Last but not least, improve risk prevention through international cooperation. The current international situation is upheaval and the BRICS are facing collective economic deceleration. African economy, though has huge development potential, is affected by the global economic growth uncertainty and internal turmoil and crisis. Therefore, cooperation between the BRICS and Africa is faced with many risks and challenges. In order to enhance risk prevention capacity, the cooperation shall be open to western developed countries to make them partners of South-South cooperation. By integrated finance and international management, the political risks and economic uncertainty can be reduced.