By Daniel Poon

South-South Trade, Investment, and Aid Flows

As the economic linkages between developing countries have grown in intensity, policy analyses of so-called "South-South" relations have proliferated in parallel with the sense that South-South ties are of a different nature than the traditional North-South (developed-developing) relationships. Do South-South development impacts actually qualitatively differ from North-South impacts? If so, to what extent and in what manner?

It is not uncommon to hear that these new partners are replicating the pattern of power imbalances found in historical North-South colonial ties, but the substance of South-South interactions have changed dramatically in a global landscape where the power appears to be shifting from West to East and South. Whereas South-South alliances were once overtly political and ideological, today the watchword could very well be policy "pragmatism", which appears to be a more solid foundation for stronger and more effective South-South development ties.

This policy brief provides an overview of South-South trade, investment, and aid flows between **BRIC (Brazil, Russia, India, and China)** countries and countries of the African continent.

This South-South brief is the first in a series of three that examine the burgeoning economic relationships between BRIC and African countries and their developmental implications.

The history of South-South cooperation dates back to a conference held in Bandung, Indonesia in 1955, where many newly independent African and Asian developing nations gathered to promote economic, technical and cultural cooperation so as to reduce their dependence on industrialized countries. This initiative germinated into other South-South alliances in the 1960s and 1970s, such as the Non-Aligned Movement in 1961 and the Group of 77 in 1964 during the first meeting of the United Nations Conference on Trade and Development (UNCTAD 2010). In the 1970s, UNCTAD, in turn, would spawn the New International Economic Order movement that sought to re-orient the international economic system and its institutions in favour of developing countries. Today, UNCTAD is still recognized as a key international forum for the discussion and analysis of alternative development models.

In some ways, this assertion of distinctive South-South interactions should come as no real surprise in light of the severe financial crisis that beset advanced industrialized economies in 2008 and the strong performance of emerging economies, particularly China, in deftly managing the fallout from global economic turbulence. This turn of events re-cast light on an active role of the state in the development process, especially since emerging economies were seen to selectively and strategically (to varying degrees) adopt aspects of the so-called "Washington Consensus", while still maintaining a strong role for government intervention, for example, in accelerating export diversification and in the timing and sequencing of opening up on the current and capital accounts (El-Erian and Spence 2008; Birdsall and Fukuyama 2011).

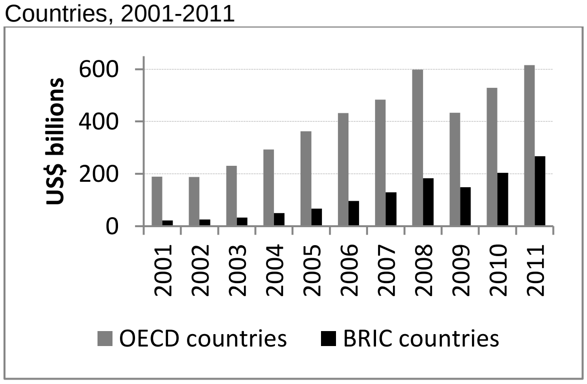
Southern Channels

This brief builds on the analytical foundations of the "Asian Drivers (AD) Framework" that delineates six key channels of interaction through which AD economies (China and India) can impact other developing countries, particularly in Africa, namely: trade, investment (and finance), aid, governance norms of global/regional institutions, migration, and environmental spillovers (Kaplinsky 2007). This policy brief focuses on the three main channels of trade, investment, and aid flows.

Trade Flows

Taken as a grouping, South-South commercial and diplomatic ties have accelerated markedly in the past few years, but these flows generally account for a smaller share of the total of such flows into African countries. South-South flows are growing quickly from a low base, but North-South flows retain their overarching importance. Among the BRIC countries, in terms of scale and scope of ties with Africa countries, China is often singled out as having a dominant or leading role across the various channels of interaction, especially in relation to trade, investment and aid flows.

Figure 1. Africa's Total Trade with OECD and BRIC Countries, 2001-2011



Source: International Trade Centre (ITC).

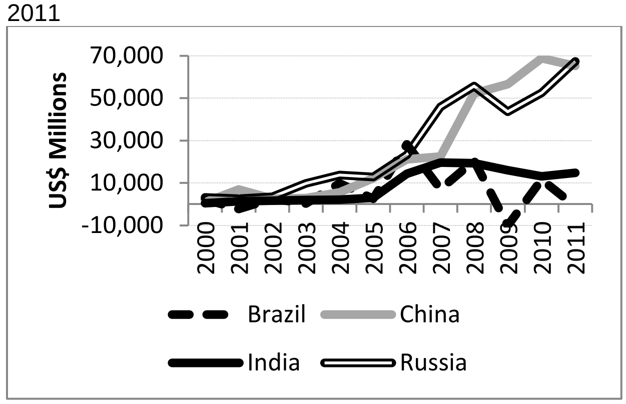
In figure 1, between 2001 and 2011, total trade (exports + imports) between African and BRIC countries grew from $22.9bn to $267.9bn. By comparison, total trade between African and OECD countries rose from $189.4bn to $615.2bn. Despite the fast growth in BRIC-Africa total trade, it still amounts to 43.6% of OECD-Africa total trade in 2011.

China-Africa two-way trade flows have been the main driver behind expanding BRIC-Africa trade ties. Between 2001 and 2011, China-Africa trade grew from $10.8bn to $166.2bn, with China's share of BRIC-Africa trade going from 47% to 62%. In the same period, India-Africa total trade went from $5.3bn to $63.1bn, with India's share of BRIC-Africa trade rising slightly from 22.9% to 23.6%.

Investment Flows

Until a few years ago, developing countries were negligible players in outward foreign direct investment (FDI) flows. For the most part, and still relevant to this day, these countries sought to attract inward FDI flows, as investors bought in much-needed capital, along with technology and managerial know-how, to enhance the production and skills capacities of the host country.
Broadly speaking, while the pattern of outward FDI shares has diversified to include more emerging economies, traditional outward FDI sources retain their importance: the share of US global outward FDI flows was over 50 percent in 1970 and despite fluctuations over the years, in 2011 the share held at 21 percent. In China, outward FDI was virtually zero in the 1980s and remained at a low-level averaging $2bn annually before starting to rise sharply in 2004.

Figure 2. BRIC Annual Outward FDI Flows, 2000-2011



Source: UNCTAD.

As seen in figure 2 (above), by 2010, China was by far the largest outward investor (by value) of the BRIC countries with $68bn in annual outward FDI flows, representing about 5% of global outward FDI flows. For India, its outward FDI rose quickly in 2004-2005, when the value of outward FDI jumped from around $2-$3bn to $14bn in 2006. India's outward FDI flows amounted to $14.8bn in 2011, which represented 0.9% of global outward FDI.

Based on Freemantle and Stevens (2009), between 2003 and 2009, cumulative FDI from BRIC countries represented the fourth largest investor grouping in Africa behind investors from the Eurozone, Middle East, and North America. Among the BRIC countries, India had the largest number of investment projects in Africa in this time period; however, the cumulative value of India's FDI ($25bn, 130 projects), trailed that of China's FDI ($28.7bn, 86 projects), but was greater than Brazil's ($10bn, 25 projects) and Russia's FDI ($9.3bn, 47 projects). From this small sample, it is suggested that India may have the most private sector projects in Africa, but China leads in terms of size of capital investments, especially since these statistics do not capture large-scale investments made by Chinese state-owned enterprises during this period.

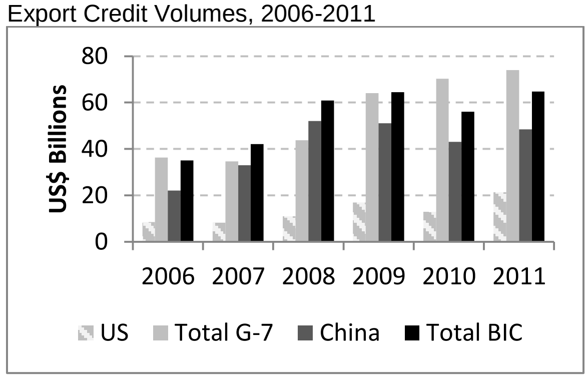
According to China's official statistics, Africa was the fourth largest regional recipient of Chinese outward FDI stock at $13bn, or 4.1% of the total in 2010. About 65% of China's outward FDI stock in Africa is concentrated in six countries, namely: South Africa (31.8%), Nigeria (9.3%), Algeria (7.2%), Zambia (7.2%), Democratic Republic (DR) of Congo (4.8%), and Sudan (4.7%).

Aid Flows

BRIC countries' aid flows to other developing countries continue to significantly lag behind those flows from developed country Development Assistance Committee (DAC) and other donors. According to the OECD, in both 2009 and 2010, China is estimated to have provided $2bn in development assistance. This amount is far more than the volume of aid provided by Brazil, India, Russia, or South Africa but was still out-matched by Saudi Arabia's level of aid of $3.1bn in 2009 and $3.5bn in 2010. By comparison, aid provided by a country such as Sweden was over $4bn in both 2009 and 2010. The US level of aid was $28.8bn and $30.4bn in 2009 and 2010, respectively.

Similar to other emerging country aid donors, while some of China's development finance meets the OECD-DAC definition of official development assistance (ODA), the lion's share of China's development finance does not fit neatly into these categorizations and is not strictly considered as ODA, per se. In short, concessional/grant aid flows represent one component of China's financial packages to African countries, along with other policy tools such as export credits, and so-called "loans-for-oil" arrangements that links the repayment of Chinese non-concessional state loans or aid to the securing of supply of energy commodities flowing to China in return (Brautigam 2011; Downs 2011).

Figure 3. New Medium- and Long-Term Official Export Credit Volumes, 2006-2011



Source: Exim Bank (US) (2012; 2011)
Note: **G-7** (Canada, France, Germany, Italy, Japan, UK, US); **BIC** (Brazil, India, China).

China's two main policy banks, the China Development Bank (CDB) and the China Exim bank are the key sources of this development financing. In 2009 and 2010, it is estimated that the CDB and Exim bank awarded combined long-term loans of more than $110bn to other developing country government or companies, exceeding World Bank lending over this time period (Dyer *et al.* 2011). Although not specific to Africa only, between 2006 and 2011, China's Exim bank issued about $249.6bn in new medium- and long-term export credit financing, several times more than was provided by the US Exim Bank which issued $79.2bn over the same period (see figure 3, above).

With China's blended package of aid, investment, trade and skills/technology, it is virtually impossible to disentangle what is genuine FDI from bilateral aid and supplier/construction contracts. This has been dubbed the "Angola mode" of financing packages whereby the Chinese government reaches a framework agreement with a partner country to carry out a development project – often using Chinese construction companies and suppliers – in exchange for access to rights to mine or exploit natural resources such as oil or minerals (Mlachila and Takebe 2011). Similarly, the bulk of India's development assistance takes the form of financial and technical assistance, which is tied in part to the procurement of Indian equipment and inputs (OECD 2010).

South-South Colonialism?

In the areas of trade, investment, and aid, South-South flows are of increasing importance, but still lag behind the scale of traditional North-South ties. Nonetheless, the tendency to bundle trade, FDI and aid vectors, particularly by China and India, is often perceived by commentators as a reversion to the historical precedent of imperial ties between mother country and its colonies – when these three vectors were fused and the interests of colonial powers were closely coordinated. In this way, does the rise of BRIC countries, particularly China, represent a modern replay of the harrowing historical colonial experience in Africa? Or is there a qualitative developmental difference about South-South interactions? This key question is addressed in parts 2 and 3 of this three-part NSI series of South-South policy briefs.

References

Birdsall, Nancy and Francis Fukuyama (2011). "The Post-Washington Consensus", *Foreign Affairs*, Vol. 90 Issue 2, Mar/Apr.

Brautigam, Deborah (2011). "Aid 'With Chinese Characteristics': Chinese Foreign Aid and Development Finance Meet the OECD-DAC Aid Regime", *Journal of International Development*, vol. 23.

El-Erian, Mohamed A., and Michael Spence (2008)."Growth Strategies and Dynamics: Insights from Country Experiences", World Bank Commission on Growth and Development Working Paper No. 6.

Export-Import Bank of the United States (2012; 2011). "Report to the U.S. Congress on Export Credit Competition and the Export-Import Bank of the United States", June.

Downs, Erica (2011). "Inside China, Inc: China Development Bank's Cross-Border Energy Deals", John L. Thornton China Center Monograph Series No. 3, Brookings Institution, March.

Dyer, Geoff, David Pilling and Henny Sender (2011). "A strategy to straddle the planet; Overview", *Financial Times*, January 18.

Freemantle, Simon and Jeremy Stevens (2009). "Africa: Bric and Africa – Tectonic shifts tie BRIC and Africa's economic destinies", Standard Bank Report, October 14.

Kaplinsky, Raphael (2007). "The Impact of China and India on the SSA: A Methodological Framework", Paper prepared for the African
Economic Research Consortium (AERC), March.

Mlachila, Montfort and Misa Takebe (2011). "FDI from BRICs to LICs: Emerging Growth Driver?", IMF Working Paper WP/11/178, July.

Organization for Economic Co-operation and Development (OECD) (2010). Perspective on Global Development 2010: Shifting Wealth, OECD: Paris

UNCTAD (2010). South-South Cooperation: Africa and the New Forms of Development Partnership, Economic Development in Africa Report 2010, UNCTAD: Geneva.

This NSI policy brief is based on "South-South Impacts on African Developmental Policy Spaces", a NSI research report by Daniel Poon.