

# AFRICA-BRICS COOPERATION:

IMPLICATIONS FOR GROWTH, EMPLOYMENT  
AND STRUCTURAL TRANSFORMATION IN AFRICA



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## FOREWORD

Cooperation between Africa and the BRICS has gained new momentum and generated much interest in recent years. This is because these countries—Brazil, Russian Federation, India, China and South Africa—are playing an increasingly prominent role in global trade, investment, finance, and governance. Within this trend, Africa has deepened its engagement with these countries, not only in trade, investment and development finance, but also in diplomatic and cultural relations.

*Africa's resource endowments create opportunities to leverage Africa–BRICS cooperation for embarking on an industrial strategy to maximize backward and forward processing linkages with the commodity sectors.*

The size of the BRICS economies, their economic potential and their demand for stronger political voice on international platforms make them particularly relevant to Africa's development. The BRICS have already become a major force in the global economic arena and, with the balance of economic power shifting dramatically over the next decades, China is set to become the world's largest economy, as it—and later, India—overhauls the United States. Africa–BRICS partnerships will thus become even more important.

Given the growing economic engagement of the BRICS in Africa and that the BRICS experience provides valuable lessons from which African countries can benefit, Africa–BRICS cooperation should be followed closely. More important, this relationship has the potential of becoming a key source of economic transformation and sustainable development in the

continent. This study undertakes a comparative analysis of the BRICS practices in their cooperation with Africa, and their implications for Africa's economic growth, employment and structural transformation.

The greatest impact of the BRICS on Africa will emanate through three key channels: trade, investment and development assistance. Already, the impact of the BRICS is felt strongly, though variably, across Africa. Africa's trade with the BRICS, for example, has grown faster than the continent's trade with any other region in the world, doubling since 2007 to \$340 billion in 2012, and is projected to reach \$500 billion by 2015.

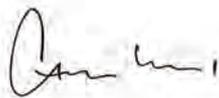
The BRICS are not only becoming a larger feature on the global and African economic landscapes—their economic, political and strategic position in global affairs is a manifestation of the potential of South–South Cooperation. The BRICS show that development is possible even when the initial conditions appear to be unfavourable. Trade can be an important stimulus to rapid economic growth, and Africa's response is particularly strong, reflecting the growing trade ties that these countries have forged with the BRICS in recent years.

Africa's resource endowments create opportunities to leverage Africa–BRICS cooperation for embarking on an industrial strategy to maximize backward and forward processing linkages with the commodity sectors. Such linkages potentially offer major benefits for commodity-producing countries, not the least of which is decent employment. This point is crucial, as a key policy issue for Africa is how to make its growth more resilient and job creating.

African countries must therefore capitalize on their cooperation with the BRICS to develop sectors that

have a substantial multiplier effect in their economies—including agriculture and manufacturing—which could boost growth and employment through these linkages, as well as other channels. The success of the BRICS in promoting inclusive growth, employment and structural transformation to reduce poverty and inequality provide some lessons for Africa: their critical foundations were building human capital and improving access to assets; investing in infrastructure with structural transformation and jobs in mind; and using well-designed social transfer programme to address poverty and inequality. The Africa–BRICS partnership must be embedded within the larger effort of promoting development. To promote its growth, employment and structural transformation, Africa must develop strategies for making the most out of the benefits of Africa–BRICS cooperation, as a particular form of relations with the continent’s external partners.

I wish to thank the Republic of South Africa and particularly President Jacob Zuma for his leadership in promoting Africa–BRICS cooperation and hope that this study will contribute to the kind of knowledge needed to generate discourse on policy choices for a mutually beneficial engagement with the BRICS.



Dr. Carlos Lopes  
Executive Secretary  
Economic Commission for Africa

## ABBREVIATIONS

AERC	African Economic Research Consortium
AGOA	African Growth and Opportunity Act
BRICS	Brazil, Russian Federation, India, China and South Africa
DAC	OECD's Development Assistance Committee
EU	European Union
FDI	Foreign direct investment
FOCAC	Forum on China-Africa Cooperation
ICT	Information and communications technology
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
SADC	Southern African Development Community
US	United States



## SUMMARY: AFRICA–BRICS COOPERATION

What effect could trade with, and investment and aid from, the BRICS (Brazil, Russian Federation, India, China and South Africa) have on growth, employment and structural transformation in Africa? How can Africa maximize the benefits of its engagement with the BRICS, and minimize the risks? This study answers these two questions via a comparative analysis of BRICS' practices in their cooperation with Africa, and offers policy recommendations.

The BRICS are now a major global economic force. With 40 per cent of the world's population, they account for more than one fifth of global output and nearly a fifth of all trade and of foreign direct investment (FDI) flows. They are also a growing source of aid for the continent. Their global strength is set to continue growing, as the economies of China (and then India) overtake the United States. Thus Africa–BRICS cooperation will become even more important.

Already in the three key channels (trade, investment and aid) the BRICS' impact is being felt strongly across Africa, although to different degrees by both source and destination country, and by channel.

### TRADE

The successful experience of the BRICS and other emerging economies (Chile; Hong Kong, China; Malaysia; Singapore; the Republic of Korea; Taiwan, China; and Thailand) over the past half century has amply demonstrated that trade can be an important stimulus to growth. Africa's trade response has been strong: trade with the BRICS has grown faster than with any other region in the world, doubling since 2007 to \$340 billion in 2012, and projected to reach \$500 billion by 2015.

However, most such trade is in primary commodities with few linkages to the rest of the economy and

*Africa-BRICS cooperation is predicated more on mutual benefit and solidarity rather than on gift giving or pure commerce.*

with most export earnings going to foreigners, and so Africa's development and employment receive few gains. Also, the growth of the BRICS suggests it will become harder for African exporters to break into new (non-commodity) sectors—and their home country producers (as in footwear or clothing) may be hurt by the BRICS' low-cost output. Still, rising Chinese wages may present new opportunities for Africa.

### FOREIGN DIRECT INVESTMENT

The largest increase in FDI to Africa in recent years has come from the BRICS (until 2002 their FDI inflows were dwarfed by those from western sources). FDI flows to Africa from India, China and Brazil have risen from 18 per cent of the total in 1995–1999 to 21 per cent in 2000–2008.

FDI is a major catalyst in growth and development, yet if Africa is to benefit fully it needs to ensure that BRICS' investors meet certain conditions, including local labour and content requirements, while recipient countries need to have adequate human capital, infrastructure, economic stability and liberalized markets. Technical cooperation from the BRICS enhances the benefits of their FDI.

### AID

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.

The contribution of the BRICS to aid has increased over the last decade with China ahead, although data are scarce. The BRICS support Africa's development through project aid (mainly to improve infrastructure, complimenting aid from countries in the Organisation for Economic Co-operation and Development), concessionary loans and credits, as well as grants.

## COMMONALITIES AND DIFFERENCES IN AFRICA–BRICS COOPERATION

Of four common elements, the first is that volumes, particularly trade and investment, have surged since the turn of the century. The second is a growing diversity in BRICS' sectoral interests, even if they are still underpinned by strategic considerations. The third is a shifting geographical pattern from the BRICS' original "comfort zones". The fourth is a strong partnership between the state and private sectors in the BRICS.

Needless to say there are differences, and five stand out. First, China is by far the largest partner in trade, investment and aid. It has the widest country coverage in all three areas, and provides some aid to almost all African countries, albeit concentrated in only a few resource-rich economies.

Second, the type of aid varies. Brazil differs from China (and from India) in providing very few loans, emphasizing instead in-kind technical assistance, and subsidizing the operations of its state- and privately owned multinationals in Africa. China and India frequently provide project grants and concessional loans, but usually tie them to purchases of equipment and services from their domestic firms—or in some cases, to access to Africa's natural resources.

*The BRICS support Africa's development through project aid (mainly to improve infrastructure, complimenting aid from countries in the Organisation for Economic Co-operation and Development), concessionary loans and credits, as well as grants.*

Third, Russia is the small trader among the BRICS: Africa's exports (mainly food products) to it represent only 1 per cent of the BRICS total, and in the other direction the equivalent figure is only 7 per cent, although growing. Russian corporations invest mainly in fuel and energy, and bilateral aid focuses mainly on food security and education.

Fourth, South Africa has been heavily involved in sponsoring peace talks and contributing to peacekeeping forces across the continent. It promotes its investments in Africa through the state-owned Industrial Development Corporation and the Development Bank of Southern Africa.

Fifth, China (especially) and India often combine their trade, investment and aid activities, while Brazil and Russia tend to keep these three areas more separate.

## AFRICA–BRICS COOPERATION FOR GROWTH, EMPLOYMENT AND STRUCTURAL TRANSFORMATION

Africa needs to make its growth more resilient to external shocks and to create more jobs, and so must capitalize on its cooperation with the BRICS to develop sectors that have large multiplier effects, including manufacturing and agriculture (which, for example, should be linked to industry through agro-processing).

Africa has a youth population of almost 200 million (ages 15–24), which is expected to double by 2045

when it will be far better educated than today. But as this vast reservoir of social dynamism needs decent jobs, strategies to be followed include diversifying exports, strengthening inter-sectoral linkages, adopting labour-intensive techniques, boosting private-sector job creation by minimizing investment bottlenecks, and ensuring that workers benefit from Africa's improved terms of trade.

Stronger industry lies at the heart of structural transformation, as exemplified by the BRICS and other emerging economies, whose success (often export-driven) frequently had foundations on building human capital and improving access to assets, investing in infrastructure with structural transformation and jobs in mind, and using well-designed social transfer programmes to address poverty and inequality. However, these countries' very success makes it hard for Africa to follow in their footsteps, partly because this route to industrialization is now largely barred by a liberalized trade policy.

## OPPORTUNITIES AND RISKS

Africa's resource endowments create opportunities for those countries blessed with them, which need to maximize the backward and forward processing linkages from the commodity sector, leveraging the last few years' steep gains in prices. This strategy should yield many benefits beyond employment—price and non-price. The experience of resource-rich Argentina, Malaysia, Thailand and Venezuela, for example, shows that this path is open to Africa: the export success of their resource-based industries was less the result of high initial skills and capital than economic policies fostering their development.

Other opportunities stem from Africa–BRICS cooperation, including broad-based economic development driven by indirect cultural, social,

scientific and technological exchange, as well as direct trade and FDI. Such development 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.

*Africa–BRICS cooperation 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, sidelining some people from the benefits of cooperation.

## BUILDING A MUTUALLY BENEFICIAL STRATEGY AND EXPANDING AFRICA'S CAPACITIES

Having tackled the first question set at the outset, the rest of this summary now deals with the second. A one-sentence answer would be: Africa should design a BRICS strategy built on mutual interest and respect.

Beyond that, the partnership must be embedded in the larger effort of promoting growth, employment and structural transformation, which fundamentally requires Africa to upgrade its strategies and capacities when dealing with the BRICS, specifically including negotiating favourable trade concessions from the BRICS and understanding their needs better—in order to anticipate trends. The continent

also needs to be assertive when negotiating, and to pursue all areas of cooperation to stimulate production and entrepreneurial development.

Based on a clear framework of needs and objectives, Africa and its individual countries must deploy high-quality resources to manage the Africa–BRICS relationship, in a dialogue of equals. At both continental and national levels, they need to rectify the following deficits in their capacity to:

- **Understand the issues**—Africa’s countries need a full understanding of the substance of the major issues on the agenda for dialogue with partners, which requires research and policy studies, and mechanisms for robust internal dialogue on relations with the BRICS.
- **Coordinate**—they need increased dialogue and interaction among themselves to advance their interests in bilateral processes and to ensure win-win outcomes for Africa.
- **Negotiate**—they should build negotiation capacity to be effective in bilateral forums, as well as to handle large and complex commodity deals. This might include requiring the BRICS to support the continent’s development and infrastructure needs in exchange for Africans agreeing to sell their commodities.
- **Monitor**—they should build their analytical capacity to monitor the financial flows that follow from these strategies, and to monitor agreed-on projects.

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- **Be competitive**—they need to put in place institutions, mechanisms and processes to support the private sector in using cutting-edge technology, in fostering national systems of innovation and in exploiting indigenous knowledge—all to move higher up the value chain in key industries.

Once Africa has taken these steps, it will be better placed than ever to maximize the benefits (and limit the risks) of its flowering partnership with the BRICS—in an engagement that is imperative for its growth, employment and structural transformation in a globalizing world.

## 1. INTRODUCTION

The role in the global economy of the five BRICS (Brazil, Russian Federation, India, China and South Africa)<sup>1</sup>, has become increasingly important in the last few years. The BRICS make up more than 40 per cent of the world's population and had a combined gross domestic product (GDP) of over \$15 trillion in 2011, more than one fifth of the global total. Some \$281 billion in foreign direct investment (FDI) flowed to the BRICS in 2011, accounting for nearly 20 per cent of global FDI flows (UNCTADStat, 2013). Despite the global financial crisis, the BRICS have maintained fairly stable growth. And beyond economic interests, their goals include tighter political cooperation among themselves and stronger political impact globally.

The cooperation between Africa and the BRICS has gained new momentum and generated much interest in recent years. This is because these five countries have begun playing an increasingly prominent role in global trade, investment, finance and governance. Africa has deepened its engagement with them, not only in trade, investment and development finance, but also in diplomatic and cultural relations. The size of the BRICS economies, their economic potential and their demand for stronger political voice on the international platform make them particularly relevant to Africa's development—and on its side, the continent's natural resources and its young population put it in a strategic position of interest for the BRICS. The impact of this engagement on Africa's economies depends, however, on how much they can capitalize on the opportunities and mitigate the risks inherent in this relationship.

This study analyses how Africa can enhance its economic growth, employment and structural transformation through working with the BRICS.

African countries still face high poverty rates, too few jobs, poor infrastructure systems and low human development. Thus ensuring that economic growth results in jobs is a preoccupation of African policymakers and development partners as important elements in the continent's efforts to achieve its development objectives. Employment is a major channel for economic growth to reduce poverty, but for most African countries joblessness has stayed quite high over the last 10 years. Africa's long-term economic and social stability require growth, employment and structural transformation to be pursued in a determined manner.

*The cooperation between Africa and the BRICS has gained new momentum and generated much interest in recent years. This is because these five countries have begun playing an increasingly prominent role in global trade, investment, finance and governance.*

Given these challenges, this short study undertakes a comparative analysis of the BRICS' practices in their cooperation with Africa, as well as the implications for Africa's economic growth, employment and structural transformation. It also considers the actions for African countries to take so as to maximize the opportunities inherent in Africa–BRICS cooperation.

The importance of the BRICS for Africa's development can be analysed through several prisms. This document focuses on the involvement of the BRICS in the three major areas of trade, FDI and development assistance, asking two central questions: What effect could these three areas have on growth, employment and structural

<sup>1</sup> Brazil, Russia, India and China held the first "BRIC summit" in June 2009 in Yeketerinburg, Russia; South Africa joined in 2010, forming the BRICS.

transformation in Africa? And, how can Africa maximize the positive effects of its interactions with the BRICS, but mitigate the risks?

Before it succinctly answers these two questions in section 5, the study provides an evidence base: section 2 examines the theoretical impacts of trade, FDI and development assistance (and their transmission mechanisms) as well as trends in these three areas in the Africa–BRICS relationship. Section 3 provides a comparative analysis of the substantive engagements of Africa’s BRICS partners in these three areas, including opportunities and challenges (or potential gains and losses).

Section 4 looks at the implications of Africa–BRICS cooperation for growth, employment and structural transformation, and evaluates the main issues for enhancing growth and employment through such cooperation. It also highlights lessons from the BRICS’ development experience, especially in improving growth and employment, and in accelerating structural transformation (notably industrialization).

## 2. AFRICA–BRICS COOPERATION AND MAJOR TRENDS

The role of the BRICS in Africa is best analysed through the optic of international cooperation theory for Africa’s trade with, and investment and aid from, the BRICS (as well as the mechanisms of transmission). As the trade channel accounts for around 60 per cent of the impact of BRICS on growth among low-income countries (IMF, 2011) and is the most significant and persistent channel of transmission for all the main regions of the world, this section starts with trade.

### THE ROLE OF TRADE

African countries’ ability to use trade with the BRICS to achieve their development aspirations depends largely on their capacity to negotiate favourable

trade concessions from the BRICS. This includes how African countries negotiate their trade relations with BRICS-based multinational corporations. Moreover, the extent to which African countries efficiently use scarce capital resources while making maximum use of abundant but currently underused labour in producing their exports will determine how much export earnings benefit ordinary African citizens.

The economic literature postulates that an internationally integrated economy offers a substantial increase in demand and simultaneously more potential for economies of scale than a closed economy. Many studies conclude that trade has a positive effect on economic growth (such as Balassa, 1978; Krueger, 1990; McCarville and Nnadozie, 1995; Frankel and Romer, 1999; and Nnadozie, 2003). Trade also helps economies to specialize, increase their resource productivity, raise aggregate output, create jobs, generate income and relax foreign exchange restraints. Export-led approaches and export promotion lead to high growth (Krueger, 1990). Returns to entrepreneurial effort increase with exposure to foreign competition (Tybout, 1992).

Trade transmits economic growth through three main channels: economies of scale, efficiency gains and the technology cycle. Economies of scale are directly related to the monopoly profits in production for niche markets. Efficiency gains are linked to reduced-cost effects through foreign competition that eventually become evident in a falling rate of inflation in the domestic economy. Finally, the technology cycle refers to the growth effects that derive from the profitable adoption and application of foreign technologies in domestic production processes. (Learning by doing on the shop floor is an important aspect of this channel.) This channel also refers to the transfer of growth effects that derive from outsourcing in production or the “slicing up” of the value chain as well as international outsourcing of services (Frankel and Romer, 1999).

The successful experience of the BRICS and other economies over the past half century (Chile; Hong Kong, China; Malaysia; Singapore; the Republic of Korea; Taiwan, China; and Thailand) has amply demonstrated that trade can be an important stimulus to rapid economic growth. The value of BRICS trade was an estimated \$5.6 trillion in 2012, or 16 per cent of global trade (Freemantle and Stevens, 2013).

Africa's response to trade is particularly strong, reflecting the growing commercial ties that it has forged with the BRICS in recent years. Its merchandise trade with the BRICS has grown faster than its trade with any other region, doubling from 2007 to \$340 billion in 2012. Over a longer period, China's imports from Africa increased by more than twice the rate of imports from Europe and the United States (US), at 28 per cent in 1995–2008 (Schiere et al., 2011), albeit from a low base. Africa–BRICS trade is projected to reach \$500 billion by 2015, around 60 per cent of its trade between Africa and China (Freemantle and Stevens, 2013). China and India remain the main consumers of more than 90 per cent of agricultural raw material exports and almost 85 per cent of fuel exports from Africa. BRICS trade with Africa (excluding North Africa) has also shot up, for the first time exceeding total merchandise trade with the European Union (EU) in 2010 (Morazan et al., 2012).

The trade impact of the BRICS on Africa's development has led to a fall in prices of many consumer goods, such as clothing and footwear. Equally, the proficiency of some of the BRICS in manufacturing has also led to the growth of price competition and possible deflation in industrial goods (Kaplinsky and Farooki, 2010). The impact of trading with the BRICS on growth in Africa has led to higher demand for commodities, improved terms of trade for Africa and a financial contribution to infrastructure development, all of which have had a beneficial impact on Africa's growth. Demand

from the BRICS supported many African countries in maintaining fairly robust growth during the financial crisis.

Yet Africa must 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, which 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.

## THE ROLE OF FOREIGN DIRECT INVESTMENT

The development literature encompasses several positions on the degree to which FDI affects economic growth. One view is that it may affect it directly because it contributes to capital accumulation, and the transfer of new technologies to the recipient country. According to Ozawa (1992), FDI may lead to the structural transformation and rapid economic growth of the developing host countries<sup>2</sup>. Others contend that FDI enhances economic growth indirectly where the direct transfer of technology augments the stock of knowledge in the recipient country through labour training and skill acquisition, new management practices and organizational arrangements (De Mello, 1999). FDI thus enhances employment in the recipient country via the newly acquired skills as well as the

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<sup>2</sup> A classic example of this is the experience of Japan and, more recently, the newly industrialized economies of Asia.

management and organizational arrangements often referred to as “entrepreneurship” for the host country population.

The effects of FDI on economic growth in the host country differ by growth model—neoclassical or endogenous. With the former, 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 (Barro and Sala-i-Martin, 1995, for example) argue that FDI promotes economic growth even in the long run through permanent knowledge transfer, as via technology spillovers from advanced to lagging countries (Bengoia and Sánchez-Robles, 2003).

Some studies posit that the effect of FDI on growth depends on other factors such as the degree of complementarity and substitutability between domestic investment and FDI, and other country-specific characteristics. Buckley et al. (2002), for instance, argue that FDI’s contribution to growth depends on the economic and social conditions in the recipient country.

Although Africa’s trade with and FDI from traditional partners remains crucial (see below), the largest increase in FDI to Africa has come from the BRICS—and quite steadily, falling only slightly in 2009 owing to the global financial crisis (Kimenyi and Lewis, 2011). FDI inflows from the BRICS were, until 2002, dwarfed by those from the United Kingdom, US and other traditional western sources of FDI. Recent data suggest that FDI flows to Africa from India, China and Brazil have risen from 18 per cent of the total in 1995–1999 to 21 per cent in 2000–2008. These countries’ focus has been largely in countries rich in natural resources, often strengthening Africa’s manufacturing and improving its productive capacity. India is now diversifying its investments to textiles, information and communications

*Although Africa’s trade with and FDI from traditional partners remains crucial, the largest increase in FDI to Africa has come from the BRICS.*

and medium-sized enterprises. Such projects could further widen the diversity of the BRICS’ FDI and broaden the production and export base of Africa’s low-income countries (IMF, 2011).

Given the BRICS’ large FDI flows to Africa, Africa needs to meet certain conditions to fully benefit from them. Bengoia and Sánchez-Robles (2003) counsel that host countries require adequate human capital, infrastructure, economic stability and liberalized markets. Because Africa–BRICS cooperation also includes technical cooperation and development aid channelled into projects such as infrastructure, health and education, this cooperation has the potential to enhance the benefits of greater FDI from the BRICS.

## THE ROLE OF DEVELOPMENT ASSISTANCE

The theoretical and empirical literature does not reveal an automatic, beneficial impact of development assistance on a recipient country: the mode and type of aid as well as the country’s socio-economic and political environment are important in enhancing its growth impact. Recipient African countries’ policymakers need to use such awareness when harnessing the BRICS’ development assistance within a framework leading to economic growth and job creation.

Studies on aid’s impact on growth and development follow four main strands of thinking. One group of studies argues that aid has either no effect on growth or even undermines it. Generally, they share a view that aid is counterproductive in that it generates a low-growth economy where aid dependency

expands public spending and wipes out domestic savings. Rajan and Subramanian (2005) tested the strength of the relationship between aid and growth in a single framework and over different periods, sources and types of aid. They did not find a robust positive relationship between aid and growth.

A second set of studies finds an average significant positive impact of aid on growth. Chenery and Strout (1966) asserted that aid supplements domestic savings, helps to fill the foreign exchange gap and creates access to better technology and managerial skills. Papanek (1972) found a strongly significant positive effect of aid. This set argues that those contending that aid does not enhance growth have only a partial argument, in that aid has supported poverty reduction and growth promotion in many countries—thus even if aid has not stimulated growth in all circumstances, on average it has had a positive effect. ECA and UNU-WIDER's (2012) study on the impact of aid in Africa concludes that beyond its direct income growth effect, official development assistance (ODA) has a significantly positive indirect income growth effect through increased physical capital investment. This effect also increases with better policies. Thus the overall effect of ODA on income growth and investment in physical capital in Africa is positive and significant, all things equal.

A third group of studies that appeared around the mid-1990s, often spearheaded by the World Bank, argued that aid has a positive relationship with growth only in certain conditions, including the characteristics of both recipient and donor practices, while the average effect of aid is close to zero (Isham et al., 1995). The most influential study was by Burnside and Dollar (1998), which focused on the impact of policy on aid effectiveness<sup>3</sup>. They used an interaction term between aid and an index

of economic policy to study the aid–policy–growth relationship, comprising fiscal, monetary and foreign-exchange variables in the recipient country. Their findings suggested that aid promotes growth only in countries with sound economic policy regimes. In essence, they stressed that synergies between aid and policy tend to be successful because, in good policy environments, either the fraction of invested aid or the resulting increase in productivity is larger than in bad policy environments.

A leading study in the fourth set (Clemens et al., 2004) attempted to match aid flows to a realistic period over which they could influence growth. It looked at three components of aid: emergency and humanitarian aid whose effects, if any, were expected to be immediate; short-term aid, including budget and balance-of-payments support, investment in infrastructure, and aid for such productive sectors as agriculture, whose effects, if any, were expected to affect growth in the short run; and late-impact aid, including aid to promote democracy, health, environment and education, whose effects, if any, were expected to affect growth only over a long time. The study found that short-term aid, over a four-year period in 1973–2001 in which it could influence growth, had a robust and sizeable impact on economic growth.

## MAJOR TRENDS: TRADE

So, after the theoretical basis, what are the key trends and features of Africa–BRICS partnerships on trade, FDI and aid? At the outset, two limitations should be highlighted. First, reliable and updated statistics both on FDI (ECA et al., 2012) and on ODA (at the bilateral level) are lacking between the BRICS and African countries. Second, discussions on BRICS partnerships with Africa concentrate on China more than the other BRICS, reflecting the focus of most recent studies, largely because China is by far the major player in trade, investment and aid among the BRICS for Africa.

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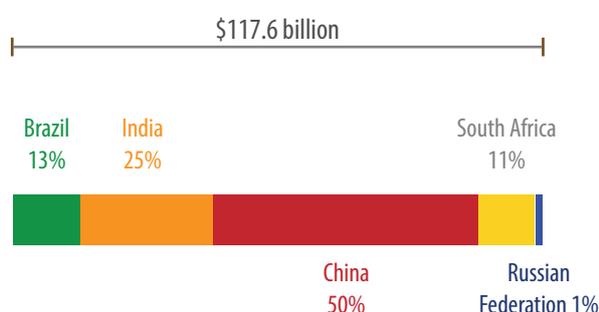
<sup>3</sup> Burnside and Dollar (2000) subsequently presented a detailed exposition of the aid issue.

Three main points emerge from a review of trade trends between Africa and the BRICS. First, China is the biggest recipient of Africa's exports (2011), with fuels and primary commodities (natural resources) the lead export products. Second, the BRICS (particularly China) exported mainly manufactured goods to Africa that year, followed by food products (mainly from Brazil). Third, trade with China entails gains (cheaper provision of infrastructure, production inputs and some household goods) and losses (Dutch disease).

Although the EU remained Africa's largest trading partner in 2011 (34 per cent of total exports), the BRICS countries combined (24 per cent) surpassed the US (17 per cent) as Africa's second biggest trading partner.

Africa's merchandise exports to the world in 2011 were around \$488.9 billion (up from \$116.7 billion in 2000) and to BRICS countries about \$117.6 billion (from \$11.4 billion in 2000) (UNCTADStat, 2013)—half of those went to China, and a quarter to India (figure 1).

FIGURE 1: SHARES OF AFRICAN MERCHANDISE EXPORTS TO THE BRICS, 2011



Africa's merchandise exports to the world in 2011 were around \$488.9 billion (compared to 116.7 billion in 2000), and to BRICS countries about \$117.6 billion (compared to 11.4 billion in 2000) (UNCTADStat, 2013)—half of those went to China, and a quarter to India.

Source: UNCTADStat, 2013.

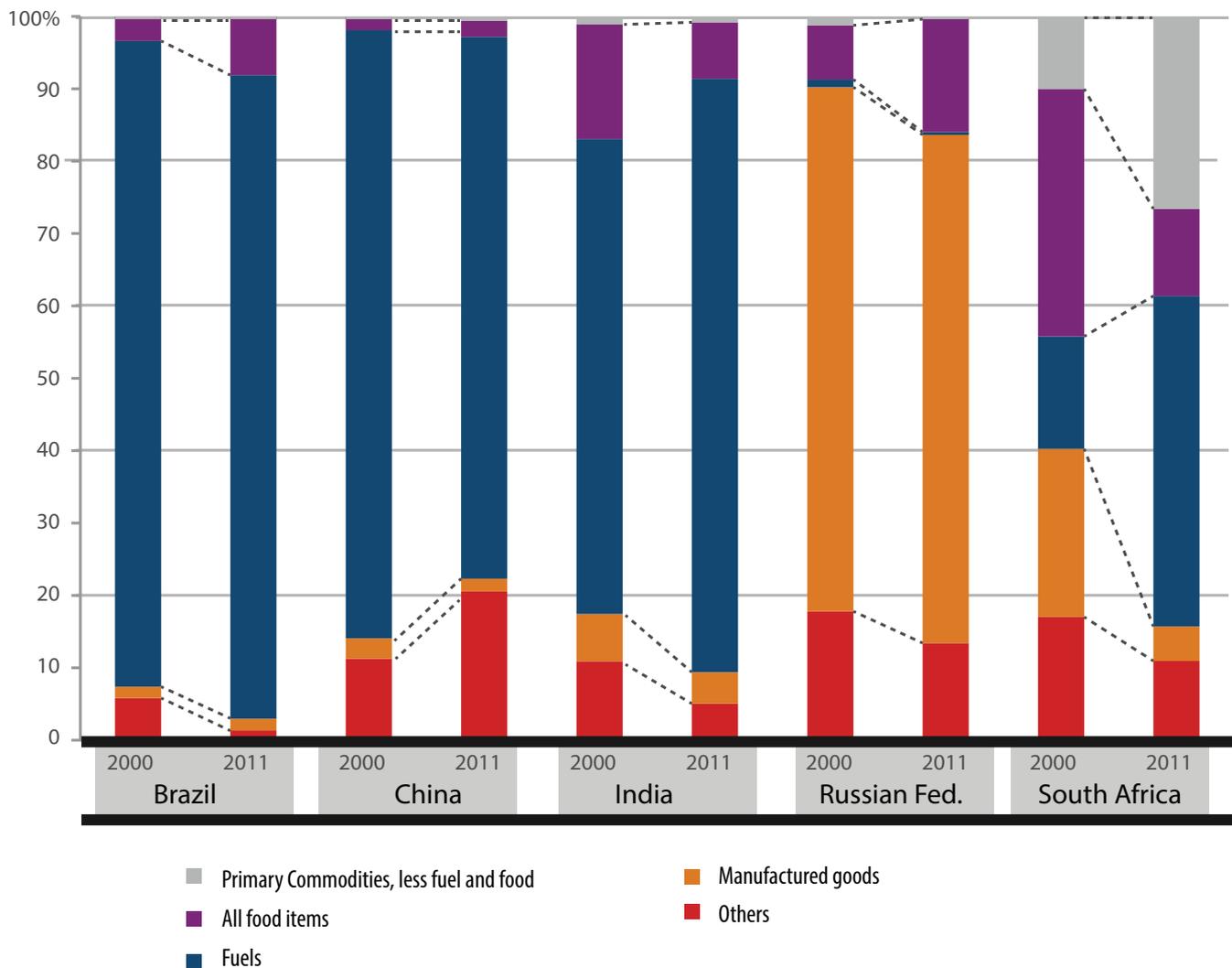
Fuels were the single biggest export commodity from Africa to the BRICS together (and to all of them except Russia individually), accounting for a predominant 74.4 per cent in 2011. Next were other primary commodities (natural resources) at 13.1 per cent, and manufactured goods at 5.6 per cent. Food products (3.6 per cent) and others (3.3 per cent) were the least exported (although food products were the main export to Russia).

By main product category in 2000–2011, Africa's export shares of fuels and manufactured goods rose for Brazil (figure 2). China showed a steep increase in the share of other primary commodity imports, while India marked a sharp proportional rise in fuels. South Africa increased its import shares of fuels at the expense of food products and manufactured goods.

The strong gains of Africa's exports in recent years stem from two main international drivers. First, global commodity prices of primary products (particularly fuels) have climbed, hugely boosting Africa's fuel exports by value. Second is China's strong demand for Africa's other primary commodities: in 2000, for example, Africa's primary commodity exports (excluding fuels and food) were estimated at around \$15.6 million, with China taking 4.8 per cent, but by 2011 China had lifted that share to 28.8 per cent of a far larger \$69.9 billion.

The BRICS exported commodities worth around \$111 billion to Africa in 2011 (UNCTADStat, 2013). China exported the most to Africa (figure 3a) among the BRICS, a trend picking up sharply again after 2009. In 2011, China accounted for 54 per cent of the BRICS' exports to Africa (as against 30 per cent in 2010), India 17 per cent, South Africa 13 per cent, Brazil 9 per cent and Russia 7 per cent. The two largest categories were manufactured goods (73.8 per cent) and food products (14.6 per cent) (figure 3b).

FIGURE 2: SHARES OF AFRICAN EXPORTS TO THE BRICS, BY MAIN PRODUCT CATEGORIES, 2000 AND 2011



Source: UNCTADStat, 2013.  
 Note: Data on Africa generally exclude South Africa, for which data come under the BRICS.

By main product category, Brazil exported the highest share of food products (47.9 per cent) to Africa in 2011, India, fuels (45.4 per cent) and China, primary commodities (33 per cent) and manufactured products (67.8 per cent) (figure 4).

Two key features of Chinese trade stand out. First, China’s (2006) export shares of some African oil exporters are substantial: Republic of Congo (28 per

cent), Angola (30.9 per cent) and Sudan (82.3 per cent). Second, some African countries import heavy shares of their manufactured goods from China (2008): Ethiopia, for example, sourced 97.9 per cent of its machinery and transport equipment there, and other countries source large proportions of imported manufactures from China, such as Gambia (59 per cent), Madagascar (39.2 per cent), Cameroon (35.5 per cent), Nigeria (30.6 per cent), Sudan (29.3 per

FIGURE 3A  
BRICS COMMODITY EXPORTS TO AFRICA,  
2000-2011

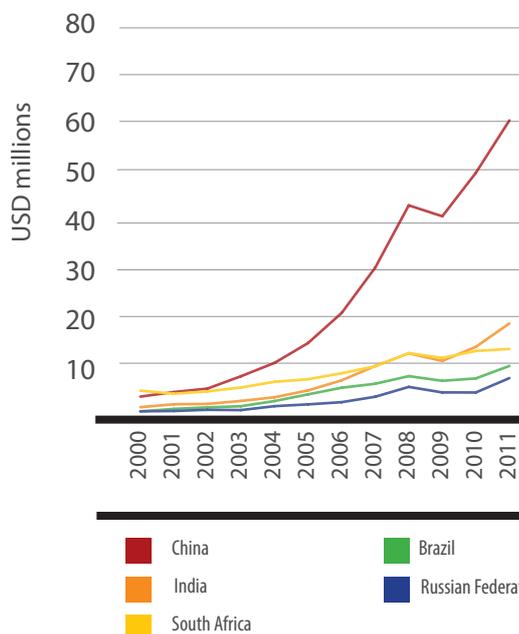
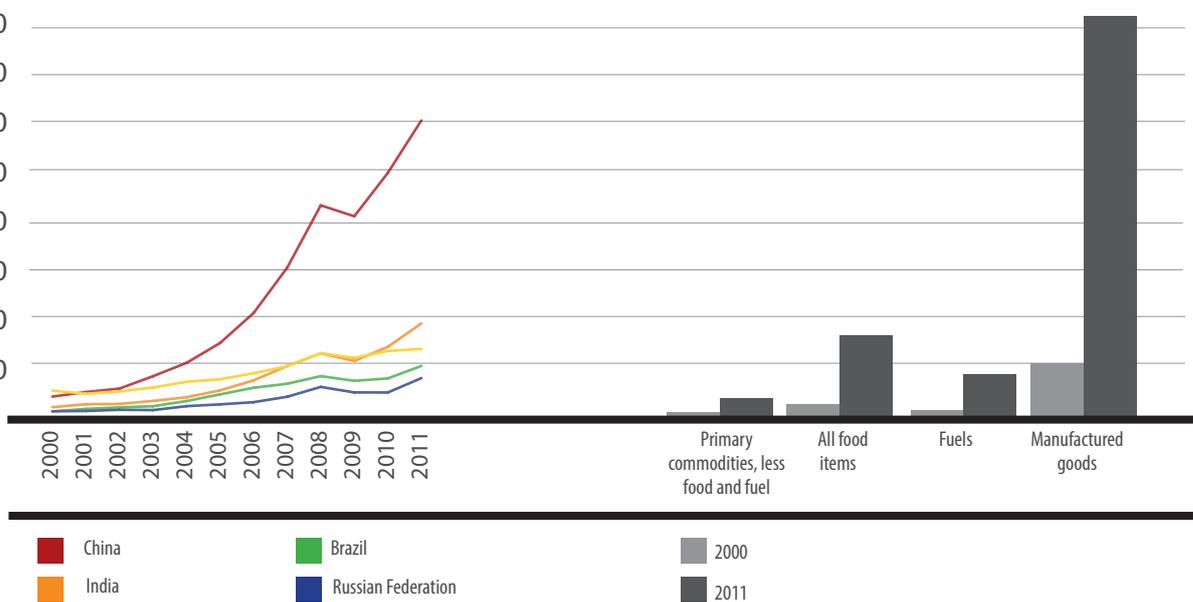


FIGURE 3B  
BRICS EXPORTS BY MAJOR COMMODITIES,  
2000 & 2011



Source: UNCTADStat, 2013.

cent), Ghana (24.9 per cent), Tanzania (21.8 per cent) and Mauritius (20 per cent) (Ajakaiye et al., 2009).

A continued China–African trade relationship will engender losses and gains for Africa. The losses arise from displacement effects in domestic and third-country markets by cheaper Chinese products (Ajakaiye et al., 2009). For example, textiles and clothing, furniture and footwear exports from some African countries<sup>6</sup> will all potentially lose out.

Another risk is that Africa–BRICS trade relationships end up locking in Africa’s specialization in primary commodities—which is bad news as it does not generate the strong productivity gains needed to sustain high growth. The sheer volume and

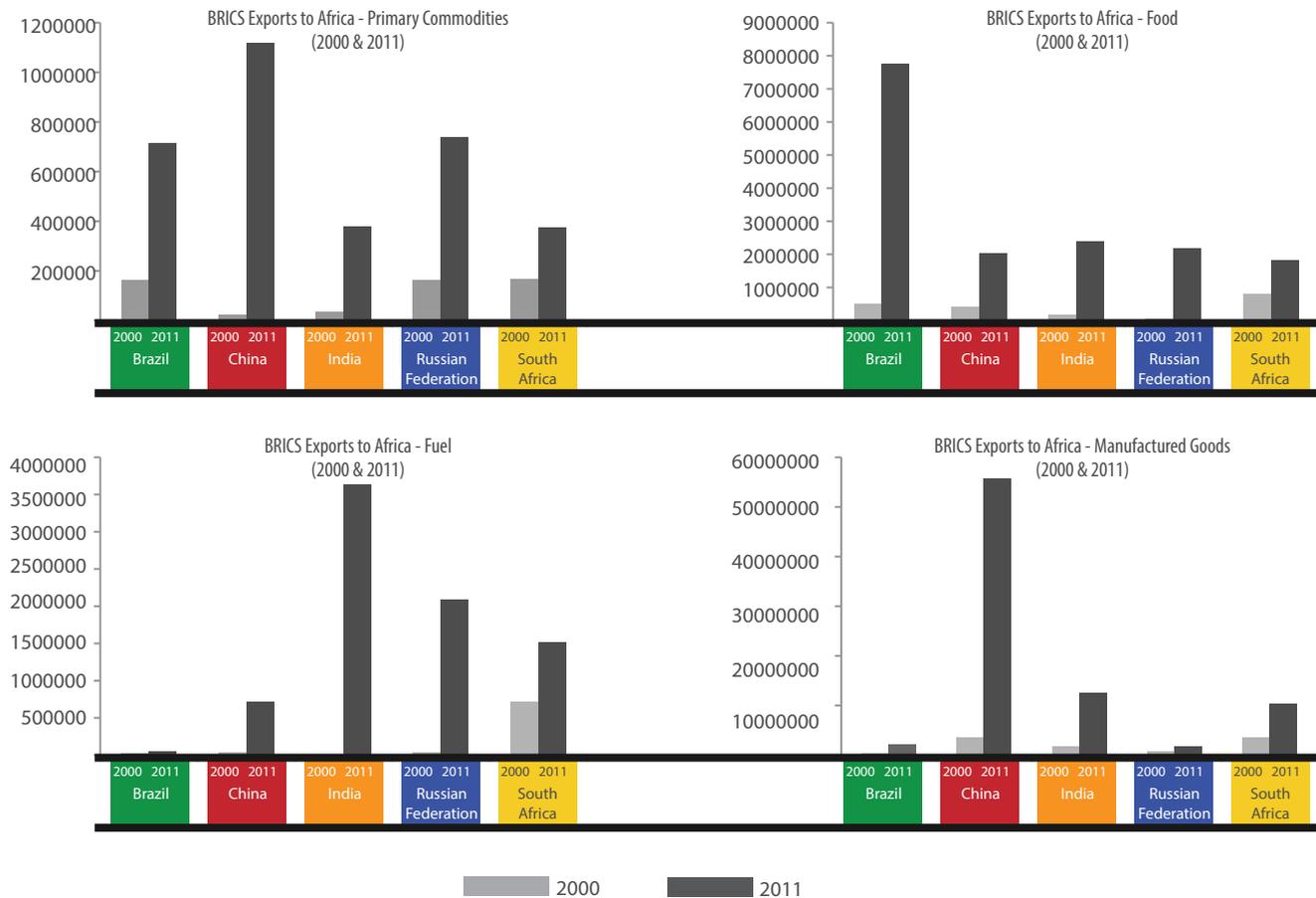
the exponential growth of demand for primary commodities, particularly from China and India, give this concern particular resonance. Additionally, recalling some lessons of African economic history, some analysts have raised the possibility of Dutch disease (ECA, 2011).

On the other hand, Africa could gain from cheaper infrastructure provision, thanks to Chinese companies’ competitive edge and the fact that African firms can potentially source cheaper production inputs from the BRICS.

Regional integration and trade agreements are a key aspect in the Africa–BRICS trade partnership. Not only is South Africa, for one, consolidating the free trade area of Southern African Development Community (SADC) members, but also encouraging negotiations on the Tripartite Agreement between members of the SADC, Common Market for Eastern

<sup>6</sup> Mauritius, South Africa, Madagascar, Zimbabwe, Lesotho, Kenya, Swaziland, Ghana, Cameroon and Nigeria.

FIGURE 4: BRICS EXPORTS TO AFRICA, BY MAIN PRODUCT CATEGORY, 2000 AND 2011 (\$ THOUSANDS)



Source: UNCTADStat, 2013.

and Southern Africa and East African Community with an integrated market of 26 member states and a combined population of nearly 600 million people and a GDP of some \$1.0 trillion.

While Russia's share of African exports to the BRICS in 2011 was small (1 per cent), the value of African exports has gradually increased—food items, for instance, jumped from \$42 million in 2000 to \$3.1 billion in 2011. This increased trade interest is also seen in Africa's fuels and primary commodities (other mineral and natural resources except fuels): Africa exported to Russia around \$38 million-worth of fuels in 2000 but \$2 billion-worth in 2011. Russia's renewed interest in Africa is driven by its need to

access foreign energy reserves as the country runs the risk of exhausting its oil reserves if the scale of exploitation remains constant (AfDB, 2011).

African countries trade in more sophisticated products among themselves than with the outside world (Spence and Karingi, 2011). Intra-African trade is dominated by a few countries—South Africa, Nigeria, Côte d'Ivoire, Kenya and Egypt account for 62.3 per cent of total intra-African exports—and South Africa alone accounts for half of this (ECA et al., 2012). In 2000, South Africa exported manufactured goods worth \$3.5 billion, in 2011 \$10.2 billion—keeping it a strong trade engine for the continent.

## MAJOR TRENDS: FOREIGN DIRECT INVESTMENT

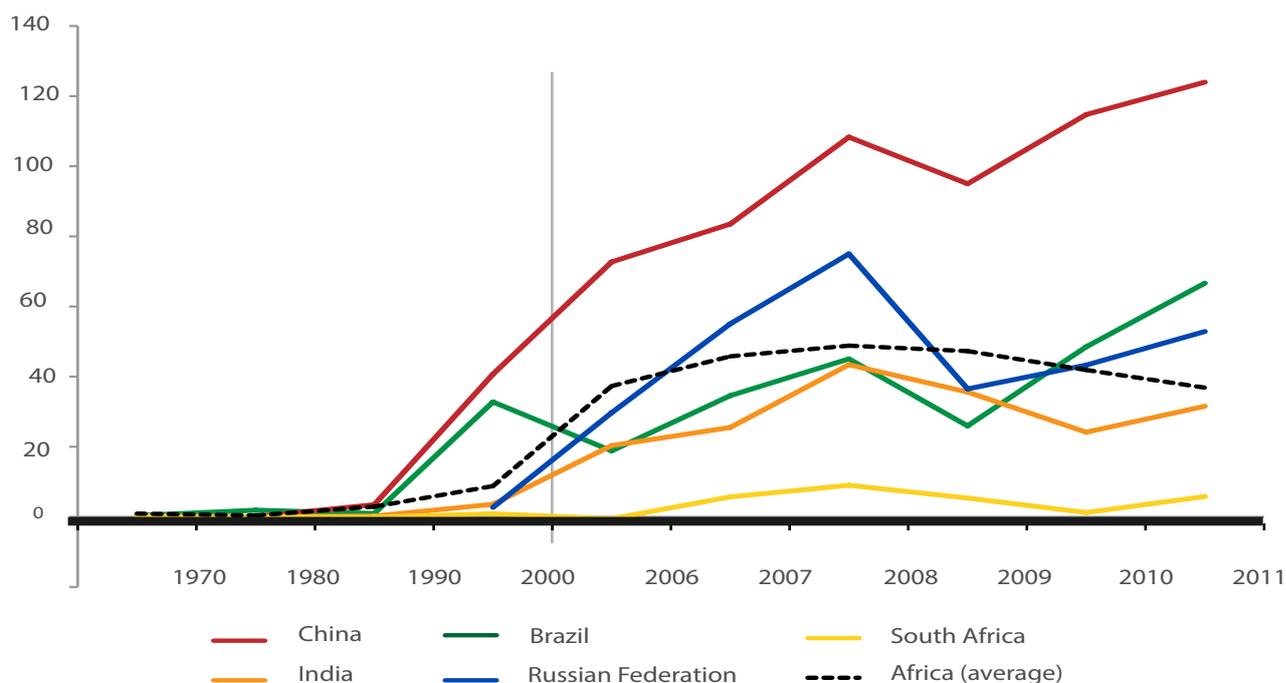
The BRICS' FDI to Africa shows three key features. First, China is Africa's main FDI partner. Second, Chinese FDI comes into Africa as resource-, efficiency- and market-seeking investments. Third, as with trade, Africa's engagement in FDI with China stands to spawn both gains and losses for the continent.

FDI is the biggest source of external private capital flows, know-how, employment generation and trade opportunities for all least-developed countries<sup>7</sup> (UNCTAD, 2011). While FDI inflows to Africa have increased over the longer term, inflows to Africa since 2009 have continued to fall, although only slightly in 2011, to around \$36 billion (UNCTADStat, 2013) (figure 5).

The overall decline in FDI for Africa is attributed to reduced flows to North Africa owing to political unrest (UNCTAD, 2011). North Africa has traditionally been the recipient of about one third of FDI to Africa, but its FDI inflows in 2011 fell by half to \$7.7 billion, and those to the two major recipient countries, Egypt and Libya, became negligible.

The data<sup>8</sup> show a trend of significant FDI inflows from China (in 2008) to some African countries and similarly from India (in 2005). An estimated \$4.3 billion of FDI<sup>9</sup> came from China to 23 African least-developed countries, while India made \$73 million in FDI to selected African countries (UNCTAD, 2011). Chinese FDI is seen in virtually all African countries, although only a few account for the bulk of it.

FIGURE 5: FDI INFLOWS TO AFRICA AND FLOWS TO THE BRICS (\$ BILLION)



Source: UNCTADStat, 2013.

<sup>7</sup> 34 of the 49 least developed countries are African.

<sup>8</sup> There are no publicly available data on FDI at the bilateral level between Africa and the BRICS. In addition, even in one bilateral FDI flow—China and South Africa—“data from both countries are contradictory and inconsistent.” In addition, data on FDI links are not particularly useful owing to lack of sectoral breakdown (Gelb, 2011).

<sup>9</sup> In 2005, it was estimated that the cumulative value of Chinese investment in Africa was \$4.5 billion, or over 12 per cent of the total FDI stock (Ajakaiye et al., 2009).

Estimates of firms set up by Chinese FDI in Africa vary widely, but they probably number over 2,000. Although a few large state-owned enterprises dominate Chinese FDI on the continent, most of the firms are private small and medium-sized enterprises (UNECA, 2011).

The strategic nature of FDI from China—Africa’s biggest source among the BRICS (see figure 5)—to Africa in recent years has been largely concentrated in a few key sectors of economic importance for China, mainly extractive industries. In 2006 alone, China invested in the oil sectors in Angola (\$2.4 billion), Sudan (\$757 million) and Nigeria (\$2.7 billion) (Ajakaiye et al., 2009). The policy implication of such resource-seeking investment is that African economies need to invest the gains from primary commodity exports in downstream higher value added industries, which should allow natural resource exporters to develop and diversify their export base and move from export dependence on natural resources.

Chinese investment in construction on the other hand is market-seeking FDI, focusing on transport infrastructure (to help transport primary produce outside the continent), buildings for governments and international organizations, as well as sport stadiums, in Angola, Cameroon, Congo, Côte d’Ivoire, Ethiopia, Namibia, Nigeria and Uganda. China is also investing in financial services (South Africa, Madagascar and Uganda), tourism (Ghana), transport (Kenya), and telecoms (Angola, Democratic Republic of Congo, Ethiopia, Nigeria, Uganda and South Africa) (Ajakaiye et al., 2009).

These Chinese market-seeking investments provide opportunities for African economies to demand local content sourcing, as Brazil does—it requires up to 70 per cent of local content sourcing in the oil and gas industry, and Indonesia a minimum of 35 per cent (Ospina, 2012). The policy challenge for African governments is therefore to ensure that domestic

suppliers can acceptably perform on price, delivery and service quality. In addition, FDI in key sectors such as extractive industries, agriculture or services needs to help create sustainable employment for local communities and to contribute to their growth.

Another category, Chinese efficiency-seeking investments, cover for example Ghana’s agricultural sector, with \$4.3 million in 2001 or 71.3 per cent of all investment in that sector that year in Ghana. China has also invested in coffee growing in Kenya; rice, timber production and fisheries in Cameroon; and cotton farming in Mali, Tanzania, Uganda and Zambia (Ajakaiye et al., 2009). 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 forge linkages with local African domestic producers, which should therefore produce sustainable exports with higher domestic value added, in turn strengthening domestic businesses. For example, case studies from Kenya, Tanzania and Uganda have shown that many foreign firms make a substantial contribution to local businesses, as they export more of their output (than local firms) and purchase nearly half their inputs from domestic suppliers (Ajayi, 2006). However, the same source also noted that technology transfer and spillovers to domestic firms may be limited.

China’s investments in (primarily labour-intensive) manufacturing was intended to take advantage of the African Growth and Opportunity Act (AGOA). The third-country fabric provision, which expired on 30 September 2012, was extended until 30 September 2015. This provision allows 27 of the 41 African countries (excluding North Africa) eligible for AGOA to source raw material from third countries for making clothing that can be exported duty free to the US market. These African countries could therefore source clothing inputs from China and can be competitive on the US market.

As with trade, there are of course gains and losses for African countries under a China–Africa FDI partnership. While the gains for FDI may only be notable in Mauritius, Ajakaiye et al. (2009) argued that the gains from Chinese FDI could be realized by all African countries if FDI’s originators partnered with local counterparts, outsourced some operations to local producers and offered jobs to local workers. In other words, if FDI is locally inclusive (at all levels of the investment) it has a high chance of generating gains.

***Aid from the BRICS (particularly China) promotes their trade and investment, but the BRICS continue to support Africa’s development through project aid—aimed at improving infrastructure—concessionary and soft loans, as well as credits and grants.***

Russia is attracted to Africa’s natural reserves, often via large resource-based corporations interested in fuels and energy. In 2010, Rosatom planned to invest \$1.8 billion in nuclear power in Egypt, while Lukoil invested \$900 million in oil exploration in Côte d’Ivoire and Ghana (AfDB, 2011). Similar to its trade interests in Africa, Russia’s investments are driven by concerns over depletion of its natural resources.

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. For example, the agribusiness firm Tiger Brands made its third acquisition in the Nigerian market, buying a 63.5 per cent stake in Dangote Flour Mills in 2012, while in 2011 it bought biscuit manufacturer Deli Foods Nigeria and a 49 per cent share in the food and beverage interests of UAC of Nigeria Plc (Mthembu-Salter, 2013).

Winemakers from South Africa are also targeting the growing African market. Although 60 per cent of wine in Nigeria is imported from Europe, South African wine represents 22 per cent of the total, growing by 12 per cent in the year to March 2012 (Mthembu-Salter, 2013). In telecoms, South Africa’s MTN Group is the continent’s biggest mobile-phone operator, with around 126 million subscribers (in September 2012). Nigeria is the largest market with 45.6 million subscribers.

In the financial sphere, 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. AngloGold Ashanti, a major South African gold miner, has operations in Ghana, Mali, Namibia and Tanzania. Even at mines where the ownership is not South African, skilled personnel on site often are.

## MAJOR TRENDS: DEVELOPMENT ASSISTANCE

The contribution of the BRICS to development assistance has increased over the last decade, with China leading the way, although most official flows from the BRICS remain a small portion of official flows to Africa. (Poor data muddy the picture, however.) Aid from the BRICS (particularly China) promotes their trade and investment, but the BRICS continue to support Africa’s development through project aid—aimed at improving infrastructure—concessionary and soft loans, as well as credits and grants. (The infrastructure focus has complemented aid from countries in the Organisation for Economic Co-operation and Development [OECD] and has boosted power generation and transport networks.) Official flows from the BRICS often go to African countries not targeted by traditional partners, with concessional loans as China’s main instrument of support.

Statistics on net ODA from the OECD for Africa show an increase from \$15.6 billion in 2000 to \$44 billion in 2008. The Development Assistance Committee (DAC) partners were responsible for 97.8 per cent of net ODA to Africa in 2008. The 2.2 per cent of non-DAC ODA flows did not include official flows from China, Brazil or India (UNCTAD, 2010).

Credible Africa–BRICS ODA statistics are hard to pin down. First, the OECD database on ODA does not include most of the BRICS as donors. For example, “China does not report its official aid to the DAC, and estimates of its official flows are often vastly exaggerated” (Brautigam, 2010)<sup>10</sup>. Second, even when data are available, they lack the “size, allocation and sectoral distribution of South–South official flows” (UNCTAD, 2011). Hence, estimates on official flows between the BRICS and Africa should be interpreted with caution. Nevertheless, some have attempted to collect official flows from non-DAC donors, including Brazil, India and South Africa, the most convincing perhaps UNCTAD’s Economic Development in Africa Report 2010 and AidData.<sup>11</sup>

This subsection does not therefore try to provide an estimate of BRICS’ official flows to Africa—rather, it provides certain characteristics of official flows to Africa based on the information available.

China is the main source of Southern aid to Africa, at 83 per cent of Southern (non-DAC) flows in 2006, or \$2.3 billion<sup>12</sup>, while Brazil pledged an estimated \$96.1 million and India \$11.3 million that year (UNCTAD, 2010). The AidData initiative has reported recent official flows from Brazil to selected African countries of around \$2.9 million (2009); \$15.2 million

from India (2010); and \$60.1 million from South Africa (2008). The OECD estimates Russia to have disbursed \$33.1 million in 2011.

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, and 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).

***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***

Another key feature of Southern partners’ support is that official flows target African countries seldom reached by traditional partners (UNCTAD, 2010). The support is increasingly provided to countries such as Angola, Sudan and Zimbabwe, while India is known to have provided support to Angola, Côte d’Ivoire, Djibouti and Niger (UNCTAD, 2010). Concessional loans are the most widespread instrument of BRICS support to African countries. Over 2001–2007, half of China’s infrastructure finance to African economies outside North Africa was in the form of loans (UNCTAD, 2010).

Technical cooperation is a key part of BRICS

<sup>10</sup> See Brautigam (2010) and UNCTAD (2011) for discussion of a measurement problem on how China measures its ODA, which is contrary to DAC ODA procedures.

<sup>11</sup> AidData (established in 2009) is a partnership among Brigham Young University, the College of William and Mary, and a non-profit development organization, Development Gateway. It aims to increase ODA transparency and accessibility. It also attempts to improve quality of research on aid allocation and aid effectiveness. See [www.aiddata.org/](http://www.aiddata.org/).

<sup>12</sup> Estimates of China’s foreign assistance, which consists mainly of concessional or low-interest loans and government-backed or subsidized investments in infrastructure and natural resources, vary widely due to the different definitions of aid. A relatively small portion of Chinese aid includes what is typically characterized as ODA by the world’s major aid donors, such as development grants, humanitarian assistance, social welfare programs and food aid (Lum et al., 2009).

countries' support to Africa (particularly from Brazil and India). In 2008 for example, Brazil 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.

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. Russia is writing off \$20 billion in African debt coupled with a \$50 million donation to the poorest countries (RT, 2012). It is also expanding programmes to train African peacekeepers and law enforcers, and plans to spend nearly \$43 million on improving elementary education in developing countries, including some in Africa. Some 8,000 African students have received education at Russian universities, half of whom have had their tuition paid by the Russian government (RT, 2012).

South Africa is increasing its role as aid provider to the rest of Africa (although less than the other BRICS) with the upcoming founding of its own aid agency, the South African Development Partnership Agency. The bulk of the country's aid is in the annual disbursements of the African Renaissance and Inter Cooperation Fund, amounting to \$45 million–\$75 million in recent years (Tjonneland, 2013). The disbursements under this fund go to about 10–20 projects each year, many of which are closely tied to South African foreign policy initiatives.

Some of the projects are in post-conflict countries and offer support to elections (as, for example, in the Democratic Republic of Congo and Sudan) (Tjonneland, 2013).

### 3. COMPARATIVE FEATURES OF THE BRICS' COOPERATION IN AFRICA

The OECD predicts that the balance of global economic power will shift dramatically over the next 50 years with China long before then becoming the world's largest national economy (replacing the US). India's GDP is also projected to overtake the US. Thus Africa's partnerships with the BRICS will become even more important.

#### SIMILARITIES AND DIFFERENCES AMONG THE 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.

*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.*

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. 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.

## TRADE—OPPORTUNITIES AND CHALLENGES

As said, trade between the BRICS and Africa can be summarized under three key features: Africa's exports to the BRICS are dominated by fuels and primary commodities (mainly to China and India); the BRICS' exports to African countries are dominated by manufactured goods; and although some African countries will gain, some will lose (particularly Kenya, Mauritius, Nigeria and South Africa).

For resource-rich countries, gains from the primary commodity boom should be invested to fund higher-value production (primarily in manufacturing). Thus the challenge for such countries is to avoid Dutch disease and to promote higher value added and manufactured goods for exports. They also need to invest in physical infrastructure to address steep transport costs (and slow logistics) to facilitate greater avenues for trade. 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.<sup>13</sup>

Intra-BRICS trade has grown as a share of BRICS total trade with emerging markets, partly owing to weak demand from advanced economies but also because Brazil, India and China have increasing

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<sup>13</sup> Kaplinsky and Morris (2007) give further details.

demand for Africa’s natural resources and energy. Intra-BRICS trade accounts for nearly one fifth of BRICS total trade with emerging markets, up from just 13 per cent in 2008 (Freemantle and Stevens, 2013). South Africa has made heavy gains from this upsurge: in 2003, its trade with emerging economies accounted for 5 per cent of its total trade, in 2012, 19 per cent (Freemantle and Stevens, 2013). With a risk that Africa’s regional integration mandate may be overshadowed if South Africa enjoys the immediate benefits of intra-BRICS partnerships, Africa needs to consolidate Africa–BRICS partnerships.

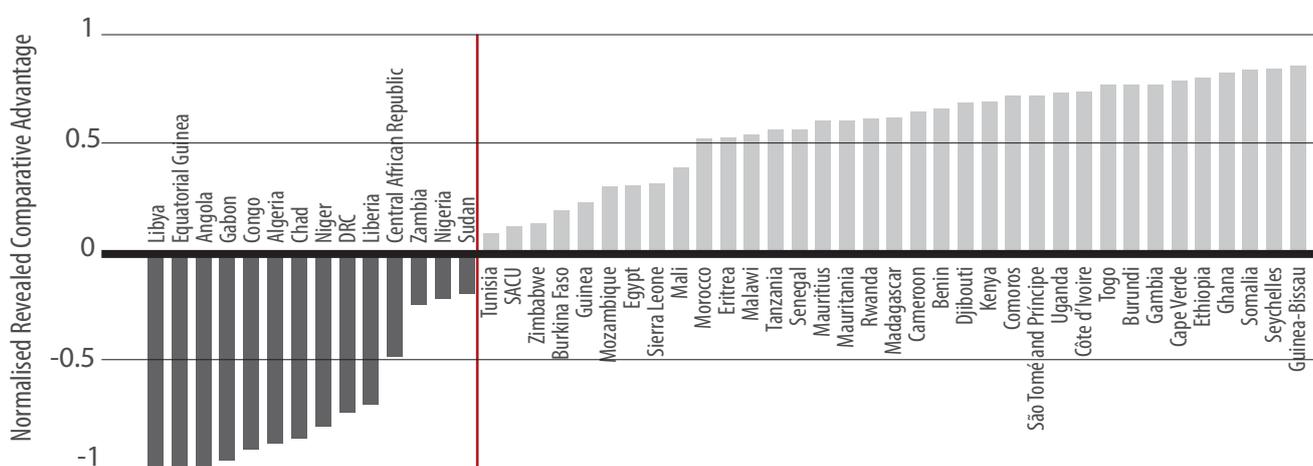
Food security has been a leading item on the international agenda since the global food crisis of 2008. The first BRICS summit in 2009 emphasized food security, urging a general strategy for ensuring access to food for the most vulnerable. Yet agriculture in the BRICS faces challenges, including the impact of climate change on productivity, issues of water security, commodity price volatility, rising input costs, diverted agricultural land and problems in promoting smallholder farming (Singh and Dube, 2013).

These challenges could, though, be an opportunity for Africa’s main food exporters, which have a revealed comparative advantage in agriculture and food commodities (figure 6). The policy implication is that African economies should expand exports to meet the BRICS’ food security, as they have much room to grow, particularly to China and India—in 2011, only 3.7 per cent of Africa’s merchandise exports were food produce to the BRICS (the majority to Russia). African governments must take care, however, to ensure that greater demand from the BRICS does not drive up domestic food prices, hurting the poor in particular.

## INVESTMENT—OPPORTUNITIES AND CHALLENGES

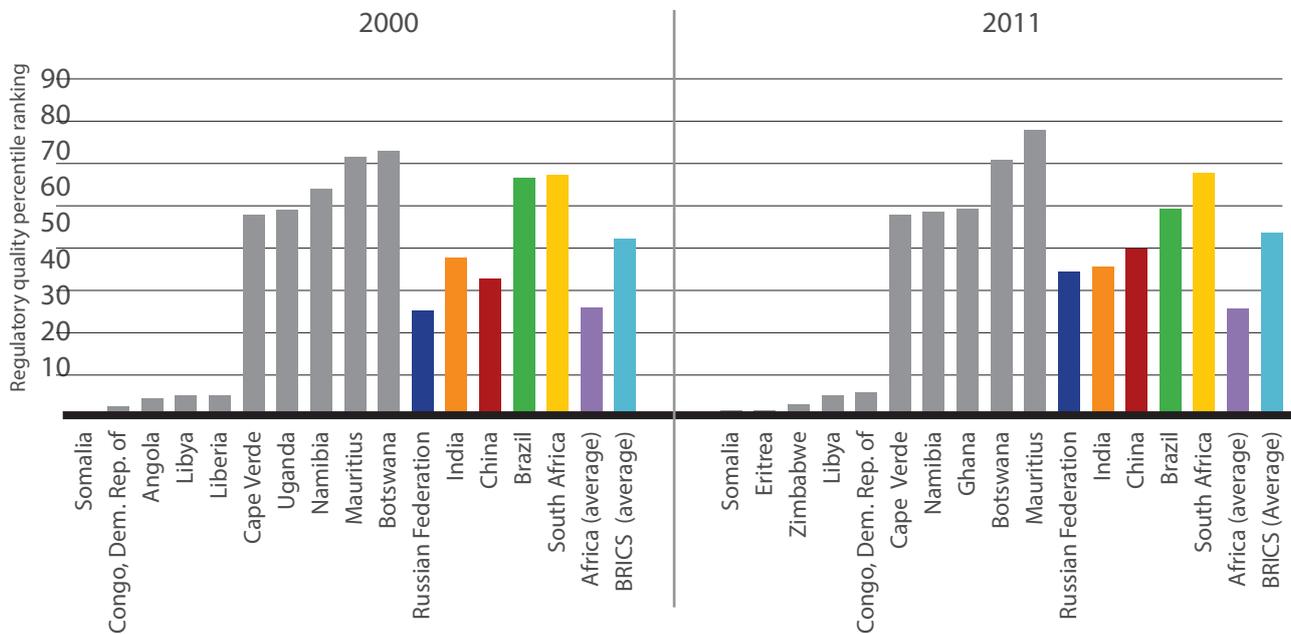
As seen, Chinese FDI can be categorized as resource-, efficiency- and market-seeking investments. The policy upshot of the first type is that African economies need to invest their gains from primary commodity exports in downstream, higher value added industries, which should allow the continent’s natural-resource exporters to develop and diversify their export base, so moving from dependence on natural resource exports.

FIGURE 6: NORMALIZED REVEALED COMPARATIVE ADVANTAGE FOR AFRICAN ECONOMIES, (AGRICULTURE AND FOOD), 2009



Source: Authors’ estimations based on BACI dataset (2012)

FIGURE 7: REGULATORY QUALITY IN BRICS AND SELECTED AFRICAN COUNTRIES 2000-2011



Source: Extracted from Worldwide Governance Indicators, accessed 14 February 2013, <http://info.worldbank.org/governance/wgi/index.asp>.

The equivalent policy implication for China's efficiency-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.

The policy challenge for African governments with market-seeking investments is to ensure that domestic suppliers perform acceptably on price, delivery and service quality. In addition, 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.

Perhaps the biggest opportunity from Chinese FDI in Africa is the increase in investment in transformation activities (AERC, 2010). Although Chinese workers typically accompany China's infrastructure investments and most of the supplies are sourced

from China, some African countries have managed to change that practice. Responding to complaints by Nigeria and South Africa, the Chinese Ministry of Commerce has encouraged its companies to increase investment spending in developing countries, aiding technology development and personnel training. Specifically, Huawei Technologies Nigeria Ltd. established a training centre in Nigeria to train 2,000 telecoms engineers annually (AERC, 2010).

The challenge, therefore, is for African countries to invest the inflow of resources from the commodity booms in improving the investment climate, developing human resources to support investment in new industries and establishing appropriate financial institutions for nascent private entrepreneurs. Successful implementation of these initiatives under good governance will create the conditions for Chinese FDI to have significant backward and forward linkages in African economies (AERC, 2010).

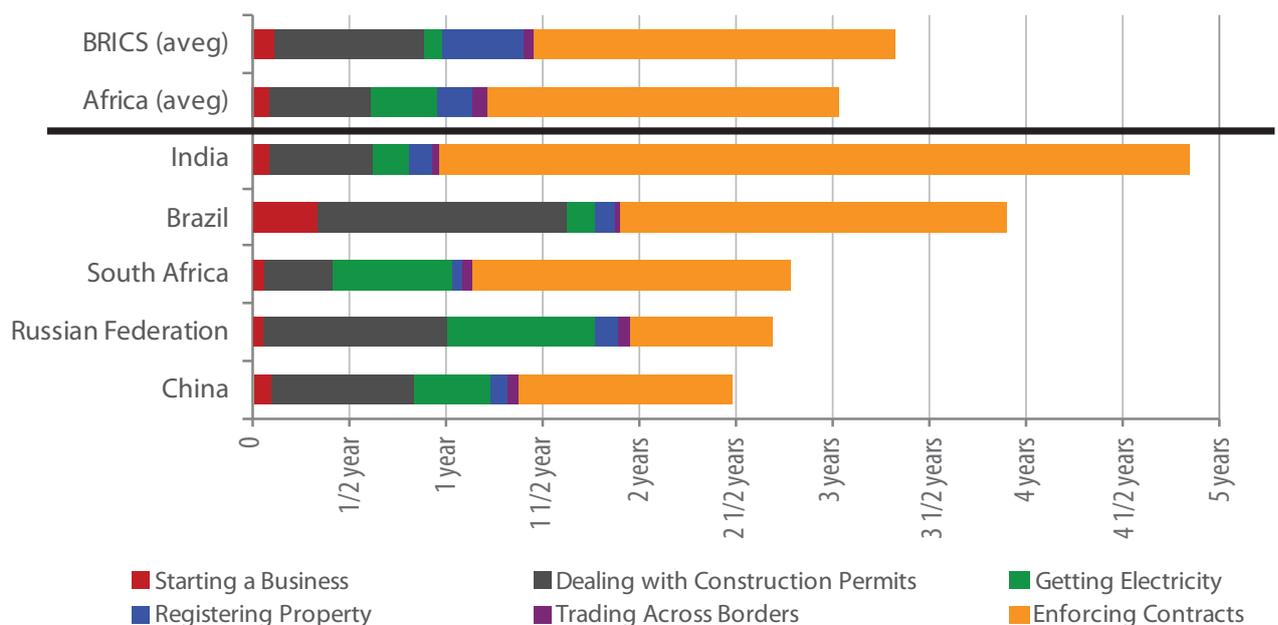
In terms of how conducive institutional environments are for FDI<sup>14</sup>, while Africa and the BRICS slightly improved during 2000–2011, the BRICS have higher regulatory quality than Africa (figure 7)<sup>15</sup>. Of course, some African countries are higher than the BRICS’ average, including Botswana, Cape Verde, Ghana, Mauritius, Namibia and Uganda.

Similarly, when looking at the business environment (using the World Bank’s Ease of Doing Business index) in the BRICS and Africa, while the BRICS are faring well (fewer days) on starting a business, registering property and trading across borders, they require a long time to enforce contracts, secure construction permits and get an electricity connection (figure 8). This pattern is similar to Africa’s average, which shows that enforcing contracts, securing construction permits and registering property takes longer.

Ajakaiye et al. (2009) suggest that one FDI opportunity for Africa is to use commodity power to secure advantageous terms—that is, to negotiate for initiating structured partnerships between Chinese and African firms, thus inserting African firms into Chinese production-sharing networks and retaining a significant proportion of value added within African economies. African governments should also enhance the benefits of market- or efficiency-seeking Chinese 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.

The policy implications for Africa’s governments are therefore to develop and support local entrepreneurs who can partner with their Chinese counterparts, to

FIGURE 8: EASE OF DOING BUSINESS 2013, BRICS, TIME REQUIRED (DAYS)



Source: Extracted from World Development Indicators, accessed 14 February 2013.  
<http://data.worldbank.org/data-catalog/world-development-indicators>. <http://data.worldbank.org/data-catalog/world-development-indicators>.

14 Using the World Bank’s Worldwide Governance Indicators, in particular “regulatory control”, which “captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development”. Values ranges from 0 (lowest quality) to 100 (highest quality). See <http://info.worldbank.org/governance/wgi/index.asp>.

15 The ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

develop qualified and employable human resources, and to invest in health so as to secure a healthy workforce (Ajakaiye et al., 2009). Regional bodies such as the African Union can play a key role in supporting common African positions on these vital areas.

Ajakaiye et al. (2009) also identify three potential challenges with Chinese FDI<sup>16</sup>. First, with possible environmental damage from resource-seeking FDI, African governments need to develop capacity in formulating appropriate environmental rules and standards, although the rules should not deter FDI and should provide incentives for enforcing the standards. Second, low-quality outputs by market- or resource seeking Chinese FDI would require African governments to develop capacity for formulating and enforcing quality standards. Third, smaller investors from China may displace local entrepreneurs, requiring African governments to develop and enforce appropriate competition policy.

## DEVELOPMENT ASSISTANCE— OPPORTUNITIES AND CHALLENGES

As discussed, official flows from the BRICS are a small portion of ODA to Africa; some of the aid from the BRICS (particularly China) promotes trade and investment; ODA from the BRICS often benefits African countries not targeted by traditional partners; concessional loans are China's main instrument; and technical cooperation is crucial in education, health and ICT, particularly from Brazil and India.

One opportunity for the continent's economies in the Africa–BRICS partnership on aid is the increasing multiple sources of aid for Africa and generally rising aid volumes<sup>17</sup>. A potential challenge is Brazil, China and India's history of debt prolongation of

concessional loans in some African countries. The argument against prolongation is that it may have a negative effect on debt sustainability. However, China displays very little evidence of imprudent lending to African economies (UNCTAD, 2010). Equally, given China's tied aid, African governments must be vigilant in negotiating terms to ensure that aid promotes partnership between Chinese companies and their domestic counterparts, increases local sourcing of inputs, and enhances outsourcing, including subcontracting with local entrepreneurs (Ajakaiye et al., 2009).

One of the key issues for the BRICS–North partnership is the question of potential complementarities (or competition) of future development mechanisms of the BRICS with Northern institutions such as the World Bank and International Monetary Fund. The BRICS are already advanced in their plan for a BRICS Development Bank.

## 4. IMPLICATIONS OF AFRICA– BRICS COOPERATION FOR GROWTH, EMPLOYMENT AND STRUCTURAL TRANSFORMATION

### IMPACT OF AFRICA–BRICS COOPERATION

The dearth of disaggregated data at firm and country levels prevents a comprehensive analysis of the impact of Africa–BRICS cooperation in the three main areas of growth, employment and structural transformation. There is probably more information on China than on the other four BRICS, yet even for China, data are not robust enough for such

<sup>16</sup> See also UNCTAD (2010, 66–78), for further discussion on concerns over Southern FDI in Africa.

<sup>17</sup> Apart from the impact of the global crisis in 2009 and later years. Still, Aid for Trade statistics show that Africa in 2010 surpassed Asia as the biggest recipient of Aid for Trade.

analysis. The African Economic Research Consortium (AERC) has sponsored case studies on the impact of Chinese trade, investment and aid, publishing 10 China–Africa economic relations policy briefs. All the studies report severe data challenges, leading to key findings that are insightful but mainly descriptive and anecdotal.

An AERC study on China’s trade relations with Mauritius, for instance (Ancharaz and Tandrayen-Ragoobur, 2010) finds that cheap imports have benefited consumers, but that the poor quality of some Chinese products constitutes a potential loss to them. Perhaps more significantly, Chinese import competition has caused heavy losses to local industry in Mauritius, with small firms and those in such sectors as garments, footwear and furniture experiencing a loss of market share, causing severe downsizing. Unfortunately, the study can quantify the outcomes only to a limited degree.

Similarly, an AERC study of China–Mauritius investment relations (Ancharaz and Nowbutsing, 2010) was unable to conduct an in-depth analysis of Chinese FDI partly because the authors could not obtain detailed, firm-level data on job creation, value added and export contribution. The study reports, though, that until recently the main Chinese investments were in textiles by a wholly owned Chinese subsidiary set up in 2002. That company helped to reduce the country’s cotton yarn imports but created few jobs for locals. A Special Economic Zone project launched in 2009 generated a massive spurt of Chinese FDI and such flows are likely to continue over the medium term. The zone will house high-value, cutting-edge technology industries and will generate jobs and foreign exchange, yet its overall value to the domestic economy is likely to be small because the zone will employ mainly Chinese workers and repatriate export proceeds to China. Even when it becomes fully operational, it will have few positive effects on the economy (Ancharaz and Nowbutsing, 2011).

### BOX 1: CHINESE INVESTMENT IN NIGERIA

- Chinese investment is concentrated in a few sectors of strategic interest to China.
- Investment is largely by state-owned enterprises or joint ventures.
- FDI is typically accompanied by Chinese workers and most of the supplies are sourced directly from China.
- Such FDI may have little positive revenue effect because of many fiscal incentives and possibility of tax evasion/avoidance by Chinese firms.
- The massive influx of Chinese FDI to produce goods and services more cheaply, with the import of cheap commodities from China, will enhance Nigerians’ welfare.
- But as Nigerian firms are uncompetitive, Chinese FDI in the country may lead to closure of domestic firms, hitting employment, particularly where Chinese firms bring in workers from their country.
- Chinese firms bring in most of their inputs from their own country and set up their own market outlets, pointing to few linkages between Nigerian and Chinese firms.
- Domestic firms in sectors of interest to China (such as oil and gas, power, construction, manufacturing and services) may lose out owing to lack of competitiveness.

Source: Oyeranti, et al. 2010.

A study of China–Nigeria investment relations was also data constrained, but its findings were similar (box 1).

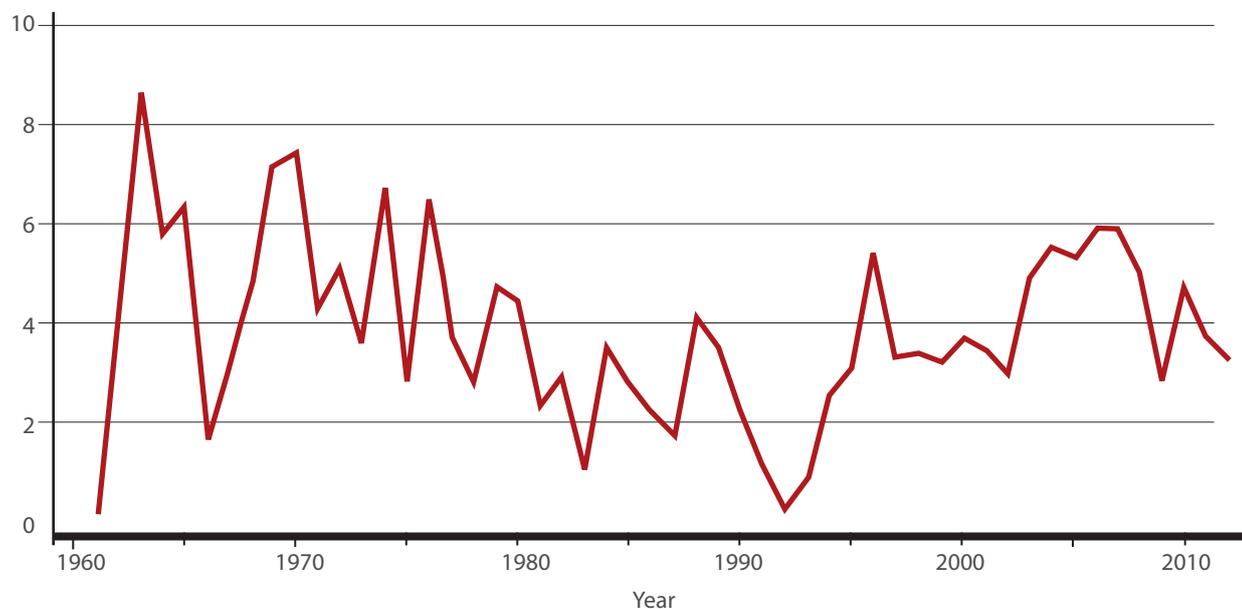
There is even less quantitative detail on other Southern partners, although some information can be gleaned on the activities of the big multinationals. Brazilian companies, for instance, are big contributors to employment in Angola and Mozambique. More than 100 firms from Brazil operate in Angola and more than 30,000 Brazilians work in the country, primarily in construction, civil engineering, retail and education (Kiala and Ngwenya, 2011). Brazil's engineering and construction company, Odebrecht, is the most prominent Brazilian investor in Angola and the largest private employer in the country. It is also a recipient of major government contracts for rehabilitating and building roads, housing and public amenities. Odebrecht has branched out into biofuels (Kiala and Ngwenya, 2011).

Another Brazilian multinational, Companhia Vale do Rio Doce (commonly known as Vale) operates in seven African countries. Its largest operation is a \$1.3 billion investment expected to extract 11 million tons of coal in Mozambique, which should create 4,500 jobs (Seibert, 2011).

### ENHANCING AFRICA–BRICS COOPERATION FOR GROWTH, EMPLOYMENT AND STRUCTURAL TRANSFORMATION IN AFRICA

Africa's development challenge lies in achieving sustained and broad-based economic growth. The current strong growth surge raises questions on sustainability and inclusiveness, because it remains vulnerable to external shocks and has not translated into desirable economic and social outcomes for its people. One of the main reasons for this weak performance is the paucity of structural

FIGURE 9: ANNUAL GDP GROWTH IN AFRICA, 1961–2011



Source: African Development Indicators 2012, accessed 26 February 2013. <http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=african-development-indicators#>

transformation and diversification of output, exports and employment in most African countries. This has contributed to high growth-volatility (figure 9) and the apparent inability of African economies to achieve strong and consistent economic growth and social development.

To maximize the benefits of expanding cooperation with the BRICS, African nations need to consider Africa–BRICS trends in their long-term economic planning. They also need to be assertive when negotiating cooperation with the BRICS, with the ultimate goal of building Africa’s productive capacities. They should pursue all areas of cooperation so as to stimulate production and develop entrepreneurialism, hence cooperation ought to target sectors capable of generating sustained growth and employment—agriculture, for example, which then has to be linked to industry through agro-processing.

The linkages created, in any sector, are vital for ensuring employment and economic growth and present a key platform for expanding industry and manufacturing, which constitute less than 25 per cent of GDP in most African economies, although developing countries’ policies often favour large firms while inhibiting growth of small firms (Little, 1987). Some developing countries grant investment incentives only for projects above a certain size, and may single out large producers for special subsidies. Such policies hurt private development as well as the formation of entrepreneurial skills, which are seriously lacking in developing economies (Tybout, 2000). To create room for private development, governments should make every effort to use Africa–BRICS cooperation to broaden the scope of engagement beyond extractive sectors by enhancing technology transfer and learning for Africa, which feeds into the growth–employment nexus.

### Improving Growth and Employment

A key policy issue for Africa is how to make its growth

more resilient and job creating. African countries must capitalize on their cooperation with the BRICS to develop sectors with large multiplier effects, which could bear on growth and employment through the various linkages (see, for instance, ECA and AU, forthcoming).

***African countries must capitalize on their cooperation with the BRICS to develop sectors with large multiplier effects, which could bear on growth and employment through the various linkages***

Africa needs to diversify its exports if it is to achieve the broad-based growth that comes with decent jobs and to move from the highly concentrated export structure that stems from its historically imposed dependence on natural resources. In three quarters of the countries, the share of primary commodities in merchandise exports is at least half. In more than half these countries, the top three products account for more than half of merchandise exports, in a quarter at least four fifths. In eight countries, one primary product accounts for more than 70 per cent of total exports. This export concentration on primary commodities reflects the weakness of Africa’s industrial sector.

Youth unemployment offers a good optic for viewing unemployment more widely. Africa’s youth population is growing rapidly and getting better educated. Higher education offers a chance for better jobs. With almost 200 million people ages 15–24, Africa has the youngest population in the world, providing a reservoir of change, progress and social dynamism. But Africa’s youth population keeps growing, and is expected to double in absolute numbers by 2045.

According to the African Economic Outlook 2012, 59 per cent of 20–24 year olds will have had a secondary education in 2030 against 42 per cent today,

translating into 137 million 20–24 year olds with secondary education and 12 million with tertiary education. Although wide quality gaps remain, these trends offer an unrivalled opportunity for economic and social development if governments harness and channel this potential towards productive sectors.

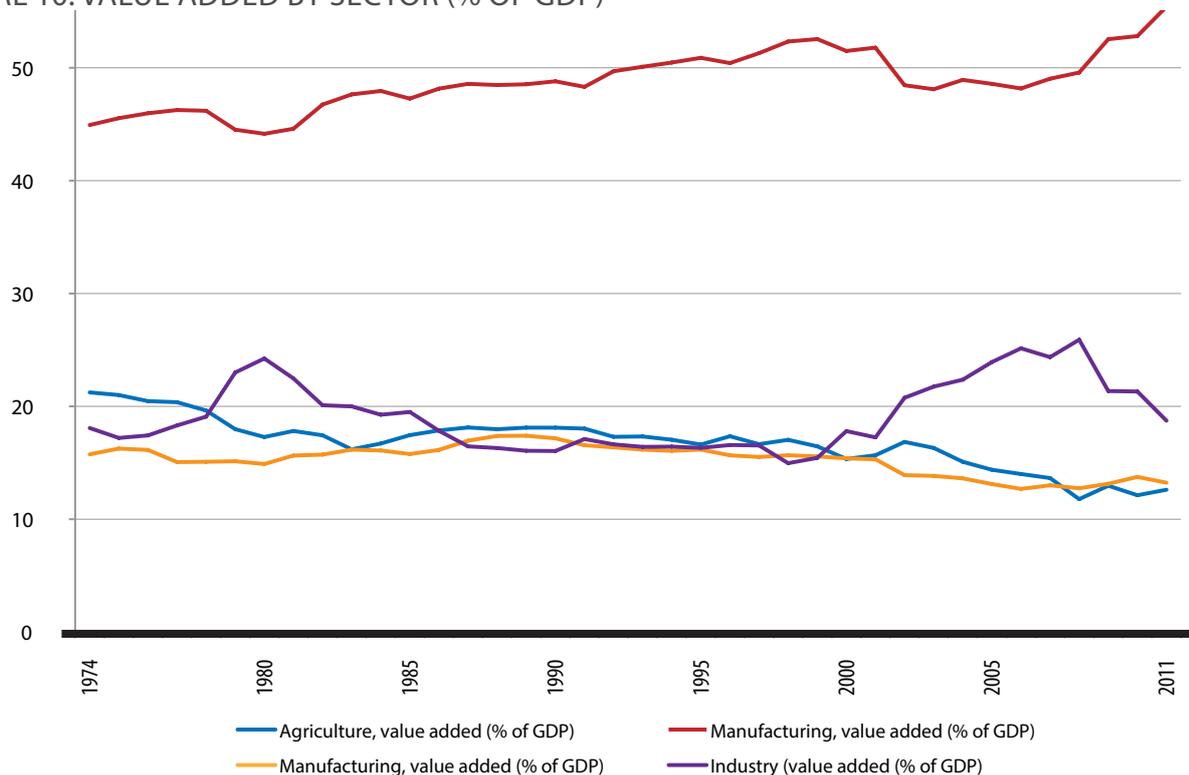
But if governments fail, this squandered potential could undermine social cohesion and political stability through many avenues, including forgone economic output, as well as crime, violence and the heavy cost of law enforcement, which is already higher than health spending in some African countries. Unemployed youths also show a higher incidence of HIV/AIDS triggered by their more risky behaviour, including becoming child soldiers or prostitutes, or taking drugs (AfDB et al., 2012). The uprisings in North Africa are vivid reminders of the potential social and political consequences of youth unemployment.

In addressing African unemployment, two Economic Reports on Africa (ECA, 2004 and 2010) outlined strategies to stimulate employment, such as encouraging export diversification, strengthening inter-sectoral linkages and adopting labour-intensive techniques. Others include maximizing private job-creation capabilities through minimizing constraints on investment and growth, as well as reducing taxes on producer prices to ensure that workers benefit from improved terms of trade. When negotiating with their BRICS partners, African governments must ensure that their agreements reflect these policy imperatives.

#### Accelerating Structural Transformation

Lacking diversification in output, exports and employment and having failed to transform themselves structurally, many African countries remain vulnerable to external shocks, obviating high and sustained growth. Transformation entails

FIGURE 10: VALUE ADDED BY SECTOR (% OF GDP)



Source: African Development Indicators 2012, accessed 27 February 2013. [http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=african-development-indicators#s\\_i](http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=african-development-indicators#s_i).  
Note: Industry value added refers to mining, electricity, water and gas.

a change in an economy from subsistence, through industrialization, to an industrial or even post-industrial society. It can be looked at as the change in the sectoral composition of output (or GDP) (figure 10) and in the sectoral pattern of employment as the economy develops (that is, as real per capita GDP increases). Structural transformation usually takes root during a sustained increase in real per capita incomes over a fairly long period.

Stronger industry—especially manufacturing—lies at the heart of transformation, as seen in the success of the BRICS and other emerging economies in raising economic growth. However, the very success of countries like China and those in east and south-east Asia makes it hard for African countries to simply follow in their export-driven footsteps for two reasons: this route to industrialization is now heavily restricted by the trade liberalization that has accompanied globalization, and new entrants have to compete not only with the industrialized world but also with other successful exporters. The intensely competitive global systems for manufactures are also encroaching on imports in domestic markets.

This is seen in African countries where labour-intensive clothing production was stimulated by preferential trade access to the US and EU. After an initial burst in the first half of the 2000s, these sectors have sharply slowed and even saw declining export values, primarily owing to their having to compete with cheaper clothing from China and south-east Asia. In short, the labour-intensive manufacturing export route to industrialization for African economies seems to have partially closed, and even been called into question as the path to follow.

Yet the commodity exporters that have benefited greatly from surging export prices and higher “resource rents” face great dangers in relying on

these rents as an engine of growth. The capital intensity of many commodity sectors limits employment and the distribution of these rents among the wider population. Moreover, despite general confidence that these sustained high prices will continue, diversified economies are needed, as they are more robust and less vulnerable to price shocks. A more reliable growth path for them lies in building backward and forward linkages with commodity production (discussed just below).

## LESSONS FROM GLOBALIZATION

Africa–BRICS cooperation presents new possibilities for broad-based economic development because the interaction—beyond trade, finance and aid—can benefit African countries through cultural, social, scientific and technological exchange. It could lead to faster diffusion of productive ideas, innovation and adoption of new technologies and better knowledge absorption, which are key to creating wealth.

*Countries blessed with resource endowments have a duty to themselves and to other African countries to embark on an industrial strategy aimed at maximizing backward and forward processing linkages from the commodity sectors.*

The potential downside is that African countries could be locked into a pattern of development that sharpens socio-economic inequalities, which can lead to some people being completely bypassed. This is the basis for the argument that globalization—as epitomized by the Africa–BRICS relationship—can create or reinforce poverty traps

and increase vulnerability to capital flows. (The benefits and opportunities, as well as the costs and risks, of Africa–BRICS cooperation are greater for low-income African countries, for which the stakes of engagement are higher.)

A crucial aspect of globalization is outsourcing by lead firms—usually multinationals in developed countries—of labour-intensive stages of their production to countries with low costs. By relocating these activities, the lead firms move from ownership of production plants but retain control of the value chains, deciding which functions are located in which countries, setting the parameters for costs, quality, lead times and so forth, managing suppliers that meet these standards, and intervening when these parameters are not met—sometimes by excluding producers from the value chain, or by helping them to upgrade.

Many developing countries have benefited from the global dispersion of manufacturing, and supply intermediate and final products—but the benefits outside East Asia rarely extend to the higher value added activities of design, product development, marketing and retail. Developing countries, especially in East Asia, had earlier adopted industrial policies to enhance their firms' competitiveness, which gradually enabled them to take over more complex functions. This was crucial because, as competition between low-cost developing countries stiffened, profits on many types of manufacturing shrank, and so to escape this downward price spiral some firms moved into more sustainable stages of the global value chains, by upgrading.

In Africa, resource endowments create opportunities. Countries blessed in this way have a duty to themselves and to other African countries to embark on an industrial strategy aimed at maximizing backward and forward processing linkages from the commodity sectors. This strategy will yield many

***Africa–BRICS cooperation presents new possibilities for broad-based economic development because the interaction—beyond trade, finance and aid—can benefit African countries through cultural, social, scientific and technological exchange.***

benefits—employment is the most obvious but price and non-price gains will also emerge. These countries may look to the experience of resource-rich Argentina, Malaysia, Thailand and Venezuela, which suggests that the export success of resource-based industries was due less to high initial skills and capital, and more to economic policies fostering their development (Londero and Teitel, 1996; Reinhardt, 2000).

The overall success of the BRICS in promoting inclusive growth, employment and structural transformation—helping to reduce poverty and inequality (though not in all cases)—provide some valuable lessons for African countries. The foundations for their success were building human capital and improving access to assets, investing in infrastructure with structural transformation and jobs in mind, and using well-designed social transfer programmes to address poverty and inequality and to prioritize inclusion.

Yet the BRICS show huge differences: Vandemoortele et al. (2013) reveal that China is good at providing fairly equitable access to productive assets, building skills and providing rural and physical infrastructure, which contrasts with South Africa where, historically, distribution of land and human capital has been heavily skewed. China has also invested in infrastructure that supports transformation and employment, unlike South Africa and India where

infrastructure investments do not seem to have reduced inequality.

Social transfers have helped to reduce inequality in Brazil, but not necessarily in South Africa. Brazil has inclusivity as a priority but South Africa, China and India do not. In China, land ownership can be a useful social safety net (Vandemoortele et al., 2013).

## 5. CONCLUSIONS AND RECOMMENDATIONS

### CONCLUSIONS

Africa's engagement with the BRICS and other countries of the South has grown rapidly over the last decade, offering great promise in the continent's relations with the BRICS because, distinctively, they are predicated more on mutual benefit and solidarity rather than on gift giving or pure commerce. The bundling of trade, investment and aid activities of the BRICS partners is a logical outcome of this premise.

This awareness should underpin the continent's strategy towards its BRICS partners. Its relations with them should be based on a clearly articulated African interest. The continent should then install the critical capacities—which form the basis of the following recommendations—for it to take part as an equal in dialogue.

### RECOMMENDATIONS

How should Africa respond to the opportunities and challenges presented by Africa–BRICS cooperation and capitalize on it to promote growth, employment and structural transformation?

Underlying any reply to this question, Africa should design a BRICS strategy built on mutual interest and respect. Thus African leaders should approach BRICS without submissiveness or gratuitous hostility,

rejecting any self-portrayal or portrayal by others as victims or underdogs in the international system. The continent's relationship with the BRICS and other external partners will be at its most constructive if the players are neither supplicants nor combatants. The focus should be on what works for African governments in promoting the welfare of their citizens and in pursuing sustainable business opportunities for African entrepreneurs within the framework of Africa–BRICS—indeed overall South–South—cooperation.

China and India have launched high-level forums for cooperation with Africa, which negotiate and agree to critical elements of cooperation. Although the Action Plan from the Forum on China-Africa Cooperation (FOCAC) and the India-Africa Forum Summits have been relatively specific, aspects of the cooperation often appear as “gifts”, even when they are not. For instance, the leveraging and subsidization of Chinese firms' entry into Africa—through the China-Africa Development Fund—was presented as part of a gift to Africa in the third FOCAC meeting. Similarly, the extensive use of letters of credit by India for the purchase of Indian goods is often presented as part of an assistance package.

An essential feature is to analyse the strategic objectives of the BRICS and the associated opportunities and risks, as well as to develop a strategy to maximize benefits and exercise ownership. More specifically, governments should seek employment-generating investments from within and outside the continent, and should possibly encourage Africa–BRICS cooperation to move in this direction. Another step is to better monitor and record trade with, and investment and development assistance from, the BRICS.

Africa jointly and its countries severally must deploy high-quality resources to manage the Africa–BRICS relationship, and must have a clear picture of

needs as part of the overall policy and planning framework—an essential basis for meaningful dialogue among equals. Thus governments—together and individually—need to rectify the capacity deficits that hinder the continent’s relationship with its partners, especially in the following areas.

### Capacity to Understand the Issues

It is essential to have a full understanding of the substance of the major issues on the agenda for dialogue with partners. Broadly, there are two aspects to this task. The first is research and policy studies. Studies on China abound, but not on the other BRICS nor indeed on other emerging partners in Africa. The continent needs more and stronger think-tanks and research institutions to reduce the knowledge asymmetries that weaken the continent’s position in bilateral and multilateral negotiations.

Extensive background analysis of the BRICS partners is a requirement for dialogue with them. It is essential to invest in research and develop empirically grounded and methodologically comparable studies on their impact. To ensure an integrated approach to dialogue with the BRICS partners, it is also necessary to undertake country and subregional case studies, as well as cross-country and cross-sectoral studies. These studies should have a core set of objectives, be based on a similar analytical framework and cover the activities of BRICS and major Southern partners.

The second aspect is having in place mechanisms and processes for robust internal dialogue on relations with the BRICS. Policymakers must be fully aware of the potential impact of the partners’ actions on African economies and societies. This requires them to better understand global, regional and domestic policy dynamics. They must also be fully aware of the possible interaction between the policies they wish to enact, and the habits and practices of the actors whose behaviour

policy is designed to influence. This requires close collaboration between researchers and policymakers.

### Capacity to Coordinate

African countries must have effective mechanisms for coordinating among themselves. It is particularly important to encourage and support the participation of new actors and new processes in cooperation arrangements among countries. The continent’s regional and subregional organizations need to systematically build up their coordination capacities. They need to transcend the old tendency to rely primarily on intergovernmental negotiations and protocols, and seek the participation of other actors from the private sector, civil society, and science, technology and research networks.

Increased dialogue and interaction among African countries would help to advance their interests in the various bilateral processes and ensure win-win outcomes. Greater sharing of information, ideas and objectives among countries is required to build the process. African countries show wide differences, which means there are significant knowledge, technology and capacity gaps within the continent. Stakeholder-driven processes encourage active networking, mutual capacity-building and knowledge development among stakeholders within each country and the continent as a whole (Ohiorhenuan, 2000).

At another level, strengthened capacity is essential for effective coordination of the types of financing offered by the BRICS partners, and financing available from other partners such as the international financial institutions, other development partners and even private actors.

### Capacity to Negotiate

Related to the capacity to coordinate, African countries also need to build negotiation capacity to be effective in bilateral forums, as well as to

handle large and complex commodity deals with its emerging partners, including the BRICS. African countries ought to be able to adopt a similar strategy of integrating trade, financing and development considerations in their approach to the BRICS—for instance, make meeting the needs of the BRICS partners for commodities conditional on them providing aid to exploit these commodities and on supporting the continent’s complementary development and infrastructure needs. African countries should seek greater participation of their companies in BRICS firms’ global value chains.

Africa does not appear to have established the necessary capacity to negotiate such outcomes, which constitute the *raison d’être* of Africa–BRICS cooperation. Win-win outcomes require both parties to be fully prepared.

Some, especially smaller, countries may need technical assistance from other African countries, from regional organizations or even from their traditional partners. When very large sums of money are at stake, as in the various countertrade negotiations, there is no reason why a country cannot even seek to engage a reputable international consultant to support its negotiations.

### Capacity to Monitor

Several countries are already formulating strategies for more effective engagement with BRICS and other Southern partners. The engagement strategy of Namibia with its external partners is incorporated in its national development plan, while that of Cameroon is framed within the country’s development vision for 2035. In Morocco, Chinese operators are being actively encouraged to invest in the country (as opposed to merely bringing in Chinese imports), and in Cape Verde the government mobilizes the full range of external partners to modernize its productive capacity and infrastructure (AfDB et al., 2011).

African countries must ensure that they have the analytical capacity to monitor the financial flows that follow from these strategies, and the capacity to monitor the implementation of agreed-on projects. The FOCAC and India–Africa Forum Summit processes typically end up with a list of commitments by the partners, as well as initiatives and projects to be pursued. Too often individual African countries then apply to take part in any one of these projects. It would be useful for an Africa-wide mechanism to monitor progress in implementing the commitments. The continental and regional organizations of Africa are best placed to lead on this.

### Capacity to be Competitive Globally

Another critical capacity for African countries is to compete in the global market. The late Prime Minister Meles Zenawi of Ethiopia challenged, at the 2006 FOCAC, the sentiment that China was selling low-priced and poor-quality products in Africa. He argued that unless African producers could compete in global markets, Chinese products would become more popular. “This is globalization”, he stressed (CCS, 2010).

Promoting technology transfer and capturing the positive spillover from foreign investment means more than simply enacting regulations for local labour and content requirements. Effective technology transfer is essentially a process of innovation in product, process and organization or management routines for the firm adopting the new technology. Increasingly, innovation involves firms mastering the design and production of goods and services that are new to them, whether or not they are new to their competitors—domestic or foreign. Innovation involves continuous improvement in product design and quality; changes in organization and management routines; creativity in marketing; and modifications to production processes that bring costs down and increase efficiency.

Firms must learn to manage a portfolio of partnerships and alliances to reduce ICT costs, the risks and uncertainties associated with introducing new products and processes, and the time needed to move an innovation from the laboratory or design table to market. Access to knowledge about changes and organizational arrangements, in market structure and in the strategies of firms, is critical for catching up with and then staying abreast of a moving technological frontier (Mytelka and Ohiorhenuan, 2000).

Global competitiveness requires African countries to put in place institutions, mechanisms and processes to support the private sector in accessing and using cutting-edge technology. They should foster effective national systems of innovation and aggressively push for competitiveness in low-end manufacturing in order to enter the global value chains of their BRICS partners. They must also aggressively facilitate the exploitation of indigenous knowledge with the same aim of locating their firms higher up the value chains of key industries. African countries must also nurture entrepreneurship and enterprise networks as well as industrial clusters. Practically, countries must build backward and forward linkages between the domestic economy and global value chains. Building competitiveness, in all these ways, is imperative for growth, employment and structural transformation in a globalizing world.

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