September - December, 2020
BPC Papers - V.7. N. 1

# BPC Papers

## Brics in Africa:
Economic Ties and Impacts

Argiro Moudatsou-Hellenic
Mediterranean University

BRICS
Policy Center
Centro de Estudos
e Pesquisas BRICS

## About the BRICS Policy Center

The BRICS Policy Center is dedicated to the study of the BRICS countries (Brazil, Russia, India, China e South Africa) and other middle powers, and is administered by the **International Relations Institute** of **PUC-Rio** (IRI/PUC-Rio), in collaboration with the **Instituto Pereira Passos** (IPP).

BRICS
Policy Center
Centro de Estudos
e Pesquisas BRICS

All papers are submited to external evaluation before published. The opinions expressed herein are the sole responsability of the author and does not necessarily reflect the position of the institutions involved.




## BRICS Policy Center

Rua Dona Mariana, 63 - Botafogo - Rio de Janeiro/RJ
Phone: +55 21 2535-0447 / ZIP CODE: 22280-020
www.bricspolicycenter.org / bpc@bricspolicycenter.org





**BPC Papers V.7. N. 1** - September - December/2020.
Rio de Janeiro. PUC. BRICS Policy Center
**ISSN: 2357-7681**

39p ; 29,7 cm

1. BRICS ;
2. Africa;
3. Economic Impacts


Instituto de Relações Internacionais PUC RIO

MAPI

CAPES

FAPERJ Fundação Carlos Chagas Filho de Amparo à Pesquisa do Estado do Rio de Janeiro

CNPq Conselho Nacional de Desenvolvimento Científico e Tecnológico

## Executive Summary Main findings and Policy Implications

This research was motivated, by the debate that took place in the last twenty years after 2001, when O'Neil, a Goldman Sachs Officer, for the first time seeing the dynamics of these countries coined the name BRICs to this group of emerging economies.(Brazil, Russia, India, China, South Africa, entered the group just in 2010). As they are themselves evolving from a stage of underdevelopment, the debate is about the role that these countries can play as growth drivers for developing countries, by adopting a model different from the one that governed the relations between developing countries and the "western" growth drivers, To check whether the BRICS can indeed play an "alternative" role as growth drivers for the developing world Africa has been chosen as a representative developing BRICS' partner. Africa is a typical region of developing countries. Africa's resource endowments create opportunities for adopting an industrial strategy to maximize backward and forward processing linkages with the commodity sectors. This makes it a very important region, with growing economic and geopolitical importance.

The goal of this research is to provide a deep insight into the manner in which the BRICS are engaged in Africa from an economic point of view , through Trade, FDI and Financial Linkages and what is the impact of this engagement for the growth prospects of the continent. For this purpose we used the most recent statistical data , covered the period 2001-2018 In our research for comparison, we included data relevant to the EU and the G7 since they are the most important economies in the world and moreover they maintain historical links with Africa since colonial times.

Summarizing the results obtained from this research we mention the following:

1. BRICS', despite of being impressive in size, population and growth rates, exhibit low levels of globalization (KOF indices) and high levels of income inequality (Gini index)

2. The key partners for all the BRICS and especially for Russia are the EU and the G7 , while trade with Africa seems to be, in quantitative terms, trivial.

3. As far as trade is concerned, based on the latest data covering up to 2018, we have to note the following:

- Though the BRICS' shares in the international trade (imports and exports) have been increased, the largest world shares are hold by EU28 and the US

- The most important trade partners for each BRICS' member are the developed economies of G7, and EU28 while intra-trade amongst members of the group is of secondary importance. For BRICS most important "extrenal" partner is the US (except Russia) and most important "internal" partner is China.

- The trade-shares of BRICS with Africa (with the exception of China) is too small and can be summarized under two key features: Africa's exports to the BRICS (mainly to China and India), are dominated by fuels and primary commodities These products hold a low position in the global value chains and are vulnerable to the international price fluctuations. Besides, the trade of these products does not create linkages with the local economy. The BRICS' exports to African countries (mainly from China and India), are dominated by manufactured goods That suggests that Africa may find it harder to break into exporting in non-primary commodity sectors. So Africa may be trapped in internal and external dualities and inequalities. At this point, we should mention that the structure of Africa's trade, that is, the concentration of its exports mainly on natural resources and primary sector, creates obstacles to trade transformation into a form that will lead to economic growth.

4.Regarding FDI-growth dynamics , that is, the FDI potential to generate income and jobs, this research reveals the following:

- One out the five BRICS members, China, is among the greatest FDI host economies in the world following EU, and the US while Africa´s share as host economy is insignificant . Among the greatest world FDI investors are EU , and the US while China´s share is growing from 2005 up to 2018. The impact of BRICS FDI on Africa's growth could not be empirically examined, due to the complete lack of recent bilateral quantitative data that could be incorporated into an econometric model. However the most recent available data from UNCTAD 2016 Report about Africa , highlight Services and Manufacturing as the biggest receivers of world greenfield FDI , while the bigger world investors are Developing Economies with China to keep the biggest share. Moreover, UNCTAD 2013 Report on the "BRICS in Africa" gives information about mayor investors and the sectoral distribution of BRICS outward FDI in Africa. According UN 2013 BRICS' FDI to Africa is mainly resource-seeking (China , India and Russia) and market-seeking (China) while Brazilian FDI is limited and S. Africa finances development projects to other African countries. Among BRICS China is the greatest investor in Africa.

Even though we could not empirically estimate the impact of FDI on the growth, due to lack of quantitative data, we tried to approach this issue by exploring other aspects which determine the growth prospects that FDI creates in the host countries. These are , the mode of investment and the type of contracts between investors (BRICS) and local goverments, The mode of FDI is important because different forms of investment create different growth perspectives and opportunities for the host economies. (WIR 2018- data) The FDI inflows (and stock) in Africa is of greenfield type. This means that the investor has the absolute control of the plant, so there are few possibilities for FDI to create job and other economic links to the local economies. Regarding the type of contracts (Bilateral Investment Treaties-BITs) between investors (BRICS) and local goverments, the recent research of Garcia A. (2017) reveals that, to a large extent, the BRICS BITs in Africa, maintain the broader neoliberal economic order. The BRICS's actions are based on a logic of competition over natural resources and market access that is imperialist in nature and is taking colonialism back to Africa in modern times. The analysis of FDI presence and practice in Africa, creates doubts about the prospects of growth and concerns about Africa's sovereignty on its own resources. However, there could be prospects for growth through FDI if appropriate policies are implemented on the part of the host countries.For resource-based projects the policy upshot is that African economies need to invest their gains from primary commodity exports in downstream, higher value added industries, which should allow the continent's natural-resource exporters to develop and diversify their export base, so moving away from dependence only on natural resource exports. , African governments should help foreign investors to forge linkages with local African domestic producers, thereby producing sustainable exports for African economies with higher domestic value added, which should strengthen domestic businesses. For market-seeking investments, African governments should steer foreign investors, through specific agreements, to establish links with local African domestic producers, thus producing sustainable exports with higher domestic added value, which would boost domestic businesses. FDI in key sectors such as extractive industries, agriculture or services needs to create sustainable employment for local communities and to contribute to their growth. In short, policy should focus on encouraging FDI into more productive sectors.

5. Financing , along with FDI and foreign remmittances, is another type of international flows which affects economic growth. The post-2002 period has been characterized by the internationalization of the financial system and the integration of developing economies into it, facilitating strong growth in cross-border private flows globally (UN-Economic Commission for Africa, 2017). For Africa, there has been a significant increase in South-South funding, especially from BRICS funding, which is remarkable in lending both, intergovernmental and private sector.

According to the World Bank's International Debt Statistics, in 2017, official bilateral credits from China accounted for 62 percent of bilateral official credits, or about 23 percent of all public and publicly guaranteed debt in sub-Saharan Africa. China finances extraction and infrastructure projects.

India and Brazil have focused more on technical cooperation and the social aspects of development, rather than providing development funding. Russia, the least active investor in Africa, has been taking steps since 2009 by boosting large investments and expanding economic cooperation, while South Africa's five banks , the largest on the continent, finances African projects.

6. Finally we procced to search elements of BRICS' Technical Assistance (AID) to Africa, as an alternative to financial support channel for boosting economic growth. The BRICS support Africa's development through AID projects mainly to improve infrastructure services in education, health and ICT (Information and communications technology).

5. As an epilogue of this research we indicate the following

The size of the BRICS economies, their economic potential and their increasing international demand for goods make them particularly relevant to Africa's development. If appropriate policies are implemented by African governments to capitalize on the benefits of Africa–BRICS cooperation (especially through trade and FDI), this could lead to a faster diffusion of productive ideas, innovation and adoption of new technologies and a more effective absorption of knowledge—all key ingredients of wealth creation...

The risks are that Africa–BRICS engagement could lock African countries into specializing in primary commodities, crimping the strong productivity gains needed to sustain high growth and sharpening socio-economic inequalities, preventing the people of Africa from the benefits of co-operation.

The risks that Africa faces from the cooperation with the BRICS are that African countries may be trapped in specializing in primary goods, a key component of their trade with BRICS , thus limiting their ability to take advantage of the productivity rates required for maintaining high growth rates and reducing socio-economic inequalities. To promote its growth, employment and structural transformation, Africa must develop strategies to make the most of the benefits of Africa-BRICS cooperation.

specializing in primary commodities, crimping the strong productivity gains needed to sustain high growth and sharpening socio-economic inequalities, preventing the people of Africa from the benefits of cooperation. To promote its growth, employment and structural transformation, Africa must develop strategies for making the most out of the benefits of Africa–BRICS cooperation.

# Contents

# Brics in Africa:
## Economic Ties and Impacts

Argiro Moudatsou-Hellenic
Mediterranean University

## 1. Introduction

The acronym BRIC(S) (Brazil, Russia, India, China, South Africa), was first mentioned by O'Neill, a Goldman Sachs economist in 2001. S. Africa, entered the group just in 2010, since, regardless of its small size (socioeconomic variables, GDP and population) compared to other BRICS, is considered as important gateway to Sub-Saharan Africa and a strategic partner for investment, linking the African continent to the rest of the world and facilitating the flow of investments from the BRICS countries into the rest of Africa. Through incorporation into BRICS, South Africa is seen not just as an individual emerging economy, but also as the gateway to the African continent (Fundira T. 2012).

Today, nearly twenty years later, BRICS is considered as a new international platform with a possibly increasing importance at the international stage. The emergence of BRICS has brought about, a significant redirection of trade and financial ties for developing countries.

The BRICS members are all developing or newly industrialized countries which are distinguished, at least the original four by their large, fast-growing economies and more recently, by their significant influence on regional and global affairs. All five are members of G20 (the 20 economies considered central to the international financial system due to size, population or geographical location (Piper L.2015)

To discuss the theoretical embedding of the BRICS, the political sciences use the so-called power transition theory (PTT) associating the BRICS with a global change from a uni- to a multipolar world (Glosny, 2010).

The Power Transition Theory (PTT), introduced by Organski (1968 a,b), is a very important theory, which describes the international relations as hierarchic system between countries in which national power is changing over time. A transition period starts when a great power in a secondary position challenges the top nation. Over the last decade, political scientists have discussed the motivation of the formation, the impact, and the future effects of the so called BRICS.

The economic science, on the other hand is focused on economic integration of the five emerging countries, related i.e to intra-BRICS trade (Chatterjee, Jena and Singh, 2014 and Sharma,Kallummal, 2012) and FDI policy (Mlachila and Takebe, 2011). Developed by Balassa(2013), the economic integration theory (EIT) assumes that increasing globalization and technological progress leads to free trade and movement of economic factors as well as to deeper integration over time.

In the case of BRICS, the bulk of the research focuses on the socio-political aspect while there are few studies on the economic analysis of this coalition. This research aims to contribute to the economic analysis in this field.

There is a strong belief among many analysts of the BRICS coalition that these countries could play the role of a "new type of growth leaders , for developing countries. BRICS coming from a path of underdevelopment themselves, they could support developing countries to develop independent paths of growth, instead of dependent development. Africa is a typical developing-countries' region. Africa's resource endowments create opportunities for adopting an industrial strategy to maximize backward and forward processing linkages with the commodity sectors. Africa's population is now estimated to be 1.033 billion with more than half of the population less than 25 years of age. This makes the it, the continent with the youngest population in the world. Africa is also the most centrally located place on earth, and the world's richest continent in terms of mineral resources—with the most arable land and waterpower in the world. In fact Africa is the most habitable place on earth given the limited occurrence of natural disasters compared to other parts of the world. (Editorial staff, African Globe, 2015). The story of the BRICS and Africa has only just begun. The size of the BRICS economies, their economic potential and their increasing international demand for goods make them particularly relevant to Africa's development. The greatest impact of the BRICS on Africa will be achieved through three key channels: Trade, Investment and Development Assistance. In our analysis G7 (USA, Canada, UK, France Italy, Germany and Japan) and EU are included for comparison and because of their predominant role in the global economy.The goal of his research is to provide an deep insight into the manner in which the BRICS are engaged in Africa from an economic point of view, through Trade, FDI and Financial Linkages. So, a comparative presentation and analysis of BRICS - Africa's relations is carried out, using descriptive statistics methods.

The paper is organized as follows: In Section 2 we analyse the literature available regarding south-south cooperation focusing mainly on Africa and BRICS. In Section 3 we analyse the BRICS' economic performance on the basis of various indicators. In Section 4 we analyse the economic ties between BRICS and their main partners by considering three types of economic involvement: Trade (main trends and sectoral analysis of trade flows) Foreign Direct Investment (main partners, mode of FDI, sectoral distribution of FDI per host country), and Financial Linkages. In Section 5 we present a comparative analysis (similarities and differences) of BRICS economies in terms of their partnership mode with African economies. It further discusses about the benefits accruing to African economies and analyses the opportunities available to and challenges faced by African economies as a result of Africa- BRICS cooperation.

# 2. Literature Review

Regarding the role of BRICS as new economic powers and their role for growth leaders for less income countries there is not enough emprical evidence supported by econometric analysis, due to lack of data and this is a drawback of the research in this field.

De Castro T., (2013), using various trade indices, focuses on regional trade orientation among

BRICS themselves and between BRICS and the Triad (USA,EU, Japan). The results indicate that BRICS's exports to markets other than the Triad are increasing but consist of less significant product groups. The export intensity assessment provided rather independent evidence of BRICS's current behaviour than BRICS as a group.

Armijo L. (2007), approaches the issue from a political economy perspective and concludes that what makes the relative rise of BRICs compelling for the international and world politics, is the future balance between democratic and authoritarian major powers.

Samargandi N., Kutan M., (2016) employing a Global Vector Autoregressive (GVAR) model to explore cross-country effects of private credit shocks on economic growth, find evidence that only private credit shocks in India and China have spillover effects on the growth of the other countries. In other words, it is these two members of BRICS that matters at the global stage, whereas the Brazil, Russia and South Africa remain relatively unimportant.

Samake I., Yang Y (2011), in analyzing the growth spillovers between BRIC and less-income countries, of Sub-Saharian Africa, Asia and Latin America show that there are significant direct spillovers through trade, FDI and real exchange rates.

Mlanchila M., Takebe M., (2011), using descriptive statistics on FDI sectoral flows from BRICs and especially China, into many non resource-rich countries like Angola, Liberia. Sudan, Zambia, states that BRICS play a significant role for growth in those countries.

Morazan et al (2012) looking just at the statistics,show that the merchandise trade between BRICS and Africa (except North Africa) showed an upsurge, leaving that with the European Union behind in 2010.

The GovInn [*](2013) in an overview of development trends in the BRICS focusing on economic, social and ecological trends, emphasizes to the lack of a common political vision behind the BRICS alliance and identifies GDP growth as the only uniting factor.

Kregel J, (2009), analyzing the implication of global crisis for developing countries especially the BRICs. states that the positive impact of export-led growth will be offset by the opposite impact of financial markets, so an alternative strategy will be required.

Moudatsou A., Kaya H.,, (2018) investigate the extent of business cycles transmission from BRICs to LDCs. by employing a global vector autoregression (GVAR) model to a sample of 63 less income countries from Asia, Africa Latin America and the CIS (Commonwealth of Independent States) show that the BRICs don't seem to play any significant role as economic leaders for the Less Developed Countries. The trade links are not strong enough to trigger transmission shocks from BRICs to the developing countries of Asia Africa, Latin America and CIS.

Sidiropoulos E et all (2018), explores both the efforts of the BRICS in advancing reforms in international financial institutions (IFIs), considering specifically how coherent and united the grouping has been in these efforts and the extent to which each member of the group has benefitted. The findings indicate that the BRICS has achieved limited success in its objective of reforming the Bretton Woods institutions (BWIs) and members have not benefitted equally.

Garcia A et all (2016) examining the investment agreements between BRICS countries and Africa (BITs) found that that most BITs signed by BRICS countries are similar to those involving traditional powers. Therefore, the BRICS, more than an alternative to the existing world order, reinforce the Lex Mercatoria, guaranteeing the rights of large multinational conglomerates to the detriment of societies, workers and nation-states.

Hatchie L.,et all (2013) examine the case of BRICS Africa in many aspects. First the potential of the BRICS to reshape global norms, second the relations between each of the BRICS nations and sub-Saharan Africa and finally, they evaluate the role played by South Africa in its particular relationship between Africa and the BRICS. They conclude that the BRICS could have a positive impact on the development of Africa, but on conditions that must be set by the African governments

Kaplinsky R.,et all (2008) summarise the interaction of Africa with seven emerging economies on three vectors of integration: Aid, Trade and FDI. The emerging economies are China, India, Brazil, Korea, Malaysia, Russia and Turkey. In assessing the impact of these interactions, they identify three key vectors of integration – trade, aid and FDI and addresses the strategic implications for policy in Africa to benefit from these partnerships.

Asongu et all (2013), trying to answer the questions about the myths surrounding the nexus China-Africa, analyse the recent literature and prexents the debate on this issue. He concludes that there is no empirical evidence to support the view of negative impacts for the Africa,, on th econtrary the relationship from an economic standpoint is promising and encouraging but more needs to be done regarding multilateral relations, improvement of institutions and sustainability of resources management. African governments have the capacity to tailor this relationship and address some socio-economic matters arising that may negatively affect the nexus in the long-term

Tull (2006) point out that China's Africa interest is part of a recently more active international strategy based on multipolarity and non-intervention. Increased links through trade, aid and debt cancellation could be proved beneficiary for both sides. However, the relationship is only slightly different from previous African-West standards, while supporting authoritarian governments at the expense of human rights, making the financial consequences of increased Chinese involvement in Africa confusing at best.

UNCTAD (2013) has published a very interested research about the role of BRICS in Africa.

# 3. Economic Performance of BRICS on the Basis of Various Economic Indicators

We present the economic conditions of the five BRICS members on the basis of economic indicators which signify the economic and financial condition in each country.

These indicators are GDP (value of goods and services,indicates the size and the growth prospect of the economy), Population, GDP per Capita (gives a rough idea of the living standard in each country) Gold Reserves (is considered as a safe measure of store of value) and Foreign Exchange Reserves.(shows the potential to sustain and external risk), Gini Coefficient and KOF globalization indexes.

**Table 3.1 Different Indicators and their respective values for BRICS countries**

| Indicators | Unit | Brazil | Rusia | India | China | S. Africa |
|---|---|---|---|---|---|---|
| GDP (Dec 2018) * | USD bIllions | 1868 | 1630 | 2176 | 13407 | 368 |
| GDP per capita (Dec 2018)* | USD | 11026 | 11729 | 2104 | 2104 | 7432 |
| Population (Dec 2018) | million | 208 | 147 | 1298 | 1395 | 59 |
| Gold Reserves (Sep 2019) | tonnes | 67 | 2219 | 618 | 1936 | 125 |
| Foreign Exchange Reserves (SEPT 2019) | USD millions | 386478 | 530923 | 437830 | 3092431 | 54860 |

* GDP-current prices, data: http//www.tradingeconomics.com,IMF World Economic Outlook Database (2019).

**Table 3.2 Percentage Share of individual BRICS out of Total Group**

| | Brazil | Rusia | India | China | S. Africa |
|---|---|---|---|---|---|
| GDP (Dec 2018) | 9.60 | 8.38 | 11.19 | 68.93 | 1.89 |
| GDP per capita (Dec 2018) | 32.06 | 34.10 | 6.12 | 6.12 | 21.61 |
| Population (Dec 2018) | 6.69 | 4.73 | 41.78 | 44.90 | 1.90 |
| Gold Reserves (Sep 2019) | 1.35 | 44.69 | 12.45 | 38.99 | 2.52 |
| Foreign Exchange Reserves (SEPT 2019) | 8.58 | 11.79 | 9.72 | 68.68 | 1.22 |

Table 3.1 and author's calculations

From the table 3.2 we can notice that China has the largest population followed by India, the largest GDP followed by Brazil, while Russia has the highest GDP per capita followed by Brazil and China. Regarding the Gold Reserves Russia has the highest share followed by China and India. Finally China (as it was expected) has the highest share in Foreign Exchange Reserves. Continuing our analysis we present below two very interesting indicators, Gini income inequality coefficient and KOF globalization indices.

**Table 3.3 BRICS, Economic Indicators**

**GINI Coefficient 2019 and KOF Globalization Indices 2018**

| | Gini Coeff | KOF GLOB INDEX Overall | rank | Economic Dimension | rank | Social Dimension | rank | Political Dimension | rank |
|---|---|---|---|---|---|---|---|---|---|
| Brasil | 48.7 | 60.52 | 101 | 35.59 | 173 | 62.61 | 116 | 79.53 | 57 |
| Russia | 42 | 72.45 | 51 | 54.22 | 113 | 69.47 | 89 | 93.18 | 14 |
| India | 35.1 | 62.10 | 95 | 39.68 | 158 | 50.90 | 145 | 92.95 | 15 |
| China | 46.5 | 65.08 | 80 | 46.36 | 140 | 56.34 | 132 | 90.73 | 27 |
| S. Africa | 62.5 | 70.12 | 61 | 55.34 | 108 | 66.28 | 102 | 88.06 | 34 |
| Reference | | | | | | | | | |
| US | 47.0 | 82.10 | 23 | 67 | 65 | 85 | 23 | 93 | 12 |
| Germany | 27.0 | 88.17 | 8 | 24 | 79 | 87 | 13 | 97 | 3.00 |

Data: Gini-coef, Central Intelligence Agency "The World Factbook" 2018. The KOF Globalisation Index – Revisited, Review of International Organizations. https://doi.org/10.1007/s11558-019-09344-2

The Gini Index indicates a very high inequality for S. Africa, Brazil and China while Russia and India reports a moderate Gini value.

According to the KOF globalization index, Russia is the most globalized country among the BRICS (49th rank) whereas Brazil is the less globalized one (101th rank) This index measures the following three dimensions of globalization: economic, social and political indicators. We observe  big in this index differences among BRICS. Further it is noted a considerable distance of KOF indices  between BRICS and the USA (32n classification by 74.94).

If we look at the different dimensions of globalization i.e the economic dimension, all BRICS report high rank values that means, they exhibit low levels of economic globalization. The higher the rank value the less the globalisation level. Still the distance to the US index remains high (65th rank compared to more than 100th rank of BRICS countries). The reasons for this could be economic restrictions such as capital controls and trade barriers. Since, globalization aims to benefit individual economies around the world by making markets more efficient, increasing competition, limiting military conflicts, and spreading wealth more equally, we think that BRICS should done more on this direction.

# 4. Economic ties between BRICS and their main partners

In this section we analyse the economic ties between BRICS and their main partners by considering three types of economic involvement: Trade (main trends, regional and sectoral analysis of trade flows) Foreign Direct Investment (main partners, mode of FDI, regional and sectoral distribution of FDI), and Financial Linkages.

The Goldman Sachs/ O'Neil (2001) BRIC thesis recognizes that Brazil, Russia, India and China have changed their political systems to embrace global capitalism. It is argued that China and India will become the dominant global suppliers of manufactured goods and services, while Brazil and Russia will become dominant suppliers of natural resources.  Cooperation amongst members of that group is thus expected to be the next step. However, it is not clear if such a cooperation will emerge because whilst China seems to be the largest trading partner of most of the BRICs the trade amongst the other members is relatively little. Moreover, all of them have a dominant trade partners the EU and the US. This is presented in the following paragraph.

## 4.1 BRICS' Merchandise Trade-Regional Distribution - Main Partners

On the following tables we give a brief overview of the position of BRICS in relation to key international players in world trade. BRICS gain an increased share in international commodity trade. From the tables below we can notice that China, dominates among BRICS in international trade, followed by India and Brazil, while Russia possesses a smaller share. US and EU possess the biggest shares in international trade, a fact that give them the role of dominant regions in Global Economy.

**Table 4.1.1 World Merchandise Exports -Selected Economies (percentage of the world total)**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|
| Brazil | 1.31 | 1.28 | 1.19 | 1.16 | 1.16 | 1.23 | 1.23 |
| China | 11.07 | 11.66 | 12.34 | 13.75 | 13.09 | 12.77 | 12.78 |
| EU | 31.38 | 32.07 | 32.43 | 32.59 | 33.58 | 33.33 | 33.26 |
| India | 1.60 | 1.66 | 1.70 | 1.62 | 1.65 | 1.69 | 1.67 |
| Russian Federation | 2.86 | 2.75 | 2.62 | 2.06 | 1.76 | 1.99 | 2.28 |
| S. Africa | 0.54 | 0.51 | 0.49 | 0.49 | 0.48 | 0.50 | 0.48 |
| US | 8.35 | 8.34 | 8.54 | 9.09 | 9.06 | 8.72 | 8.57 |
| Rest Regions | 42.89 | 41.74 | 40.70 | 39.25 | 39.23 | 39.77 | 39.73 |

Source: Worldtrade Organization Data base and authors' calculations

**Table 4.1.2 Merchandise Imports -Selected Economies (percentage of the world)**

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|
| Brazil | 1.25 | 1.32 | 1.25 | 1.07 | 0.88 | 0.87 | 0.95 |
| China | 9.70 | 10.24 | 10.24 | 10.00 | 9.76 | 10.22 | 10.75 |
| EU | 31.76 | 31.56 | 32.12 | 31.68 | 32.80 | 32.59 | 32.69 |
| India | 2.61 | 2.44 | 2.42 | 2.35 | 2.22 | 2.49 | 2.59 |
| Russian Federation | 1.79 | 1.79 | 1.61 | 1.15 | 1.18 | 1.32 | 1.25 |
| S. Africa | 0.68 | 0.66 | 0.64 | 0.62 | 0.56 | 0.56 | 0.57 |
| US | 12.47 | 12.23 | 12.61 | 13.79 | 13.83 | 13.35 | 13.15 |
| Rest Regions | 39.74 | 39.76 | 39.11 | 39.34 | 38.77 | 38.59 | 38.05 |

Source: Worldtrade Organization Data base and authors' calculations

On the basis of their shares in each BRICS's member total trade. Africa, although isn't among the key players, has been included for comparison and because it is the subject of this research.

Indicative and for better presentation purposes, we present in charts the main trade partners for the year 2018 (annex tables A1, A2). A detailed presentation of the evolution of BRICS trade for the last decade (2009-2018) is available and given upon request.

**Chart 1. BRICS EXPORTS - MAIN PARTNERS 2018 (percentages of world total)**

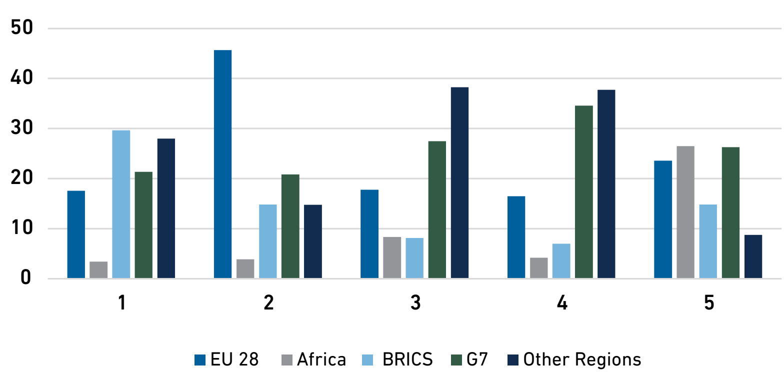
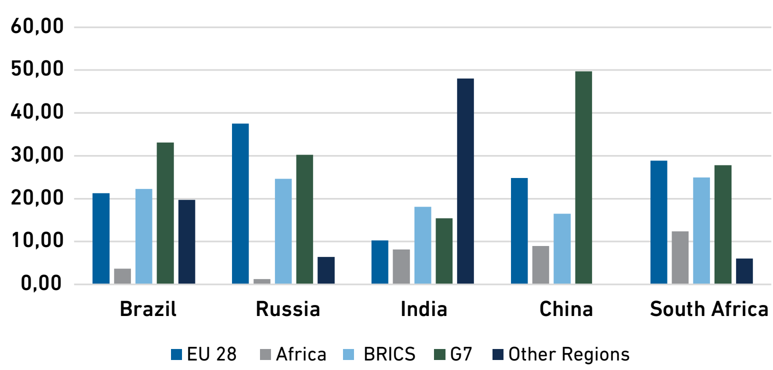



**Chart 2. BRICS IMPORTS - MAIN PARTNERS 2018 (percentages of world total)**




Data : International Trade Statistics (ITC) and author's calculations

From the above charts, we have to note the following: The most important partners for each BRICS member, particularly for Brazil and Russia are EU28 and G7 (some of G7 belong to the EU group as well). BRICS trade with Africa is trivial. Just China and India exhibit significant trade shares.

Then we proceed to the detailed the regional distribution of trade for the period 2009- 2018 separately for each particular BRICS' member.

For better presentation and comparison purposes, we present the first 2009 and the last 2018 year of the decade. Detailed data for the whole period 2009-2018 are presented in annex tables of this paper and are available on request).

Since BRICS are diversified regarding their trade partners, for comparative reasons and for identify the most important partners for each member, we proceed to the following calculations. The regional percentages on the tables have been calculated on world total. By this way we identify for each BRICS member it's most important partners/regions. Then we proceed by calculating the percentages on individual BRICS on BRICS total, and the US percentage on G7 total. By this way we identify the key partners of each BRICS's member in individual regions, Note: Some countries of EU28, belong also to G7 group, but this does not change the overall picture of the regional distribution.

In particular, by analyzing the annex tables (A3 το A12) for each BRICS' member separately we can observe the following:

## Brazil:

Based on export shares, the main Brazil's partners are BRICS, G7 and EU28. Over the last decade Brazil's trade with the BRICS has been increased while with EU and G7 to some extent, has been decreased. The figures in the tables below show that amongst the BRICS, China is the Brazil's main partner, while amongst the G7, is the US. It should be noted here that the share of China and the US in Brazilian exports has increased significantly by about 10% over the last decade (2009-2018) Regarding Brazil imports, main partners are G7, BRICS and EU28 Amongst BRICS, China is the main partner while amongst G7 the main partner is the US. Africa's share of both imports and exports of Brazil, is trivial, less than 5% and is declining.

**Chart 3. BRAZIL'S EXPORTS TO SELECTIVE ECONOMIES (percentages of world total)**

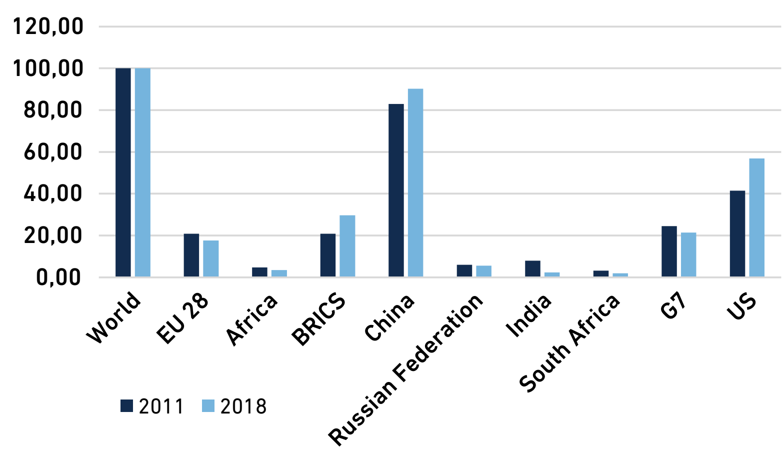
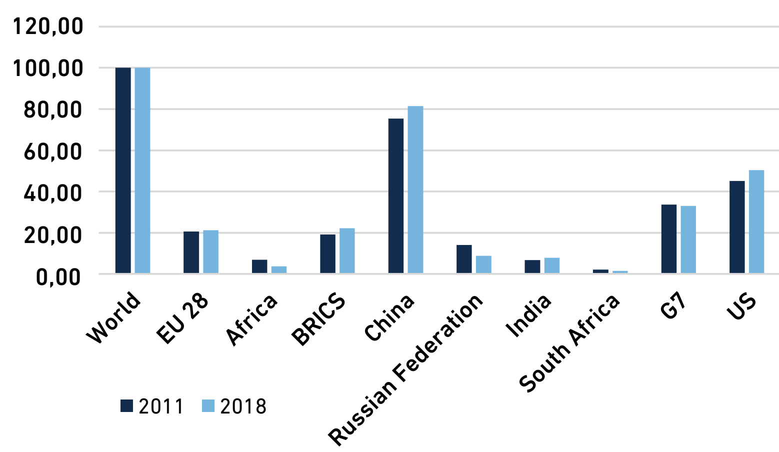



**Chart 4. BRAZIL'S IMPORTS FROM SELECTIVE ECONOMIES (percentages of world total)**




Data : International Trade Statistics (ITC) and author's calculations

## Russia:

Most important partners for Russia's exports are EU28, G7 and the BRICS. The exports to BRICS have been almost twofold, during the last decade while the exports to EU28 and the US have been declined.. Imports have the same order of priority regarding Russia's main partners. Most important partner is EU28, G7 and BRICS Amongst BRICS China is the most important Russia's partner. Africa's share of Russia's exports and imports is trivial, less than 4%.

**Chart 5. RUSSIA'S EXPORTS TO SELECTIVE ECONOMIES (percentages of world total)**

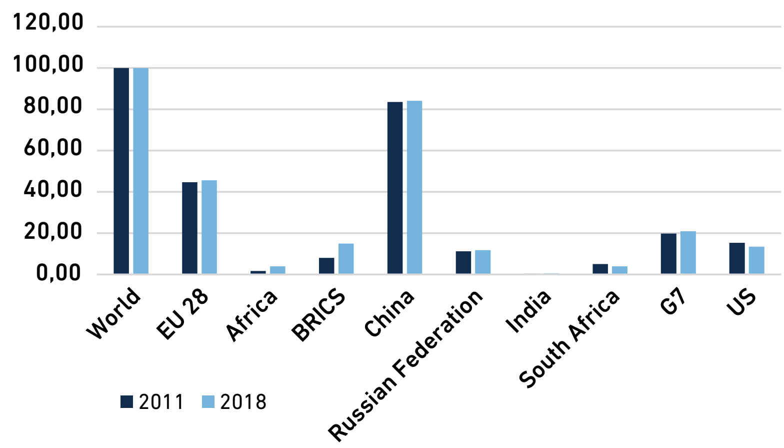
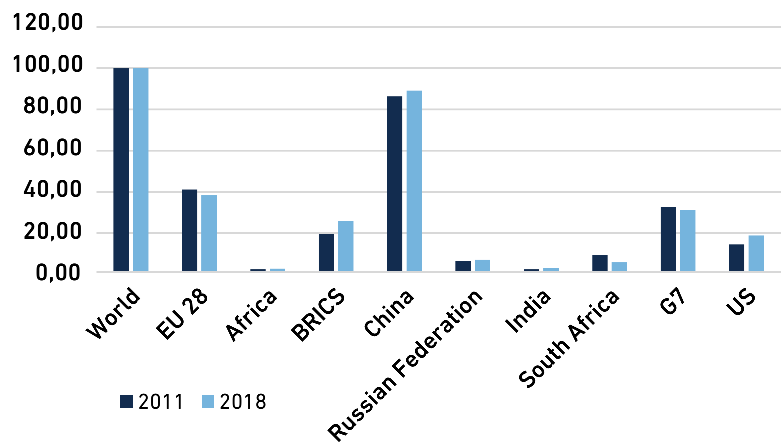



**Chart 6. RUSSIA'S IMPORTS FROM SELECTIVE ECONOMIES (percentages of world total)**




Data : International Trade Statistics (ITC) and author's calculations

## India:

Most important partners for India's exports are G7, EU28 and BRICS. Regarding India's imports the order of importance is reversed,most important partners are, BRICS, G7 and EU28. In both cases amongst BRICS, China is the most important partner and amongst G7, the US is the most important partner. Exports and imports from Africa reach about 10%.

**Chart 7. INDIA'S EXPORTS TO SELECTIVE ECONOMIES (percentages of world total)**

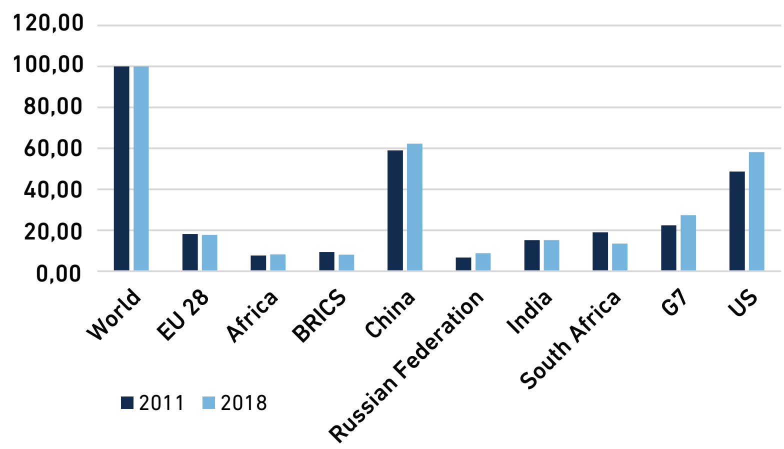
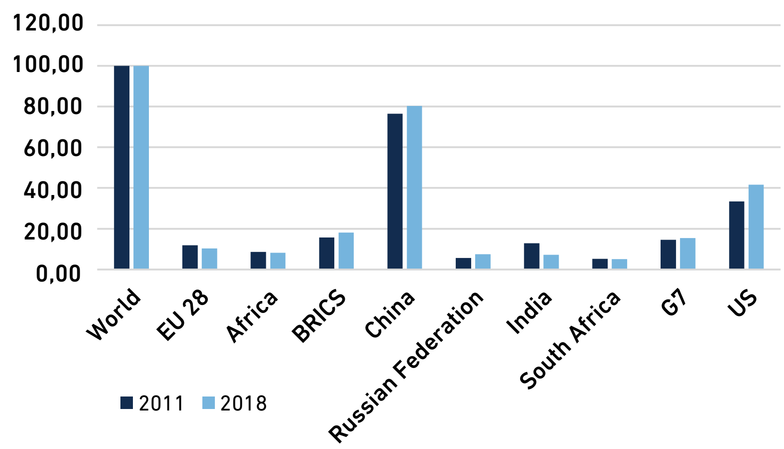



**Chart 8. INDIA'S IMPORTS FROM SELECTIVE ECONOMIES (percentages of world total)**




Data : International Trade Statistics (ITC) and author's calculations

## China:

Most important partners for China's exports are G7, EU28 and BRICS.  Amongst G7 most important partner is the US. Among BRICS most important partner is India. Regarding China's imports the picture is similar to that of exports. Main partners are G7, EU28 and BRICS. Most important partner amongst G7 is the US and amongst BRICS most important partners are India and Russia. Regarding  Africa, China's exports do not exceed 7% of its total exports, while China's imports from Africa account 9% of its total imports.

**Chart 9. CHINA'S EXPORTS TO SELECTIVE ECONOMIES (percentages of world total)**

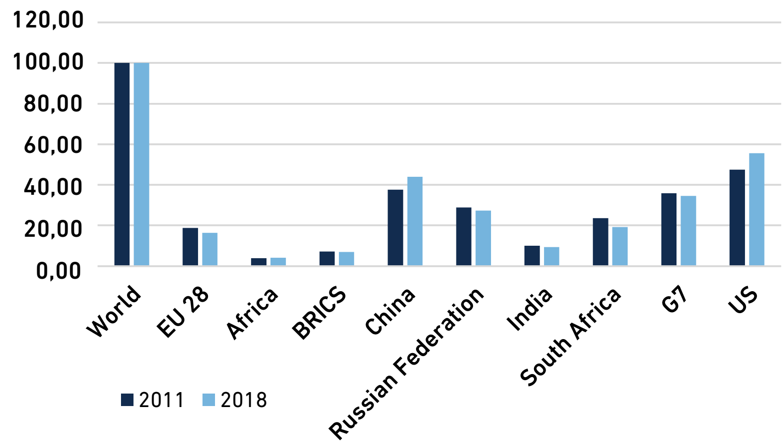
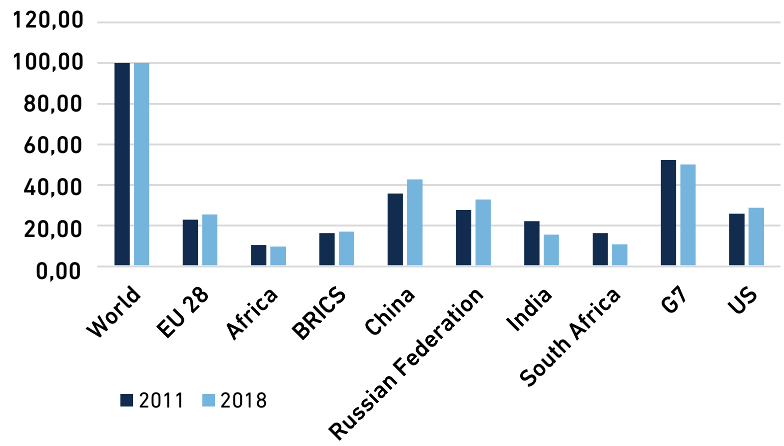



**Chart 10. CHINA'S IMPORTS FROM SELECTIVE ECONOMIES (percentages of world total)**




Data : International Trade Statistics (ITC) and author's calculations

## South Africa:

Regarding exports, main partners are G7, Africa, EU28 and the BRICS. Regarding imports, most important partners are EU28, G7, BRICS, and Africa. Amongst BRICS, China is the most important partner in both imports and exports. We should notice here that, amongst BRICS, South Africa together with China exhibit the highest rates of trade with Africa.

**Chart 11. S AFRICA'S EXPORTS TO SELECTIVE ECONOMIES (percentages of world total)**

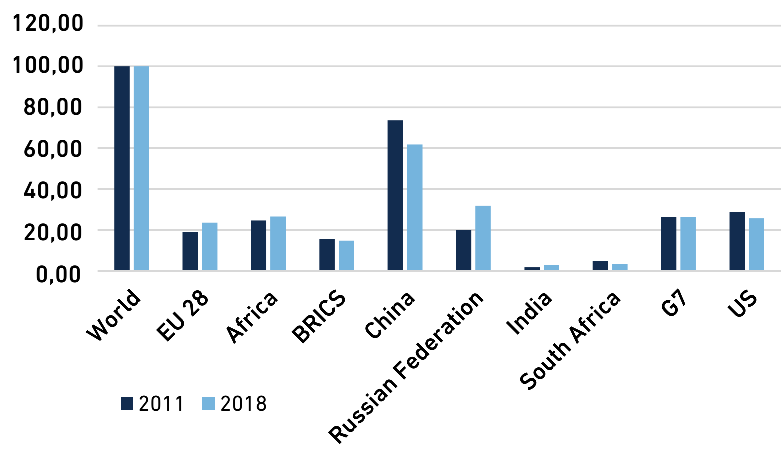
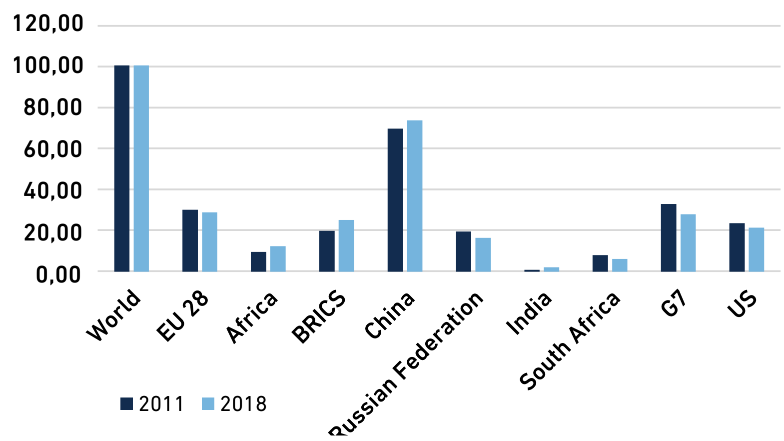



**Chart 12. S AFRICA'S IMPORTS FROM SELECTIVE ECONOMIES (percentages of world total)**




Data : International Trade Statistics (ITC) and author's calculations

Regarding Africa, the trade with BRICS even it has been raised between 2011 and 2018, it is trivial with the exception of the cases of India and China which show a significant share of trade with Africa. This should be born in mind when we will examine thoroughly the perspectives of Africa-BRICS links.

## 4.1.1 BRICS -AFRICA Trade - Main Products per partner and their positions on Global Value Chains -

The theory of global value chains has highlighted the value-added of different phases of sub--stage production and services. From the perspective of global production sharing, economic growth can be driven by a country's (or a firm's) upgrading from the relatively lower-valued to the relatively higher-valued activities (Humphrey, 2004; Brach and Kappel, 2009).At the macrolevel, upgrading may refer to the transition from low value added (i.e. low skill, labor intensive stages) to high value-added phases (i.e. high skill, human-capital intensive stages).In the long run, however, it is technology that plays the key role in determining competitiveness. Loosely speaking, higher technology means higher productivity, and therefore a higher position in the global value chains. For developing countries, the integration in global production sharing facilitates their access to the international knowledge pool and allows them to learn and adapt technologies faster.

Chen (2012) explores the interconnections between the BRIC(without S Africa) economies and the world economy by analyzing, through their trade patterns. their key competitiveness and disadvantages in the global value chains. The author shows evidence that the BRIC economies continue in the lower value-added fragments of the global value chains. In the long term, their economic growth might be constrained by technological capacity. Therefore, in order for the BRICs to sustain their development in the long run, they need to focus on improving their technological capacity to move up the value chains.

At this point in our research we will focus on the BRICS trade with Africa, identify key trade sectors and further examine how dynamic these sectors are for the development of African countries, according to their position in the global value chain. For better understanding and for linking the results to the theory of the Global Value Chains (GVC) we matched the ITC codes of product classification which are based on Harmonized System (HS) to Lall 2000 classification codes. The classification scheme introduced by Lall Σ., (2000) ranks the traded goods into primary products category, plus four types of manufactured exports (resource-based, low-tech, medium-tech and high-tech). Through this classification we can study the growth opportunities, that comes out from our data, especially for African countries. (the charts were derived from annex tables A17 and A18, which are available on request). We present in brief, the charts which describe the structure of African trade with the BRICS. For comparison we present the data for 2009 and 2018 to have a look about the changes in the trade structure through the last decade.

## 4.1.2 BRICS EXPORTS TO AFRICA -MAIN PRODUCT SECTORS, percentages (Lall Classification, 2000)

**Chart 13. PRIMARY PRODUCTS PERCENTAGES, 2009 AND 2018**

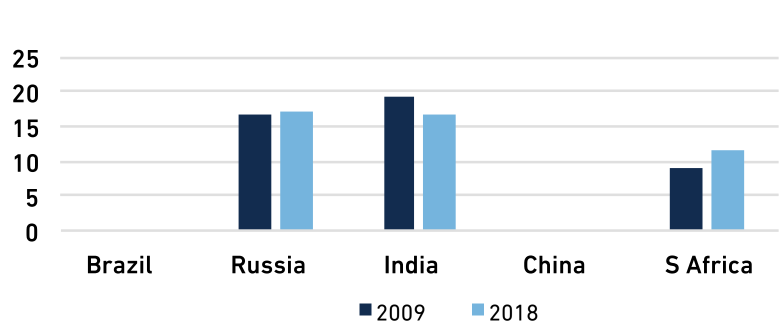
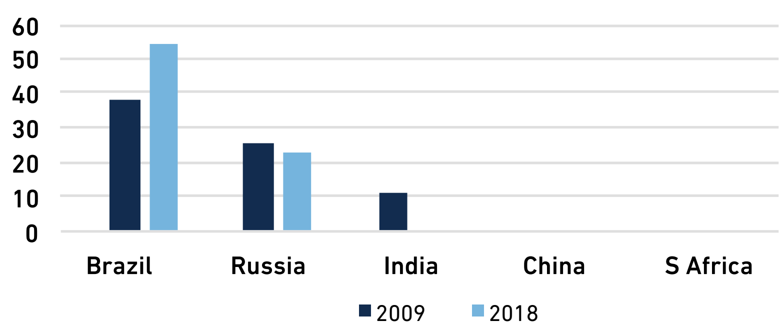



**Chart 14. RESOURCE - BASED MANUFACTRURES PERCENTAGES, 2009 AND 2018**




Data : International Trade Statistics (ITC) and author’s calculations

**Chart 15. MEDIUM TECHNOLOGY MANUFACTURES PERCENTAGES 2009 AND 2018**

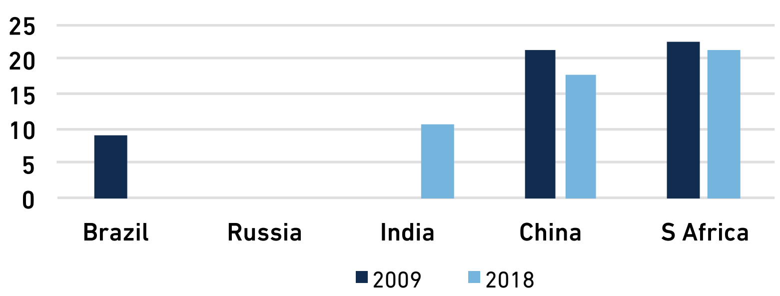
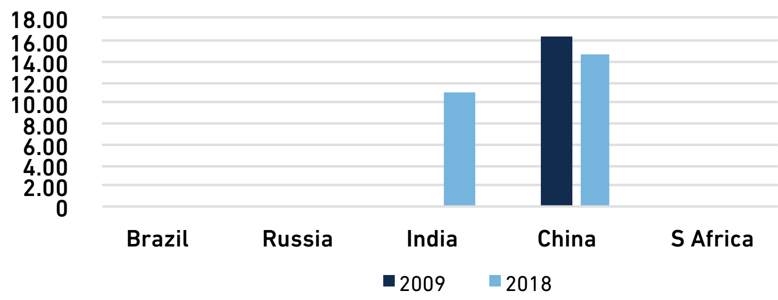



**Chart 16. HIGH TECHNOLOGY MANUFACTURES PERCENTAGES 2009 AND 2019**




Data : International Trade Statistics (ITC) and author's calculations

## 4.2.2 BRICS Imports from AFRICA -MAIN PRODUCT SECTORS, percentages (Lall Classification, 2000)

**Chart 17. PRIMARY PRODUCTS**

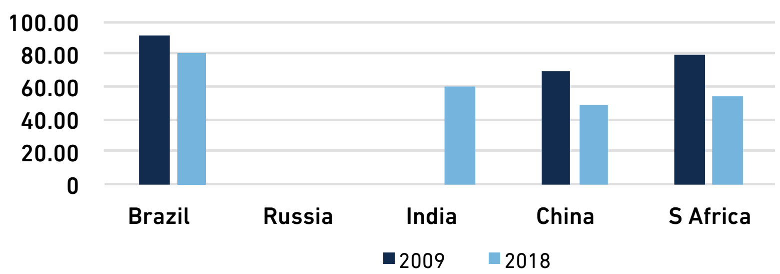
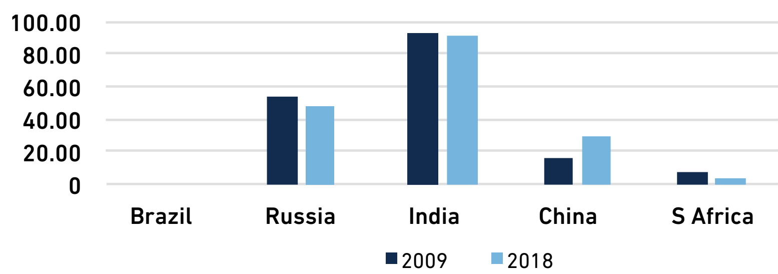



**Chart 18. RESOURCE BASED MANUFACTURES**



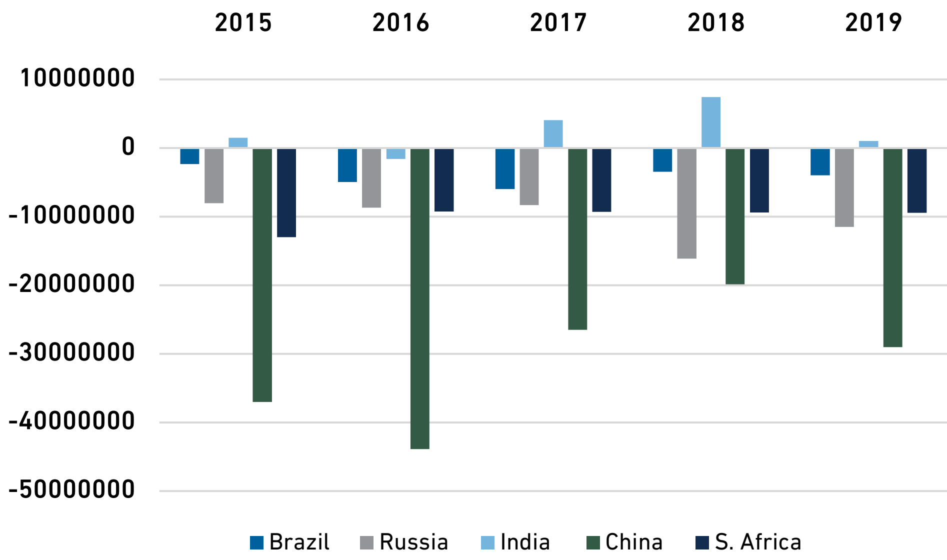

Data : International Trade Statistics (ITC) and author's calculations

Looking at the most recent ITC's data for the year 2018, BRICS are differentiate in terms of their exports to Africa (annex tables, available on request)

Brazil exports mainly resourced based products (55%) Russia exports primary products (17.2%) and resource-based manufactures (23,2%), India exports primary (16.6%) medium (10.9%) and high tech manufactures (10.9%), China exports medium (17.7%) and high tech manufactures (14.3%) and S Africa exports primary (11.74%) and medium technology manufactures (21.4%)

Regarding the imports from Africa, which are of crucial importance for it's growth perspectives, Brazil, China and S Africa import primary products at a rate 80%, 49,9% and 57.74% respectively (2018), Russia India and China import resource-based manufactures at a rate 47%, 84% and 27% respectively. These products have a very low position in global value chains. The evidence from ITC data confirm the previous argument, as despite the increase in trade, Africa has a significant trade deficit with the BRICS.

Chart 18A. AFRICA'S (EXCL S AFRICA) MERCHANDISE TRADE BALANCE WITH BRICS (THOUSAND $)




Data : International Trade Statistics (ITC) www.trademap.org

By summarizing the results form trade-shares analysis we can notice the following:

The trade-shares of BRICS with Africa (with the exception of China) is too small and can be summarized under two key features: Africa's exports to the BRICS are dominated by fuels and primary commodities (mainly to China and India). These products are very low in the global value chains and are vulnerable to the international price fluctuations. Besides, the trade of these products does not create linkages with the local economy. The BRICS' exports to African countries are dominated by manufactured goods (mainly by China and India). That suggests that Africa may find it harder to break into exporting in non-primary commodity sectors. So Africa may be trapped in internal and external dualities and inequalities.

Looking at the descriptive statistics the question which arises about the perspective for developing African countries is: How much can African countries benefit from trade with the BRICS? Descriptive statistics gives a first approach but, in order to answer this question in depth, a quantitative analysis would be necessary to measure trends and impacts and this is what we are going to do in the second phase of this research.

Since African countries are lacking of capital and high-skilled labor but are abundant in natural resources and/or low-skilled labor, we could proceed on studying how can they participate into global production sharing and find competitive niches in (low-skilled) labor intensive production activities.

## 4.1.3 Trade Limitations and the Growth Potential for African Economies.

At this point we must refer to the trade restrictions of Africa, which are due to the peculiarities of the countries of this continent.

Regardless the increase of BRICS-Africa trade, Africa's global share of merchandise trade has reduced over the decades. This is partly because the continent has concentrated on the exportation of few primary commodities (i.e., mineral fuels, iron ores, gold, cocoa beans) with volatile prices and demand in the global markets. The picture of Africa in terms of trade structure can be summarized in three indicators.

Trade similarity index (TSI) as developed by modern trade theories (Finger et all, 1979, Grubel et all 1971 and Linder SB 1961) is an indicator that helps to verify whether the structures of two economies or continents' products traded are similar or dispersed. Values closer to 1 indicates the higher similarity or identical products trade structure between economies or continents, also known as overlap of trade. Even though Africa's index has been improved from 0.41 in 1995 to 0.47 in 2013(UNCTAD data) it was still below developing countries. According to this index Africa mostly imports finished products and exports raw materials which are heterogeneous in compositions. As a consequence, its trade structure has not been equivalent to the advanced and newly industrialized economies.

Trade complementarity index (TCI) is another index, which provides significant information on intra--regional trade (Michaely M., 1996, Frankel et all 1996). A high index might signify that two nations stand to benefit from increased mutual trade. The TCI in developing countries has increased over time at the expense of developed economies (UNCTAD, data) Even though Africa has improved, it is still below Eastern Asia, South America, and developing countries' averages. This implies that the continent's export structure has not proportionally matched that of its importing partners.

The Herfindahl-Hirschman index (HHI) also known as the Herfindahl index indicates how exports and imports of a country or continent (or regional groups) concentrate on a few products or otherwise distributed in a more homogeneous manner among a broad range of products. Product and market diversification is promoted to avoid countries or companies from being vulnerable to the market shocks, usually occasioned by price, demand, and market access directions.

Two more indices (UNCTAD data 2015) the diversification index (EPDI), and the export product concentration index (EPCI), showed that Africa has concentrated only in few product groups for exports. That makes it vulnerable to extrenal market shocks.

The above analysis shows the pathogenesis of Africa in terms of its integration into international trade.Certainly the concentration on exports mainly ov raw materials create obstacles to the transformation of trade that will push growth.

The structure of trade between BRICS and Africa does not differ from the above framework but tightening Africa's trade relations with the BRICS could create growth opportunities.

This depends on African countries' capacity to negotiate favourable trade concessions from the BRICS.. Moreover, the extent to which African countries use efficiently scarce capital resources and making maximum use of abundant but currently underused labour in producing their exports will determine how much export earnings benefit ordinary African citizens.

At the same time, Africa should take into account several risks in its trade cooperation with the BRICS. First, trade-led growth of national output may have little impact on employment and development, particularly when most of the trade is in primary commodities with few linkages to the rest of the economy and when many export earnings accrue to foreigners. This, not only bias the economy in the wrong direction but also reinforce internal and external dualities and inequalities. Second, the growth of China and other BRICS suggests that Africa may find it harder to break into exporting in non-primary commodity sectors as well. However, with wages rising in China—often steeply—new opportunities may emerge for African countries.

## 4.2 FDI PATTERNS – WORLD TRENDS

The development literature contains evidence on the degree to which FDI affects economic growth. The effects of FDI on the host country's economic growth differ by growth model—neoclassical or endogenous. According to neoclassical models, FDI can only affect growth in the short run because in the long run, diminishing returns to capital set in. It also postulates that long--run growth can only arise from both exogenous labour force growth and technological progress. Endogenous growth models, in contrast (i.e. Barro and Sala-i-Martin, 1995) argue that FDI promotes economic growth even in the long run through permanent knowledge transfer, as via technology spillovers from advanced to lagging countries (Bengoa and Sánchez-Robles, 2003).Especially for developing economies, FDI is a key tool for their growth and development since it has the potential to generate income and jobs, while shaping the future of the economies where investment is taking place. However,the mode of FDI is very important for the host economy since different forms of investment create different perspectives and opportunities for the host economy.

In economics we distinguish two types of foreign direct investment, greenfield and brownfield. According to the Bureau of Economic Analysis (BEA) a greenfield investment is a form of market entry commonly used when a company wants to achieve the highest degree of control over foreign activities. Apart from potential tax breaks or subsidies in establishing a greenfield investment, the overarching goal of such an investment is to achieve a high level of control over business operations and to avoid intermediary costs. This type of involvement is completely different than indirect investments, where companies may have little or no control in operations, quality control, sales and training. Since the investor has the control of the plant there are few possibilities of job and other economic links creation with the local economy, which is extremely important for the host developing economies. Moreover as a long-term commitment, one of the greatest risks in greenfield investment is the relationship with the host country. Any circumstances or events that result in the company pulling out of a project at any time can be financially devastating. Since the developing countries tend to offer incentives to create green field investments, the elements of that mode of investment is crucial for the development impact and opportunities they create in host economies.

In this part we are going to analyse the following important aspect of BRICS -FDI linkages.

a) The position of BRICS in the world FDI distribution in relation to EU and G7. b) The FDI flows from BRICS to Africa per sector and host economy. c) The mode of FDI flows, focusing on African countries.Before proceeding to BRICS-FDI analysis we present some recent data about global FDI trends FDI patterns. UNCTAD (2019) reports that in 2017 developing economies in Asia and Oceania accounted for more than two thirds of all developing economy inflows and more than 90 per cent of their outflows. Developed economies, by contrast, generate more FDI than they receive.. On the following charts below we present the FDI inflows distribution among developed and developing world.

**Chart 19. FDI - OUTFLOWS, WORLD, PERCENTAGES, 2011-2018**

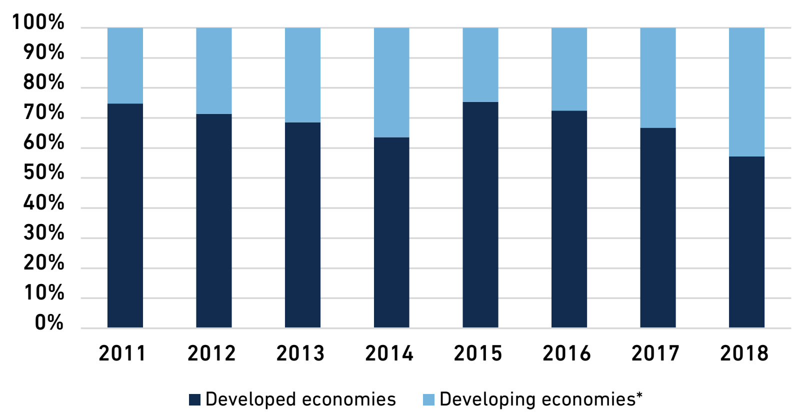
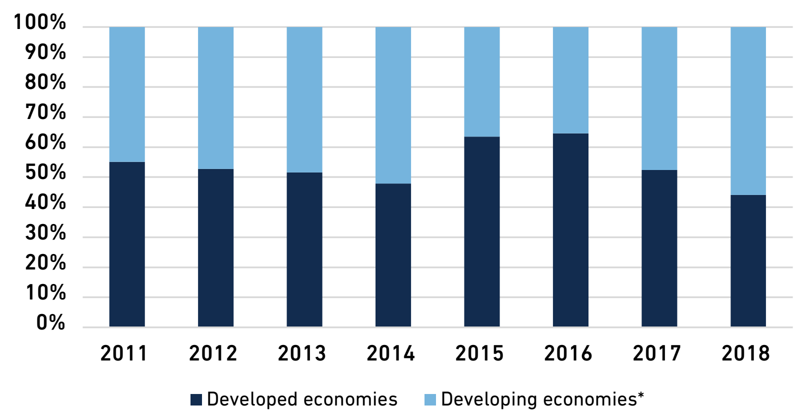



**Chart 20. FDI INFLOWS, WORLD, PERCENTAGES, 2011-2018**




Source: UNCTAD-WIR 2019 statistics and author`s calculations

**Chart 21. FDI INFLOWS PER REGION AND ECONOMY (PERCENTAGES WORLD TOTAL)**

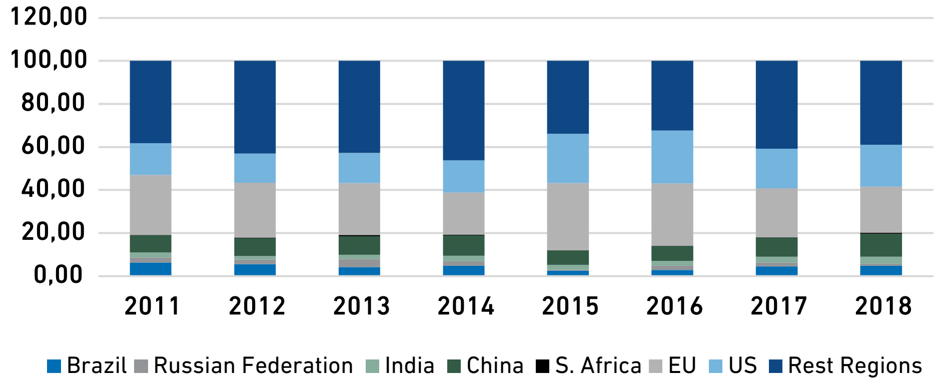
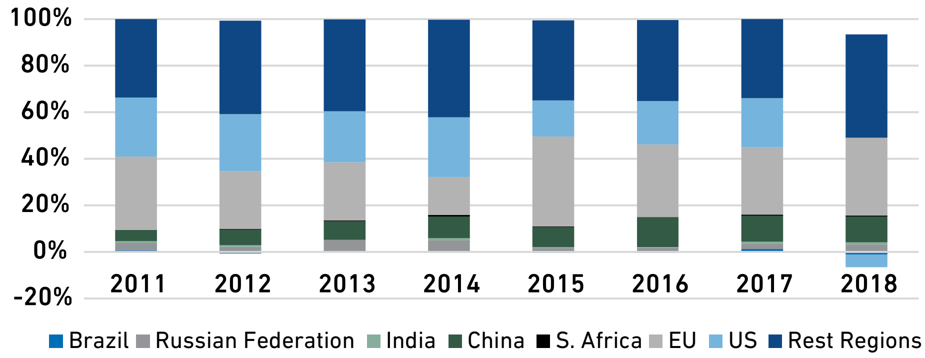



**Chart 22. FDI OUTFLOWS PER REGION AND ECONOMY (PERCENTAGES WORLD TOTAL)**




Source: UNCTAD-WIR 2019 statistics and author`s calculations

From the charts above, we observe that the share of developing counties as host and home regions of FDI decreases (the charts derived from detailed data tables, available on request). Regarding the position of BRICS in the international investment context, the main home and host FDI countries are China and Brazil.

Using the most recent available data (UNCTAD –WIR 2019) we present, the world distribution of FDI green-field projects per sector and per destination and source economy, In the charts below, we can see that the bulk of the foreign direct foreign investments was made in manufacturing and services. Among the host economies most important is EU, while among BRICS most important is China followed by India. Among the source countries again EU is the most important home region and among BRICS, China and India are the most important foreign investors.

**Chart 23. FDI GREENFIELD ANNOUNCED PROJECTS BY DESTINATION SELECTED ECONOMIES 2005-2018 PERCENTAGES OF TOTAL WORLD**

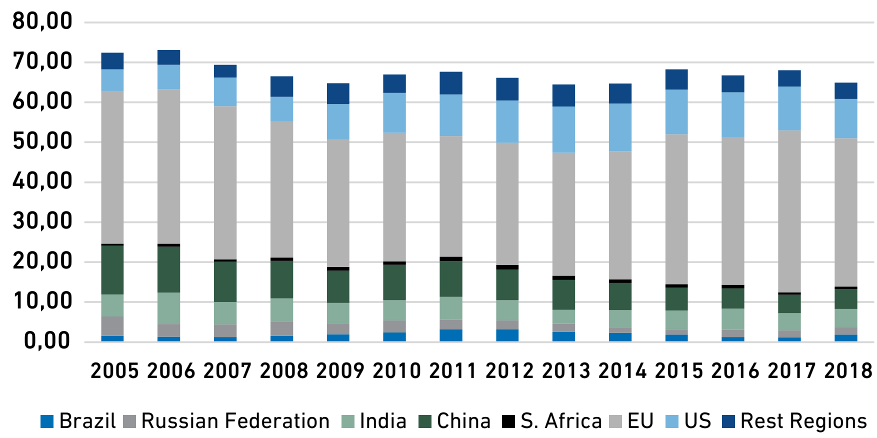


**Chart 24. FDI GREENFIELD ANNOUNCED PROJECTS PER SECTOR, 2005-2018 (PERCENTAGES OF WORLD TOTAL VALUE)**

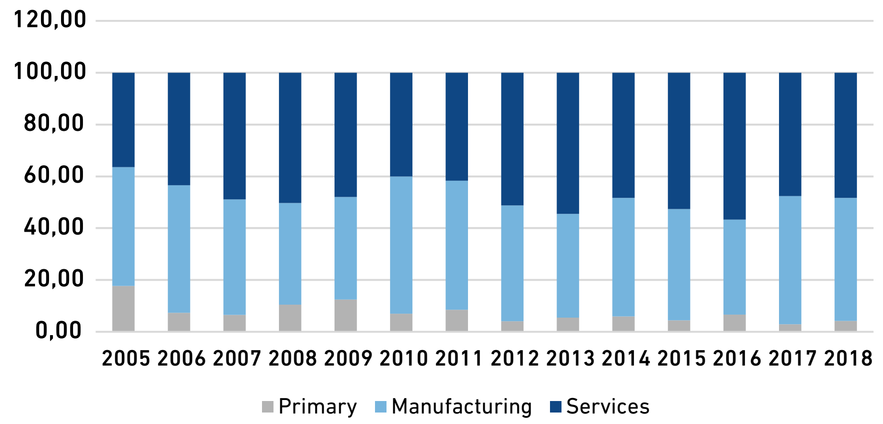
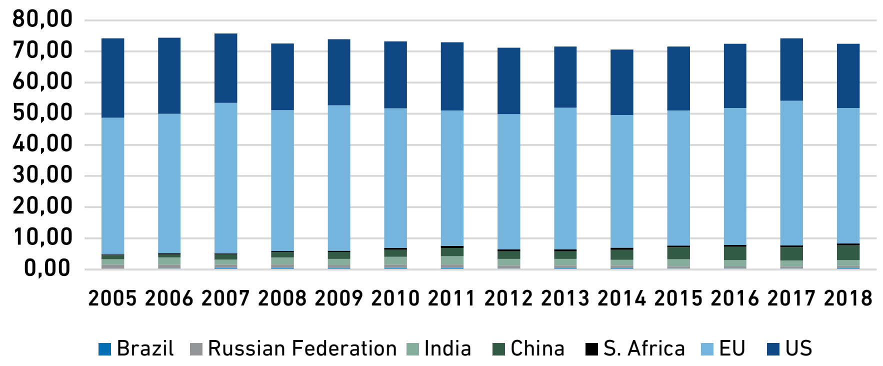


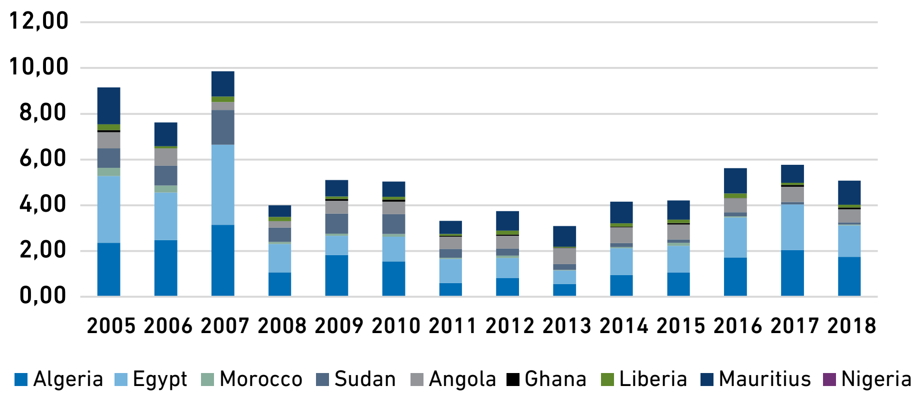

**Chart 25. FDI ANNOUNCED PROJECTS BY SOURCE, SELECTED ECONOMIES 2005-2018 (PERCENTAGES OF TOTAL WORLD)**




Source: UNCTAD-WIR 2019 statistics and author calculations

Regarding African countries, the most important FDI host economies are Egypt, Morocco, Ghana and Nigeria (Chart 26 below)

**Chart 26. AFRICA-ANNOUNCED GREENFIELD PROJECTS, BY DESTINATION SELECTED ECONOMIES**




Source: UNCTAD-WIR 2019 statistics and author calculations

According to UNCTAD 2016 Report about Africa (the most recent available data) services and manufacturing are the biggest receivers of greenfield FDI, while the bigger investor are Developing Economies with China to keep the biggest share.

**Table 4.2.1 Greenfield FDI in Africa, distribution per sector and country of origin, 2016**

| | | | |
|---|---|---|---|
| Primary Sector | 3,95 | Developed economies | 21,24 |
| Mining-quarring-petroleum | 3,95 | EU | 12,61 |
| Manufacturing | 20,61 | Italy | 4,26 |
| Textiles | 1,14 | US | 3,87 |
| Petroleum products | 5,69 | Japan | 3,26 |
| Chemicals | 5,43 | Developing economies | 78,28 |
| Motor Vechicles-Transport equip | 2,96 | Africa | 9,15 |
| Services | 75,45 | Morrocco | 5,05 |
| Electricity | 16,58 | China | 38,42 |
| Construction | 17,79 | Singapore | 3,40 |
| Transport and Communications | 13,69 | Saudi Arabia | 4,31 |
| Business Services | 24,17 | United Arab Emirates | 11,70 |

Source:Unctad 2016 Report on Africa and author`s calculations

**Chart 27. AFRICA AS GREENFIELD FDI DESTINATION, GREENFIELD PROJECTS, DISTRIBUTION PER COUNTRY OF ORIGIN 2016**

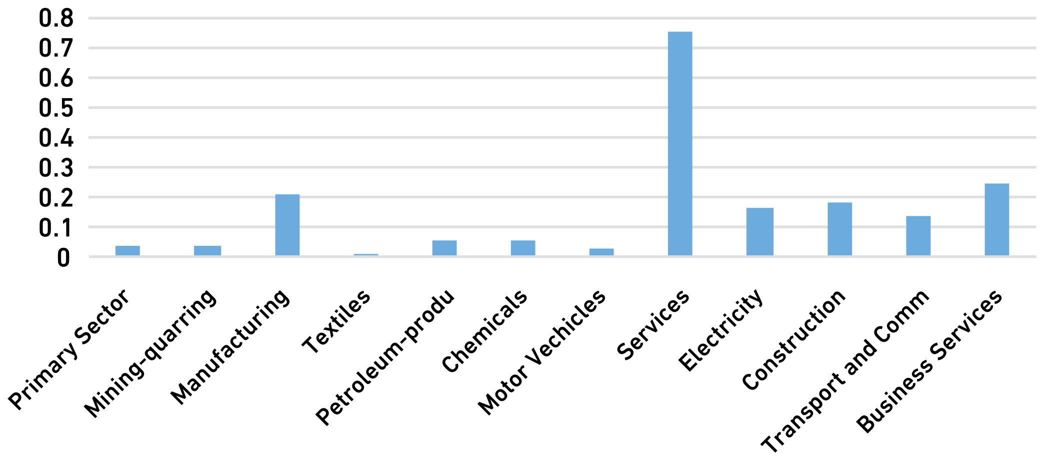
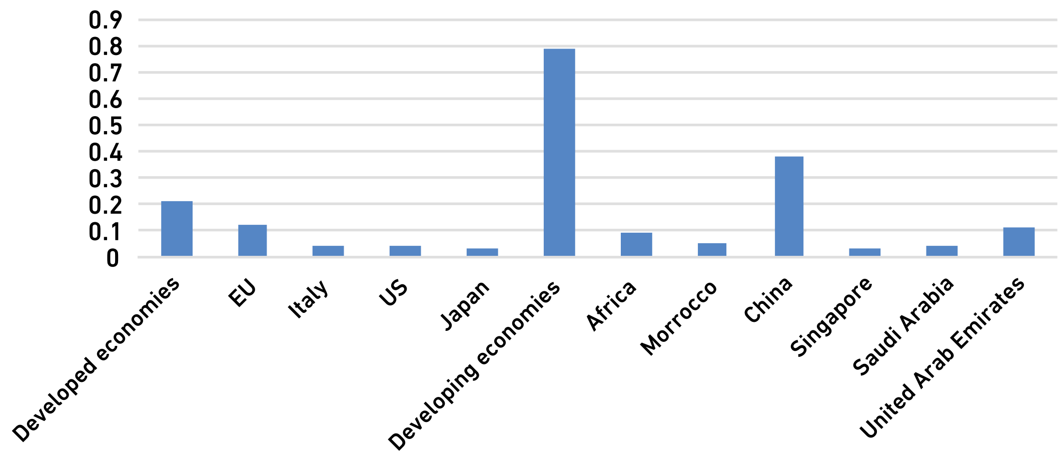



**Chart 28. AFRICA AS GREENFIELD FDI DESTINATION, GREENFIELD PROJECTS BY SECTOR**



### 4.2.1 BRICS investment in Africa: Mode-Sectoral Distribution-Trends

Bilateral data on FDI flows and stocks among BRICS and African countries after 2012 are not available in any free data base UNCTAD, World Bank) not even in BRICS` Central Banks` statistics. The most recent available information about the BRICS FDI in Africa is reported in UNCTAD 2013 Report "The rise of BRICS FDI in Africa".

By analysing information from UNCTAD Report (2013, on the sectoral distribution of BRICS outward FDI in Africa we have to notice the following.

Among BRICS, China is the biggest investor. China's FDI is focused on resource (resource seeking) market invasion. (market seeking) and labour-intensive activities (efficiency seeking investment). Chinese resource seeking FDI has been largely concentrated mainly in extractive industries (mainly in Angola, and Nigeria). Chinese market-seeking investment is focused on construction on transport infrastructure.

Labour-intensive activities are moved to places where a low-cost but efficient workforce is available, generating new opportunities to export services for those African countries that can provide them competitively. These efficiency-seeking investments could create linkages with local African domestic producers, which should therefore produce sustainable exports with higher domestic value added, in turn strengthening domestic businesses.

Regarding the other countries of the group:

Indian FDI to Africa is concentrated in oil, gas and mining in the primary commodities market. In the manufacturing sector, a dominance of automobile and pharmaceutical firms is seen.

Russia is attracted to Africa's natural reserves, often via large resource-based corporations interested in fuels and energy. Similar to its trade interests in Africa, Russia's investments are driven by concerns over depletion of its natural resources.

Brazilian FDI to Africa although limited, has been on the rise in recent years, with public financial institutions playing an important role in bringing the country closer to Africa.

South African investment in the rest of Africa has yielded benefits thanks to promotion by the state-owned Industrial Development Corporation and the Development Bank of Southern Africa.

Before we close this section we should refer to an important work of Garcia A. (2017) in which the author analyses the bilateral investment treaties (BITs), between BRICS and selected african economies. The author demonstrates that, to a large extent, the BRICS BITs maintain the broader neoliberal economic order, although the locus of power might be partially shifting. It concludes that, in a broader context of capitalist accumulation, the BRICS's actions are based on a logic of competition over natural resources and market access that is imperialist in nature and is taking colonialism back to Africa in modern times.

As emerging countries, at times, the BRICS cooperate with other to adopt common positions in decision-making bodies and request reforms in the international system, while at other times, they compete for natural resources, market share and investment. Ambiguity is a strong feature of these countries, which combine efforts to promote greater autonomy and sovereignty with imperialistic and competition-oriented stances to have a "place in the sun" in the realm of capitalist accumulation (Garcia A., 2017)

By summarizing the secondary research evidence on BRICS FDI to Africa, we should emphasized on the following:

Regarding the BRICS outward FDI shares, Africa received the smallest share so, it's seem to be not so important FDI target for BRICS outward investment. The bulk of inward FDI in Africa is of greenfield mode, which means that the foreign investor has the complete control on the plan and that there are few possibilities of forward and back ward links' creation with the local economies. Moreover the type of FDI contracts berween BRICS and local government are in favor of the investors. These findings could futher mean that there is little chance of growth spillovers from FDI. Africa, however, remains an important destination for attracting foreign investment especially for the emerging economies of BRICS (China and India in particular) because of its natural resources and the large internal market that could be developed.

The analysis of the data in this chapter show that the combination of the mode of investment (the majority regards green field investment, where the investor has complete control of the investment) the sectoral distribution toy FDI (that does not create forward or backward linkages with the local economies) and the bilateral investment treaties (BITs), between BRICS and selected african economies which favor the scandalously the foreign investors, reveals that BRICS FDI in Africa cannot create growth spillovers to local african economies

However the UNCTAD (2013) Report on BRICS 's presence in Africa, argues that opportunities exist for development through the FDI if host governments pursue policies that benefit their countries i.e. demand local content sourcing which helps to create sustainable employment for local communities and contributes to their growth.

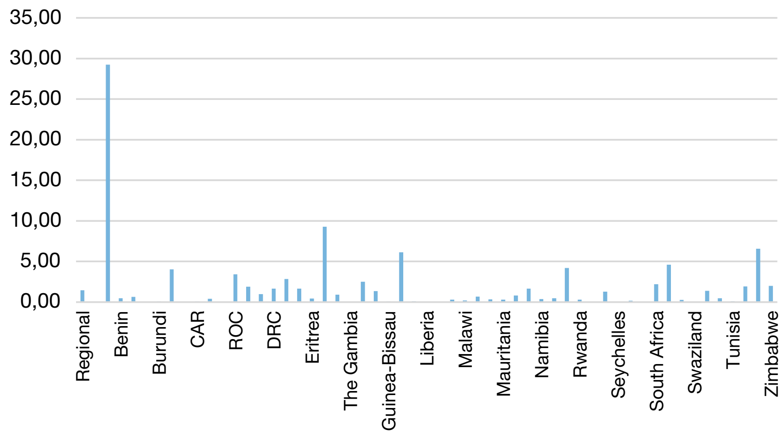
## 4.3 BRICS- AFRICA Financial Linkages –The Role of the Foreign Financing

Financing, along with FDI and foreign remmittances, is another type of international flows which affects economic growth. The post-2002 period has been characterized by the internationalization of the financial system and the integration of developing economies into it, facilitating strong growth in cross-border private flows globally (UN-Economic Commission for Africa, 2017).

For Africa very important has been the rise of South- South financing, particularly financing by the BRICS countries which is notable both, in intergovernmental lending and in private sector lending.

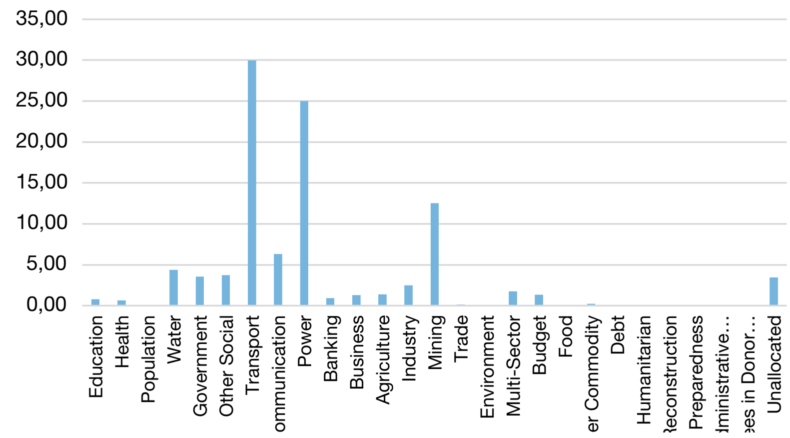
**China** has been active in making financing available to Governments in sub-Saharan Africa, including commodity extraction and infrastructure. According to the World Bank's International Debt Statistics, in 2017, official bilateral credits from China accounted for 62 percent of bilateral official credits, or about 23 percent of all public and publicly guaranteed debt in sub-Saharan Africa. The largest Chinese financier of African loans is the China Export-Import Bank (China Eximbank). The top recipients are Angola, Ethiopia and Kenya (chart 29) and the top financing sectors are transport, power and mining (Chart 30).

**CHART 29. CHINA LOANS TO AFRICA**
**% PER COUNTRY, 2000-2028**




Source: Johns Hopkins SAIS China-Africa Research Initiative and author's calculations

**CHART 30. CHINESE LOANS TO AFRICA**
**% PER SECTOR, 2000-2018**




Source: Johns Hopkins SAIS China-Africa Research Initiative and author's calculations

In early 2017, the term "chinese debt trap diplomacy" entered the global lexicon.According to this view, the chinese charge the borrowing countries in such a way that they can gain strategic advantages, such as concessions of mineral resources and ports..Fears about asset seizure have spread to Africa.

Brautigam D., Kindane W., (2020) exploring legal aspects of Chinese lending, including the waiver of sovereign immunity and the consequences thereof, for selected African economies (Kenya, railways and Mombasa port).They conclude that the agreements are ad hoc, so no general conclusion can be drawn for all cases and suggest that diplomatic solutions must always be given adequate opportunity before any legal actions are initiated, while in cases of agreements that deny the sovereign immunity of the borrower, proper control over the consequences must precede, as the case may be.

**Brazil and India** have been more focused on technical cooperation and social aspects of development rather than providing large flows of development finance. However the Brazilian Development Bank (BNDES) established in 2013, deserves special mention as its incentives and disbursements to Sub-Saharan Africa have strongly increased over the past decade. It has played a key role in the expansion of Brazilian businesses in the new African ethanol industry, in countries like Angola, Ghana and Mozambique, which became important players in the expansion of worldwide biofuel supply. India, as well, has recently stepped up collaboration between its Exports-Imports (Exim) Bank and the African Development Bank.

**Russia** has been the least active investor in Africa despite the long history of the Soviet Union's support for African independence and liberation. However, the country, after 2009 is taking steps to make up for lost time by promoting large investments and expanding economic cooperation in Africa**.**

**Regarding South Africa**, the continent's five biggest banks are South African, and all of them finance African projects, though only Standard Bank has an extensive continent-wide footprint. (UNCTAD 2013)

## 4.4 The role of Technical Assistance (AID) for African Countries

We present here evidence about the technical assistance from BRICS to African countries as an alternative channel for boosting economic growth.

Beneficial impacts of aid on an economy are not guaranteed, and the development literature reveals sharp debate on whether it may even harm recipients. Yet many observers agree that the mode and type of aid, as well as the receiving country's socio-economic and political environments, enhance aid's growth impact, which policymakers will want to bear in mind in pursuing a framework to optimize the growth and job benefits of its emerging partners' AID.

BRICS Aid to Africa is manifested through the context of South-South Official Development Assistance (ODA), which takes the form of bilateral programmes for project funding and has often been integrated into commercial transactions involving trade, investment and loans (United Nations, 2013).

Key features of BRICS AID to Africa (particularly China, and to some extent India and Brazil) is use of official flows to promote trade and investment (UNCTAD, 2010**). China's AID** to Africa is driven largely by its objective of securing access to oil and minerals, Nearly 70 per cent of its infrastructure financing in Africa is concentrated in Angola, Ethiopia, Nigeria and Sudan, all of which have oilfields. Angola, Democratic Republic of Congo and Sudan have major oilfields and pay for much of their assistance or loans from China with oil. Sudan sends 60 per cent of its crude oil to China (Lum et al., 2009).

**Brazil** (2008) provided technical assistance through the Brazilian Technical Cooperation Agency, of which 43 per cent of resources for training went to Africa (five Portuguese-speaking African countries—Angola, Cape Verde, Guinea-Bissau, Mozambique and São Tomé and Príncipe—have been the main beneficiaries, accounting for 74 per cent of Brazil's technical cooperation to Africa) (UNCTAD, 2010).

**India,** for its part, provides technical assistance through the Indian Technical and Economic Cooperation programme, focusing on improving services in education, health and ICT (Information and communications technology).

**Russian** aid in recent years has focused on food security and health programmes, with $98.2 million for agricultural training and technology in African countries in 2010. Its aid is normally channelled through multilateral organizations, such as the United Nations and the World Bank.

**South Africa** is increasing its role as aid provider to the rest of Africa being now the largest provider of assistance on the continent, with the upcoming founding of its own aid agency, the South African Development Partnership Agency. Driven by the perception that the country's prosperity is directly linked to the development of the rest of Africa, the South African government has focused on a peacebuilding agenda that includes mediation, stabilization, and post-conflict reconstruction. There also, however, is growing engagement in agriculture and infrastructure projects as part of a broader effort to foment the region's trade and economic integration and, consequently, expand the market for South Africa's services and manufactures (Besharati, 2013).

# 5. BRICS –AFRICA Cooperation: Similarities and Differences Among BRICS

Four elements are common to BRICS cooperation with different parts of Africa.

**The first** is that their volumes, particularly trade and investment, have surged since the turn of the century. **The second** is that there is a growing diversity in the range of their sectoral interests, even as strategic considerations continue to drive their overall engagement. **The third** is that geographical distribution is changing, with each country spreading out from its original "comfort zone". **The fourth** is that there is a strong partnership between the state and the private sector of the BRICS. China's African engagement is perhaps the most unequivocally state driven, although the other countries' multinational enterprises also enjoy strong state support. Beyond offering concessional loans and credit to companies planning to operate in Africa, it sponsors trade and investment promotion missions to Africa. Thus the BRICS' private sectors carry a lot of weight in determining results on the ground in Africa.

Still, several main differences emerge in the BRICS' activities.

**First, China** stands out by far as the largest BRICS trade, investment and development finance partner. It has the widest country coverage, and provides some aid to almost all African countries (although its hefty development financing activities are concentrated in a few resource-rich countries).

**Second,** Brazil differs from China and India in that it provides very little support as loans. The country emphasizes in-kind technical assistance to transfer technology and good practices. It rarely provides concessional loans, but subsidizes its state- and privately owned multinationals. China and India provide a large amount of project grants, but these are mainly tied to equipment and services that they provide. that is, they act in their own interest.They use concessional loans extensively and often tie their development assistance to procurement of goods and services from their firms or in, some cases, to their access to Africa's natural resources.

South Africa uses diplomacy and its increasing political influence in the rest of Africa to promote its interests, for instance through sponsoring peace talks and contributing to peacekeeping. It also played a key role in launching the New Partnership for Africa's Development in 2001 and the transition from the Organisation of African Unity to the African Union in 2002. South Africa has also established many bilateral commissions with other African countries and promotes South African investments in the continent through the Industrial Development Corporation and the Development Bank of Southern Africa. These initiatives have all helped its firms to play major roles in banking, retail, telecoms, food and mining.

Lastly, while all BRICS countries engage in trade, investment and aid, China especially (as well as India) has been far more active in bundling these economic activities. Brazil and South Africa have tended to keep these three areas of engagement more distinct.

# 6. AFRICA-BRICS Cooperation: Opportunities and Challenges

The size of the BRICS economies, their economic potential and their increasing international demand for goods make them particularly relevant to Africa's development. The greatest impact of the BRICS on Africa will be achieved through three key channels: trade, investment and development assistance.

Regarding Trade between the BRICS and Africa, it can be summarized under two key features: Africa's exports to the BRICS are dominated by fuels and primary commodities (mainly to China and India) and the BRICS' exports to African countries are dominated by manufactured goods. For resource-rich African countries, gains from the primary commodity boom should be invested to fund higher-value production (primarily in manufacturing). They also need to invest in physical infrastructure to address steep transport costs. Further, Africa's producers have to be more closely linked to global value chains, coordinating with them (to ensure that production and information are linked in a timely manner) and meeting global standards. Yet, since, agriculture in the BRICS faces challenges, including the impact of climate change on productivity, issues of commodity price volatility, rising input costs African economies should expand exports to meet the BRICS' food security, as they have much room to grow, particularly to China and India. However, African governments should ensure that greater demand from the BRICS does not drive up domestic food prices, hurting the poor in particular

Regarding the investment opportunities, the policy implications for the resource-seeking investments is that African economies need to invest their gains from primary commodity exports in downstream, higher value added industries, which should allow the continent's natural-resource exporters to develop and diversify their export base, so moving from dependence on natural resource exports. The equivalent policy implication for market-seeking investments is that African governments should help such investors to forge linkages with local African domestic producers, thereby producing sustainable exports for African economies with higher domestic value added, which should strengthen domestic businesses. FDI in key sectors such as extractive industries, agriculture or services needs to create sustainable employment for local communities and to contribute to their growth. In short, policy should focus on encouraging FDI into more productive sectors. Moreover, African governments should also enhance the benefits FDI by ensuring the outsourcing of their activities to local entrepreneurs; increasing local sourcing of inputs for production; and ensuring the employment of local workers under fair labour practices.

By summarizing, the size of the BRICS economies, their economic potential and their increasing international demand for goods make them particularly relevant to Africa's development. If appropriate policies are implemented by African governments to capitalize on the benefits of Africa–BRICS cooperation (especially through trade and FDI), this could lead to faster diffusion of productive ideas, innovation and adoption of new technologies and a more effective absorption of knowledge—all key ingredients of wealth creation.. The risks are that Africa–BRICS engagement could lock African countries into specializing in primary commodities, crimping the strong productivity gains needed to sustain high growth and sharpening socio-economic inequalities, preventing the people of Africa from the benefits of cooperation. To promote its growth, employment and structural transformation, Africa must develop strategies for making the most out of the benefits of Africa–BRICS cooperation.

# References


**Ajayi S., I., (2006)** “FDI and Economic Development in Africa” Paper Presented at the ADB/ AERC International Conference on Accelerating Africaw Development, Tunis-Tunisia 22-24 Nov

**Anusree P. (2014)** “Indian Foreign Direct Investment: A Way to Africa” Procedia - Social and Behavioral Sciences 157 (2014) 183 – 195

**Armijo L. E., (2007)** “The BRIC countries (Brazil, Russia, India, and China) as analytical category: mirage or insight?”, ASIAN PERSPECTIVE, Vol. 31, No. 4, 2007, pp. 7-42.

**Asongu S., and Aminkeng G., (2013):** The Economic Consequences of China-Africa Relations: Debunking Myths in the Debate, MPRA_paper_48468.pdf

**Balassa B. (2013)** “The theory of economic integration” Textbook, Routledge Revivals

**Bengoa and Sánchez-Robles, (2003)** “Foreign direct investment, economic freedom and growth: new evidence from Latin America” European Journal of Political Economy, Vol 19 Issue 3, 529-545

**Besharati N., (2013)**, South African Development Partnership Agency (SANPA): strategic aid or development packages for Africa? South African Institute of International Affairs, 2013. (SAIIA Research Report Number 12).

**Brach, J. and Kappel, R. (2009)** Global Value Chains, Technology Transfer and Local Firm Upgrading in Non-OECD Countries. GIGA Working Papers (110). Hamburg: German Institute of Global and Area Studies.

**Brautigam D., Huang Y., Acker K., (2020)** Risky Business: New Data on Chinese Loans and Africa’s Debt Problem, SAIS China-Africa Research Initiative, Briefing paper- No3, 2020

**Brautigam Δ., and Kidane (2020)** China, Africa, and Debt Distress: Fact and Fiction about Asset Seizures SAIS China-Africa Research Initiative, Briefing paper- No 47, 2020

**Buckley P., J., and Casson M., C., (2002)** “The Future of Luntinational Enterprises” 25th Anniversary Edition, London Palgrave, Macmillan

**Chatterjee Jena and Singh (2014)** “Intra-BRICS Trade & Its Implications for India” doi: 10.2319/ ssrn.2474078

**Chen L. (2012)** “The BRICS in the Global Value Chains: An empirical note” Cuadernos de Economia, vol.31 no.spe57 Bogotá June/Dec. 2012, Print version **ISSN 0121-4772**

**De Castro T., (2013)** “Trade among BRICS countries: Changes towards closer cooperation?” Ekonomická revue – Central European Review of Economic Issues 16, 2013

**De Mello (1999)** Foreign Direct Investment-Led Growth: Evidence from Time Series and Panel Data, Oxford Economic Papers, 1999, vol 51, issue 1, 133-51

**Economic Commission for Africa (2017)** “Development Financing in Africa”

**Finger J., M., Kreinin M.,E.,(1979)** “Measure of ‚export similarity’ and its possible uses. The Economic Journal. 1979; 89: 905-912

**Frankel J.,A., Romer D., Cyrus T., (1996)** Trade and growth in East Asian countries: Cause andeffect? National Bureau of Economic Research (No. w5732) 1996

**Fundira T., (2012)** “A glance at Africa’s engagement with the BRICS, Bridges Africa, Vol 1, No 2

**Garcia Ana (2017)** BRICS investment agreements in Africa: more of the same?, Studies in Political Economy, 98:1, 24-47, doi: 10.1080/7078552.2017.1297018

**Glosny, M., (2010)** “China and the BRICs: A Real (but Limited) Partnership in a Unipolar World” Journal, Polity.

**GonInn (2013)** “On the BRICS of Collapse? Why Emerging Economies Need a Different Development Model” Centre for the Study of Governance Innovation- University of Pretoria (South Africa), Demos/Rockefeler Fountation,

**Grubel H.,G., Lloyd P.,(1971)** “ The empirical measurement of intra-industry trade. Economic Record. 1971; 47: 494-517. DOI: 10.1111/j.1475-4932.1971.tb00772.x

**Habchi, L, Martinet L., (2013)** « Ambitions et réalités d’un groupe d’influence », Afrique contemporaine, vol. no 248, no. 4, 2013, pp. 13-30.

**Humphrey, J. (2004)** Upgrading in Global Value Chains. ILO Working Paper (28). Geneva: International Labour Organization.

**Kalemli-Oscan S.,, Papaioannou E., (2013)** “Financial regulation, financial globalization, and the synchronization of economic activity”, Journal of Finance

**Kaplinsky R., Farooki M.,(2008)** “Africa’s Cooperation with New and Emerging Development Partners: Options for Africa’s Development”, International Development Centre Working Paper Series Paper No.5 October 2008

**King, R. G. and R. Levine, (1993)** ”Finance and Growth: Schumpeter Might Be Right” Quarterly Journal of Economics, Vol. 108, pp. 717–38.

**Kregel, Jan. (2009)** “The global crisis and the implications for developing countries and the BRICs: Is the “B” really justified?” Brazilian Journal of Political Economy, 29(4), 341-356. https://dx.doi.org/10.1590/S0101-31572009000400002

**Krueger A (1990)** “Government Failures in Development” Journal of Economic Perspectives, Vol 4 No 3, 1990

**Lee, Jong-Wha (1995).** Capital goods imports and long-run growth, Journal of Development Economics. 48: 19–110.

**Levine, R., (1998)** “The Legal Environment, Banks, and Long-Run Economic Growth” Journal of Money, Credit, and Banking, Vol. 30, pp. 596-613.

**Levine, R. and S. Zervos, (1998)** “Stock Markets, Banks, and Economic Growth”, American Economic Review, Vol. 88, pp. 537-58.

**Levine, R., N. Loayza and T. Beck, (2000)** – Financial Intermediation and Growth: Causality and Causes, Journal of Monetary Economics, Vol. 46, pp. 31-77

**Linder S.,B., (1961)** An Essay on Trade and Transformation. New York: John Wiley, 1961

**Michaely M., (1996)** Trade preferential agreements in Latin America: an ex-ante assessment.

**Policy Research Working Paper (No. 1583); 1996**

**Minoiu M., Reyes J., A., (2013)** "A network analysis of global banking: 1978–2010" Journal of Financial Stability Volume 9, Issue 2, June 2013, Pages 168-184

**Mlanchila M., Takebe M., (2011)** "FDI from BRICs to LICs: Emerging Growth Driver?" IMF Working Papers Series

**Morazán, P., Knoke, i., Knoblauch, D., Schäfer, T.,(2012)** "The role of BRICS in the developing world" European Parliament: Directorate-General for external policies of the Union-policy Department

**Moudatsou A. Kaya H (2018)** "Business Cycles Transmissions from BRICS to Developing Countires. Some New Evidence" Springer International Publishing AG 2018 Advances in Panel Data Analysis in Applied Economic Research, https://doi.org/10.1007/978-3-319-70055-7_38

**Organski, A. F. K. (1968a)** "The power transition", International Politics and Foreign Affairs.

**Organski, A. F. K. (1968b)** "World politics" University of Michigan, A. A. Knopf Press

**Samake and Yang (2011)** "Low Income Countries' BRICS linkage: Are there Growth Spillovers?" IMF WP/11/267

**Ozawa, T. (1992)** "Foreign Direct Investment and Economic Development" Transnational Corporations 1, 27-54

**Piper L. (2015)** "The BRICS phenomenon: from regional economic leaders to global political players", Book PY 2015/05/04

**Rousseau, P. L. and P. Wachtel, (2000)** "Equity Markets and Growth: Cross-Country Evidence on Timing and Outcomes, 1980-1995" Journal of Business and Finance, Vol. 24, pp. 726–40.

**Sala-i-Martin, Xavier X.; Barro, Robert Joseph (1995):** Technological Diffusion, Convergence, and Growth, Center Discussion Paper, No. 735, Yale University, Economic Growth Center, New Haven

Samargandi N, Kutan A. M (2016) Private credit spillovers and economic growth: evidence from BRICS countries. J Int Finance Mark Inst Money 44:56–84. https://doi.org/10.1016/j.intfin.2016.04.010

**Sharma and Kallummal, (2012)** "A GTAP analysis of the proposed BRICS free trade agreement" Working Draft. Submitted to15th Annual Conference on Global Economic Analysis, Geneva 2012

**Sidiropoulos E., Prinsloo C., Mpungose L., Grobbelaar N., (2018)** "BRICS, AFRICA and Global Economic Governance Achievements and the Future" GEGAFRICA, Discussion paper

**Tull, D. (2006)** China's engagement in Africa: Scope, significance and consequences. Journal of Modern African Studies 44 (3): 459–479

**Tybout J., (1992)** "Linking Trade and Productivity: New Research Directions" The World Bank Economic Review 6(2):189-211, doi: 10.1093/wber/6.2.1

**UNCTAD (2013)** "The Rise of BRICS in Africa" UNCTAD, Global Investment Trends Monitor, Special Edition, 25 March 2013

**UN (2014)** "BRICS/Africa-Partnership for Development Driving Inclusive Growth and Transformational Change

**UNCTAD (2019)** "World Investment Report"

UNCTAD "Bilateral FDI flows-Country Sheets" Various Issues

**Wagner J., (2007)** "Exports and Productivity: A Survey of the Evidence from Firm-level Data"

## About the Author

**Argiro Moudatsou**, research fellow at the BRICS Policy Center (2019-2020), holds a degree in Economics from National and Kapodistrian University of Athens (Greece), a Master in Econometrics from Athens University of Economics and Business (Greece), and a Ph.D in Applied Economics from Technische Universitaet Berlin(Germany). She is an Associate Professor in Economics in Hellenic Mediterranean University (HMU). Her main research interests concern the field of Foreign Direct Investment (FDI) and Multinational Enterprises Activities in Developing Countries, Economic Growth , Income Inequalities and Emerging Economies issues, with focus on BRICS countries.

BRICS
Policy Center
Centro de Estudos
e Pesquisas BRICS

Rua Dona Mariana, 63 - Botafogo - Rio de Janeiro / RJ - Brazil
Phone: (+55 21) 2535-0447 / ZIP CODE: 22280-020
**www.bricspolicycenter.org** / **bpc@bricspolicycenter.org**

Instituto de Relações Internacionais PUC RIO

MAPI

CAPES

FAPERJ
Fundação Carlos Chagas Filho de Amparo à Pesquisa do Estado do Rio de Janeiro

CNPq
Conselho Nacional de Desenvolvimento Científico e Tecnológico