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# Trade at a glance: the BRICS and Japan's engagement with Africa

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WORKING PAPER

tralac Working Paper  
No. S12WP01/2012  
January 2012

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This publication should be cited as: Fundira, T. 2012.

*Trade at a glance: the BRICS and Japan's engagement with Africa.* Stellenbosch: tralac.

This publication has been financed by the Swedish International Development Cooperation Agency, Sida. Sida does not necessarily share the views expressed in this material. Responsibility for its contents rests entirely with the author.



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## Foreword

Since the beginning of the new millennium we are increasingly noticing the influence on the structure of the world economy not only of some major emerging markets, namely Brazil, India and China, from a developing country perspective, but also of the rise of Russia (since the collapse of the Soviet Union). Their role in the global arena, from an economic and political perspective, has raised concern in the developed world about the manner in which their influence is shaping or shifting the balance of power. Concerns about the impact on the environment and governance issues have also been raised. However, in Africa, the role of some of these countries under the auspices of the so-called South–South alliances can be viewed as an opportunity to enhance cooperation with other developing countries, playing a significant role in the economic and social development of the region.

Poverty, poor infrastructure, lack of productive capacity and transfer of technology, the emerging threats associated with climate change as well as the food, energy, financial and economic crises, have been identified as areas where Africa can enhance its capacity by cooperating with other developing countries. Furthermore, the increased bargaining power of developing countries in multilateral negotiations, as reflected in the current Doha negotiations of the World Trade Organisation (WTO), has been cited as another reason for cooperation. It is against this background that since 2000, African countries have entered into new partnerships and arrangements with the South, increasingly driven by economic rather than political. The new partnerships are often based on formal frameworks with dialogue forums and action plans.

The agenda behind the renewed and increased global economic interest in Africa, a continent that was once dubbed ‘hopeless’ should be considered. In historical representations Africa has been regarded as underdeveloped and poor, but of late Africa has been regarded as a continent brimming with potential and opportunities. The need of boom economies, like China and India, for raw materials, is generating valuable new opportunities. Can this be regarded as a new scramble for Africa in a post-colonial era? Concern should be raised if this increased interest goes unchecked, as this could be no different from the way in which Africa was previously colonised for the sake of its resources.

This argument is certainly plausible if one looks at the majority of investments in Africa from the so-called emerging markets. These are concentrated in the traditional resource-rich primary sectors.

The difference, however, is that this renewed economic interest in Africa is enabling African countries to add terms and conditions into the mix such as concessions attached to infrastructure development projects. For example, according to Holslag (2007), in Mozambique, Indian contractors were allowed to exploit the coal mines only after the Indian government had promised to invest in public infrastructure. Furthermore, this renewed interest in Africa has provided a front line for competition between the traditional investors – the United States of America (US) and the European Union (EU) on the one hand, and other emerging players, such as China, India, Brazil, Russia and South Africa on the other.

Africa's cooperation with especially the emerging markets such as Brazil, Russia, India, China and South Africa (the BRICS) offers new options that can be turned into opportunities. It is important to note that the opportunities are not automatic and African countries need to create an environment conducive for tapping into the benefits that accrue. In this regard, there is need for a proactive approach that allows for the development of cooperation strategies that are in line with national and regional development goals.

The Trade Law Centre for Southern Africa (tralac) has prepared an analysis of the BRICS and Japan's engagement with Africa. The paper provides a summary of the key factors in the involvement of the BRICS and Japan with Africa. Highlights of the analysis include:

**Economic and trade policy overview:** The BRICS nations represent 42% of the world's population and 18% of its Gross Domestic Product (GDP). Among the BRIC economies, Brazil ranked third, behind India, where growth reached 8.6%, and China, where GDP figures rose by 10.3%. Russia had the poorest result, with a 3.8% increase. For the new entrant, South Africa, real GDP recovered from -1.7% in 2009 to 2.8% in 2010 (Richardson, 2011).

Developing economies increased further in importance in 2010, both as recipients of Foreign Direct Investment (FDI) and as outward investors. They absorbed more than half of global FDI inflows. Half of the top 20 host economies for FDI were developing or transition economies. FDI outflows from developing and transition economies also increased strongly, by 21%. They now account for 29% of global FDI outflows. Six developing and transition economies were among the top 20 investors during the same review period (UNCTAD, 2011).

In terms of trade policy, the BRICS have made significant policy reforms over the past five decades. From inward-looking protectionist policies to outward-looking market oriented policies in the BRICS; these emerging economies have risen above expectation to become the new major economies. Japan, on the other hand, has also maintained its outward-looking policies with the objective of ensuring its competitive edge in high-value manufactured products. The accession of Russia to the WTO will certainly have positive economic impacts on the Russian economy.

**Africa as investment destination:** Africa is now both a new frontier of economic and other opportunities and host to some of the fastest-growing economies in the world. The Real Gross Domestic Product of Africa increased by 5.2% annually in the past decade, compared with 2.3% in the 1990s (WEF, 2011).

Investments are diversified albeit still concentrated in infrastructure and commodities, but we currently see an increase in investment in services. Sectors receiving special investment attention include telecoms (towers, broadband services), financial services (commercial banks, insurance, ancillary services such as ATMs), agribusiness, infrastructure, oil and gas (marginal fields, oil field services, gas development), mining, and electric power (energy infrastructure, energy services).

A survey conducted by the Africa Business Panel among 800 business professionals involved with Africa shows that South Africa is ranked first, followed by Nigeria and Kenya, as the most attractive investment destination in 2011. Other countries in the top ten include Angola, Tanzania, Rwanda, Botswana, Uganda and Mozambique out of 53 economies on the African continent.

In addition to interregional FDI from developing and transition economies, intraregional FDI in Africa is increasing. The share of African host countries in the outward stock of South African FDI has increased from less than 5% before 2000 to 22% in 2008, reaching almost \$11 billion. South African projects in other African countries are concentrated in infrastructure, telecoms, mining and energy (UNCTAD, 2010).

**The trading environment with Africa:** Individually, the BRIC countries' trade growth with Africa has outpaced global trade and BRICS' trade with the rest of the world. India and China's trade with Africa as a proportion of GDP is 2.6% and 2.3% respectively, while Brazil's stands at 1.7% and Russia's at 0.5% (Freemantle and Stevens, 2010). South Africa has the highest trade with Africa with its proportion of GDP estimated just over 3% for 2010.

China – the largest trading partner with Africa – has increased trade with Africa from US\$3.5 billion in 1990 to over US\$120 billion in 2010, which equates to roughly two-thirds of Africa's total BRICS trade. Given Russia's significant natural resource reserves and South Africa's economic dominance in the region, the two are the only BRICS countries with an overall trade surplus with Africa.

Main products from BRICS to Africa are mainly diversified value-added products while exports from Africa to BRICS are mainly resource-based primary products with little or no value addition.

**Africa – working towards an enabling environment:**<sup>1</sup> African countries continue to liberalise their investment environments. In the past few decades, Africa has made significant strides toward democratic governance, transparent economic systems, and the elimination of some of the crippling bureaucratic barriers to trade and investment. Since 2005, of the 53 regulatory changes observed by the United Nations Conference on Trade and Development (UNCTAD) in Africa, four-fifths (42) were favourable to FDI, while 11 made the environment less favourable.

Angola, Ethiopia, Mozambique and Rwanda saw inflation-adjusted growth rates higher than India, Russia or Brazil. The World Bank rates Mauritius a better place to do business than Germany, and South Africa ranks above Chile. Botswana, Tunisia, Rwanda, Ghana, Namibia and Zambia all offer a more favourable entrepreneurial environment than China (de Vignemont and Smallwood, 2011).

The trend towards privatisation continued across Africa. Algeria, Angola, Comoros, Congo, Côte d'Ivoire, Kenya, Libya, Mauritius, Morocco, Nigeria, Sierra Leone and Tunisia either privatised specific sectors or introduced plans to enhance cross-sectoral liberalisation. The industries affected included utilities, telecommunications and tourism. Some programmes attracted Trans-National Corporations (TNCs) from developing countries. In Angola, for example, the privatisation agency approved Telecom Namibia's bid to become the first private operator of Angola's fixed-line network. Egypt has pursued a policy aimed at opening up its markets in activities where it has a clear advantage (e.g. tourism) as well as in some manufacturing.

Another set of favourable changes concerns attempts to improve the investment climate. Recognising that an investor-friendly admission phase has a beneficial effect on the subsequent relationship between host and investor, a number of countries have reformed their admission procedures by introducing one-stop shops. A number of African countries, such as Egypt, Ghana,

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<sup>1</sup> Unless otherwise stated, summary taken from WIR (2006).

Senegal and South Africa, have reformed their tax systems, often reducing corporate income taxes. Some have eased operational conditions for TNCs. For example, Egypt is facilitating the entry and residence of foreigners.

Other governments have acted to remove some of the key constraints on attracting and benefiting from FDI. For example, South Africa has introduced a Skills Support Programme (SSP) to enhance the supply of skilled labour. According to the UNCTAD (2006), similar measures could be usefully adopted by other African countries seeking FDI in high-value processing.

### **So what does this mean for Africa?<sup>2</sup>**

- Once considered a 'failed' continent, Africa's marginalised position in world trade is being reversed with sudden interest from the BRICS.
- China has in many ways led the reinvigoration of commercial interest in Africa.
- Winds of change mean it is now the BRICs and Africa, rather than the BRICs in Africa.
- The story of the BRICS and Africa has only just begun and the future is exceedingly bright for the BRICS and Africa.
- For the BRICS, engaging with Africa is not a unilateral act of goodwill; it makes perfect economic and strategic sense.
- Africa must seize the moment to ensure it benefits proportionately from relations with the BRICS.

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<sup>2</sup> Excerpt taken from Freemantle and Stevens (2010).

## Brazil-Africa trade at a glance

### Economic and trade policy overview

With its 190 million inhabitants, Brazil has the largest population in Latin America and ranks fifth in the world. Brazil's importance in the global market has grown to the extent where it is playing a significant role in the world trading system. In the current round of WTO Doha negotiations its influence is being strongly felt as member countries seek to find a successful conclusion to the negotiations.

Brazil's transition from a regional to a global player is attributed to several factors. A prevailing strong domestic demand and a favourable external environment have led to an annual growth of over 6% since 2008, and more recently in 2010, a growth peak of 7.5%. Its solid performance during the financial crisis and its strong and early recovery also contributed to this. Sectors such as agriculture and the manufacturing industries played a large role in the increase, with yearly growth reaching 6.5% and 10.1% respectively (Richardson, 2011; WTO, 2009).

This solid economic performance saw Brazil reaching a GDP of over US\$2 trillion in 2010. This means that Brazil overtook Italy to rank as the world's seventh largest economy up from eighth place ('Measuring Brazil's economy', 2011). Among the BRIC economies, Brazil ranked third, behind India, where growth reached 8.6% and China, where GDP figures rose by 10.3%. Russia had the poorest result, with a 3.8% increase (Richardson, 2011). For the new entrant, South Africa, real GDP recovered from -1.7% in 2009 to 2.8% in 2010. GDP growth estimates for Brazil in 2011 were expected to be between 4 and 5%<sup>3</sup>.

From a trade policy perspective, Brazil has undertaken policy reforms. The country has traditionally been an inward-looking economy, but changes to Brazil's trade policy began to occur from the late 1970s when the import substitution system started to break down. This was accentuated by two major oil crises in that period, a major recession in the early 1980s, and the infamous Brazilian inflation of around 2000% by 1990 (OECD, 2005). Over the past 15 years, Brazil's economy has undergone radical reforms that have provided a more stable investment climate and stimulated growth. Economic growth and poverty alleviation remain the main drivers of Brazil's trade policy strategy where the government is using export promotion as one of the main components to

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<sup>3</sup> Final figure not confirmed at time of publication.



generate growth. This strategy has led the Brazilian government to seek foreign market access through trade negotiations as well as export promotion measures.

### **Brazil in Africa initiatives**

Brazil's engagement with Africa dates back to the slavery era in the 18<sup>th</sup> century and although this engagement over time was interfered by changes in mainly the political environment both in Brazil and Africa, the relationship in recent times has been strengthened and is growing.

The ascent to the helm of Brazil's Lula da Silva in 2003 opened up a new era in Brazil-Africa relations, represented by the combination of a new stance towards the global engagement and social domestic reform. Economic and political ties with Africa have been established or strengthened, and to date Brazil has about 31 formal African diplomatic posts.

Brazil's engagement with Africa has seen bilateral and plurilateral agreements in areas ranging from education and health to investment cooperation agreements in energy, manufacturing and services. An important diplomatic engagement was the establishment of the India, Brazil, and South Africa (IBSA) Forum where the promotion of South-South partnerships were discussed. Recently, the IBSA countries have agreed to boost trade amongst themselves to US\$10 billion in 2011. On a continent-wide engagement the first Africa–South America Summit in 2006 also highlighted Brazil's serious consideration of Africa as an important and strategic partner.

Brazil's investments in Africa are quite modest and also concentrated in only a few countries if compared to other emerging markets such as China and India. Most of the investments have been in mining, construction, agriculture, bio-diesel, energy and pharmaceutical industries where their resource-driven goals mirror those of China and India, and at times collide with interests of host African states (Lewis, 2011). Investments go mainly to former Portuguese colonies (Angola and Mozambique) and to suppliers of hydrocarbon (Algeria and Nigeria). Other destinations are Guinea, South Africa and Zambia. Food products have found significant new markets in Egypt.

A major reason attributed to the low levels of investments in Africa has been the fact that although Brazil's main supplier of capital finance – the Brazil National Development Bank (BNDES) – plays an important role, it is limited by conditions that prohibit it from financing in more unstable markets as compared to, for example, China's no-strings-attached approach (Lewis, 2011). Box 1 below is an excerpt of some of the major Brazilian players in Africa.

### Box 1: Major Brazilian players in Africa

**Mining** giant Vale is to invest a total of \$15 – 20 billion in Africa within the next five years with most of the money spent in Mozambique, Zambia, Guinea and Liberia. The aim is to become the third biggest copper producer on the continent. Total investment in Africa so far is about \$2.5 billion but as most of the projects are in the exploration phase, there is a chance to significantly increase investment.

**Infrastructure** firm Odebrecht operates in Angola, Libya, Liberia, Mozambique and Ghana and has also completed projects in Congo, Botswana, South Africa, Gabon and Djibouti. In 2009, Africa accounted for \$2.427 billion in revenues for the group, or about 10% of its earnings.

**Oil** Company Petrobras plans to invest some \$3 billion in Africa from now until 2013, mainly in Angola and Nigeria. Following 2009 discoveries of huge reserves far below ultra-deep waters off the Brazilian coast, some experts believe similar deposits may exist along the West African coast. In Nigeria the company operates one block and is a non-operating partner in two others.

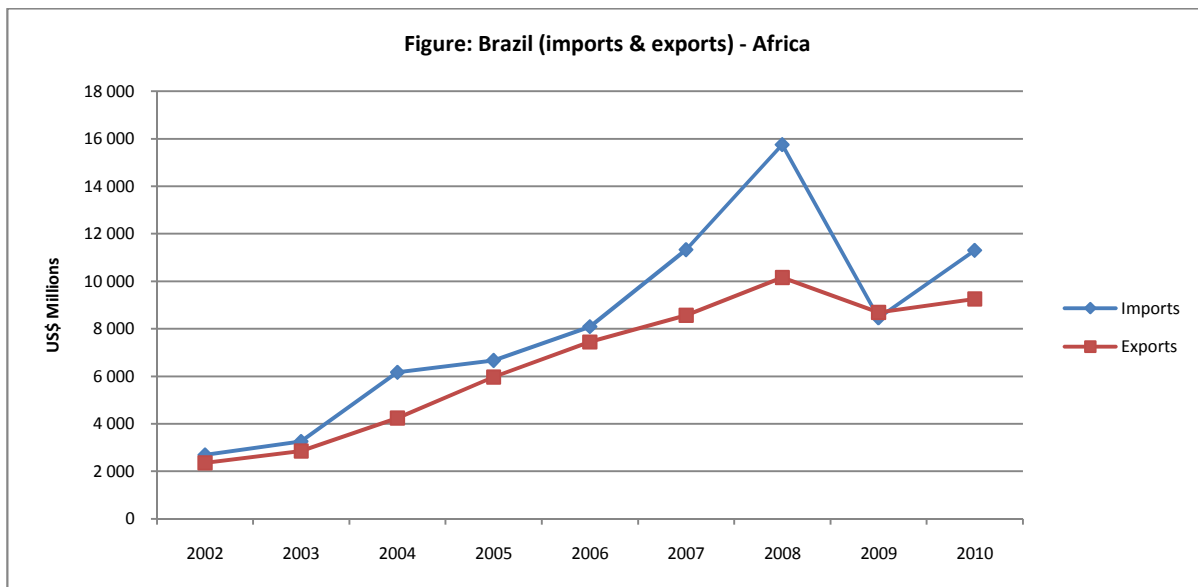
**Agriculture** is one of the main areas of technical cooperation with Africa. Brazil provides technical assistance to the cotton sector in Benin, Burkina-Faso, Chad and Mali through EMBRAPA, a state agricultural research institute. In 2008, Brazil opened an EMBRAPA office in Accra to facilitate the transfer of agricultural technology from Brazil to Africa.

Source: Excerpt from Lewis (2011)

## The trading environment with Africa

As highlighted already, Brazil's influence in Africa, although growing, is still very small. Access to natural resources remains Brazil's principal interest in the continent but it is not its only interest. Its economic interests are wider. A look at the bilateral trade with Africa reveals the following (see Figure 1):

**Figure 1: Trade patterns between Brazil and Africa from 2002 to 2010**

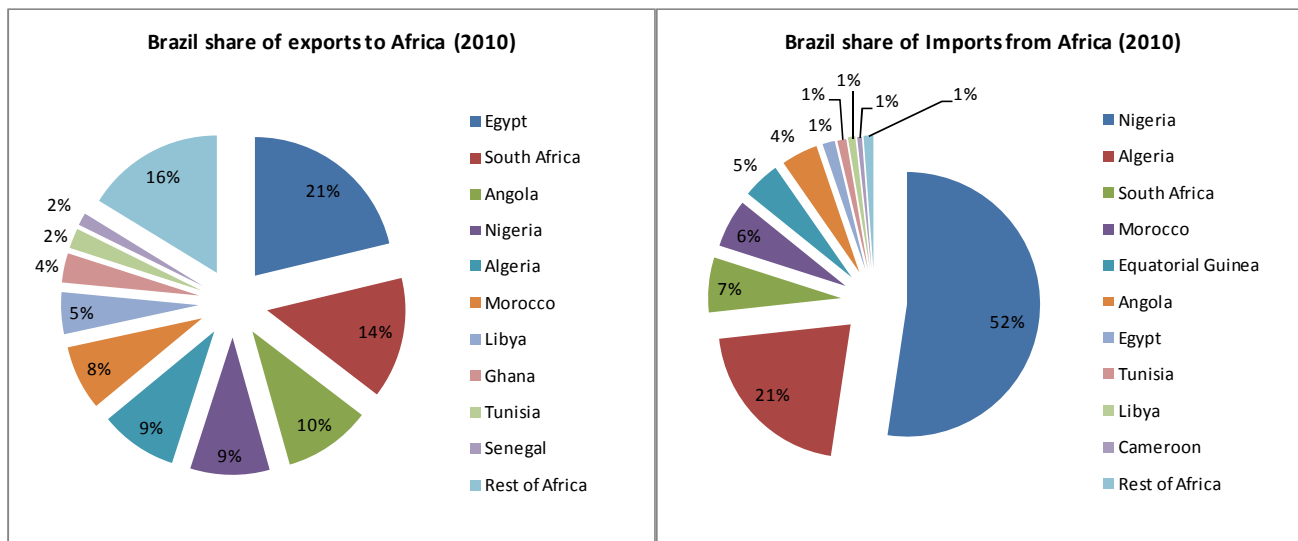


Source: World Trade Atlas

- Trade between Brazil and Africa increased significantly since 2002, with exports to and imports from Africa recording a compound growth of 19% and 20% respectively for the period between 2002 and 2010.
- Latest 2010 trade data reveals that over US\$20 billion worth of goods was traded between Brazil and Africa. Imports from Africa accounted for about US\$11 billion while exports were a lesser approximately US\$9 billion.
- The 2008 global crisis significantly affected Brazil's trade with Africa, where imports from Africa were affected the most by a decline of almost 50% in value terms from a high of US\$16 billion in 2008 to just over US\$8 billion in 2009. Since then, trade has recovered with imports rising to about US\$11 billion in 2010. Exports were not significantly affected over this period.
- By market, we note that for both exports and imports, Brazil trades relatively with the same countries. For exports, Egypt (21%), South Africa (14%), and Angola (10%) account for 45% of

total exports. On the other hand, Nigeria (52%), Algeria (21%), and South Africa (7%) account for 80% of total imports (See chart below).

**Figure 2: Brazil's share of exports to and imports from Africa (2010)**



Source: World Trade Atlas

A look at product composition reveals a concentration of trade in relatively few product groups. Brazil exports mainly agricultural and manufactured products while imports from Africa are mainly primary resource-based products in nature.

- Main exports of Brazil to Africa include sugar (HS17) (34%) and meat (HS02) (15%) which in combination account for almost 50% of total exports. Other exports include ores (HS26) , vehicles (HS87), cereals (HS10) , and machinery (HS84).
- The main import from Africa is mineral fuels (HS27) which account for 85% of total imports. The other notable import is fertilisers (HS31) which accounts for only 5%.

**Table 1: Product composition of Brazil's trade with Africa**

Brazil's top 10 exports to Africa				Brazil's top 10 imports from Africa			
HS	Description	2010 (US\$ m)	% share (2010)	HS	Description	2010 (US\$ m)	% share (2010)
	<b>All products</b>	<b>9,258.87</b>	<b>100</b>		<b>All products</b>	<b>11,302.22</b>	<b>100</b>
17	Sugars	3,171.72	34	27	Mineral fuel, oil, etc.	9,598.27	85
02	Meat	1,348.26	15	31	Fertilisers	566.05	5
26	Ores, slag, ash	690.13	7	72	Iron and steel	140.97	1
87	Vehicles, not railway	631.85	7	28	Inorganic chemicals; rare earth mt	130.23	1
10	Cereals	555.12	6	25	Salt, sulphur, earth, stone	124.98	1
84	Machinery	446.41	5	84	Machinery	105.2	1
85	Electrical machinery	192.83	2	71	Precious stones, metals	80.51	1
24	Tobacco	170.77	2	29	Organic chemicals	77.6	1
15	Fats and oils	149.71	2	76	Aluminium	67.37	1
88	Aircraft, spacecraft	131.75	1	18	Cocoa	54.97	0
	OTHER	1,770.33	19		OTHER	356.09	3

Source: World Trade Atlas

## Russia-Africa trade at a glance

### Economic and trade policy overview

Russia's transition since the collapse of the Soviet Union has seen the country transform from an isolated, centrally-planned economy to a more globally integrated market-based economy. With a population of over 138 million and a per capita Gross Domestic Product (GDP – PPP) of US\$15,900, Russia is the ninth most populous country in the world and it has several ethnic groups dominated mainly by the Russian ethnic group (CIA, 2011 (Russia)).

Since the country's 1998 financial crisis, the economy has grown at an average of 7% annually, which has led to a doubling of real disposable incomes and the emergence of a middle class. This growth was mainly due to a devalued rouble, implementation of key economic reforms, tight fiscal policy, and favourable commodities prices. The 2008–2009 financial crisis did not spare Russia, however, as oil prices plummeted and the foreign credits that Russian banks and firms relied on dwindled (US Bureau of Public Affairs, 2011).

After a series of economic measures to respond to the crisis, including the use of Russia's international reserves and a rescue plan for struggling banks and companies, economic decline was curtailed in mid-2009 and the economy began to grow again in the first quarter of 2010. The global rebound and a rise in oil prices also bolstered the Russian economy's modest recovery. The growth was, however, hampered by a reduction in agricultural output as a result of severe drought and fires, a reduction that in turn impacted on and slowed growth in other sectors such as manufacturing and retail trade. It is expected that prevailing high oil prices (2011) will continue to bolster Russian growth and help reduce the budget deficit, although inflation and increased government spending may get in the way. In the long run, a shrinking workforce, a high level of corruption, difficulty in accessing capital for smaller, non-energy companies, and poor infrastructure in need of large investments remain a threat to Russia's economic performance (CIA, 2011 (Russia)).

In terms of trade policy, Russia has undergone significant change in the post-Soviet Union era. In the days of the Soviet Union, trade was bi-faceted with internal trade (trade among the former Soviet states) on the one hand and trade with the West (external) on the other. According to Tarr (2009), the trade adjustment pattern and political economy of the trade policy that developed in the post-Soviet period were very different between the two regions. In the immediate post-Soviet era, Russia

was confronted with the fact that there were enormous disparities between prices in Russia and world market prices. Domestic prices of commodities and raw materials were dramatically lower, and as a result some form of protection was required during the transition to a globally integrated economy. Furthermore, Russia's manufactured products were not of sufficient quality to be exported to Western markets.

Tarr (2009) notes that the Russian government took the position to apply three main export restraint mechanisms (export quotas, export taxes and foreign exchange surrender requirements) as opposed to import protection. Use of the tariff was not significant due largely to the undervalued rouble which made importing economically unviable to the extent that government would subsidise imports. According to the World Bank, in 1992, subsidies accounted for about 17.5% of GDP (US\$18 billion). Machinery and equipment received 49% of the import subsidies and food products received 35% of the subsidies, with subsidies varying by sector from a low of 61% for food imports to a high of 90% on food processing equipment.

With negotiations for accession to the WTO currently underway, Russia has been reforming and harmonising its trade legislation to conform to WTO rules over the past 15 years, which has made it more transparent and predictable for the outside world. Membership of the WTO was finalised at the end of 2011.

### **Russia's initiatives in Africa**

Russia's engagement in Africa dates back to the time when most of the African countries achieved their independence about five decades ago. However, ties were severed in the 1990s due the financial crunch that the new Russian state experienced among other factors. But now the Russian Federation aspires to reengage Africa. This renewed interest has been demonstrated by the recent visits by several African leaders to Russia and by Russian leaders to the continent. Visitors to Africa have included President Dmitry Medvedev, who highlighted 'a new dynamism' in 'Russia-Africa traditional friendly relations' during his visit in 2009. This visit produced several bilateral agreements with African states. Other visits have included Russian First Deputy Prime Minister Sergey Ivanov's trip to South Africa and Foreign Minister Sergey Lavrov's 2008 visit to Senegal for the Organisation of the Islamic Conference (OIC) summit and also his meetings with heads of foreign affairs agencies of African countries in Moscow and New York. Ministers of foreign affairs from South Africa and Kenya,

leaders of the foreign affairs agencies of Cameroon, Gabon, Madagascar and other officials from a number of African states attended the Moscow visits (Natufe, 2011).

Saltanov (2008) notes that Russia's foreign policy approach to Africa is to work on strengthening the traditionally friendly relations with the states of the African continent by developing bilateral and plurilateral cooperation arrangements with them. Priority attention has been paid to intensifying the Russian-African dialogue and developing common positions on key aspects of the international agenda, including the issues of promoting strategic stability, strengthening the central United Nations (UN) role, and countering new challenges and threats, primarily terrorism and extremism. This cooperation with Africa was confirmed in the 12 July 2008 revised version of the Russian Federation Foreign Policy Concept, approved by the President of Russia. Among Russia's principal partners are Angola, Guinea, Namibia, Nigeria, Ethiopia and South Africa. Prospects for the advancement of cooperation with DR Congo, Gabon, Zimbabwe, Cameroon, Côte d'Ivoire, Kenya, Madagascar, Mali and other countries are also envisaged.

With respect to investment, Russia has become one of the leading foreign direct investors among emerging markets in the last decade. The Russian expansion abroad started in the Commonwealth of Independent States (CIS) and has moved forward to industrialised countries as well as Africa. Oil, gas and other natural resource sectors which have been the major contributors to the Russian economic boom are at the forefront of Russian outward investment. However, despite resource-based industries continuing to dominate outward investment, Russian financial, telecom and retail trade companies are also venturing abroad. According to Nestmann and Orlova (2008), expanding abroad provides Russian companies with access to new technologies, know-how and resources. In addition, higher revenues and lower funding costs achieved by investing abroad support the build-up of the capital stock and infrastructure investment within Russia.

Focusing on African investments, although still lagging behind its other emerging and developed country counterparts, Russia peaked its investments in Africa to US\$20 billion in 2008 (AfDB, 2011). The new foreign investment policy employed by Russia is to ensure the success of 'Russian businesses' on this continent. The growing demand for securing energy resources amongst global players investing in Africa puts Russia at a competitive advantage, being the only oil and gas exporter in this group as it seeks partnerships that go beyond extracting resources but also ensuring technology development and transfer (Natufe, 2011).



However, according to African Development Bank (AfDB) (2011), the depletion of the resource base in Russia partly explains the motivation behind Russian business expansion. 'The absence of new discoveries and technological advancement, which are weakening Russia's domestic energy, together with the lack of easy access to the remaining underground mineral deposits in Russia', are some of the factors attracting Russia to Africa's considerable natural resources. Russian companies with operations in Africa include Alrosa, Gazprom, Lukoil, Rusal, Renova, Gammakhim, Technopromexport, and VEB and VTB banks, which are engaged in large-scale investment projects on the continent. Below is a summary of Russia's major investors in Africa.

**Table 2: Major Investments of Russian companies in Africa**

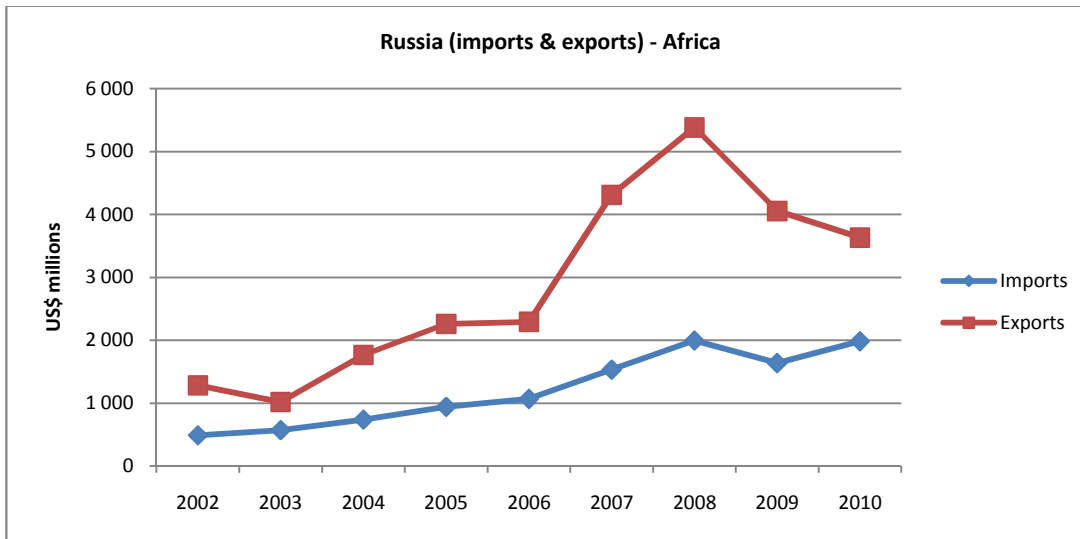
Company/ Investor name	Host country/ Company	Industry	Type of investment	Value	Year
Norilsk Nickel	South Africa <i>Gold Fields</i>	Gold mining and processing	M&A (acquired 30% of Gold Fields)	US\$1.16 billion	2004
Norilsk Nickel	Botswana <i>Tati Nickel</i>	Nickel mining and processing	M&A (acquisition of Canada Lion Ore Mining gave it 85% stake in Tati Nickel)	US\$2.5 billion	2007
Sintez	South Africa, Namibia, Angola	Oil, gas, diamonds and copper exploration	'Greenfield' Investment	US\$10 – 50 million	2006
Lukoil	Côte d'Ivoire, Ghana	Oil exploration	M&A (acquired interest in 10,500 km <sup>2</sup> deep water blocks)	US\$900 million	2010
Rusal	Nigeria <i>ALSCON</i>	Aluminium refining	M&A (acquired majority stake in Aluminium Smelter Company – ALSCON of Nigeria)	US\$250 million	
Severstal	Liberia	Iron ore	M&A (acquired control of iron ore deposit in Putu Range area of Liberia)	US\$40 million	2008
Gazprom	Algeria <i>Sonatrach</i>	Natural gas exploration	Joint exploration and development projects by debt write-off agreement and arms deal	US\$4.7 billion and US\$7.5 billion	2006
Alrosa	Angola, Namibia, DRC	Diamond mining and hydroelectricity	Greenfield Investment	US\$300 – 400 million	1992
Rosatom	Egypt	Nuclear power	Ongoing negotiations to build Egypt's first nuclear power plant	US\$1.8 billion	2010

Source: Adopted from AfDB (2011)

## Russian trading relations with Africa

Figure 3 below shows the trade patterns between Russia and Africa from 2002 to 2010 – the latest available trade data year. The graph clearly highlights the increased interest or cooperation between this economic giant and the African continent.

**Figure 3: Trade patterns between Russia and Africa from 2002 to 2010**



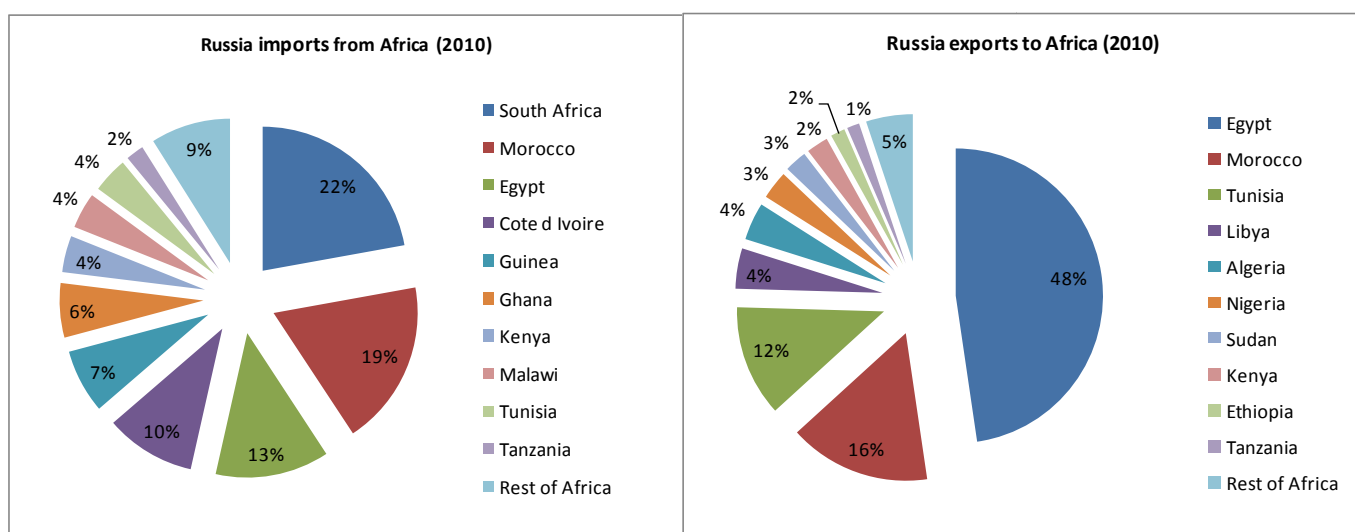
Source: World Trade Atlas

An analysis of the trade flows reveals the following:

- Between 2002 and 2010 the compounded growth of Russia's total trade (imports + exports) with Africa increased by 16% with imports and exports increasing by 19% and 14% respectively. The global financial crisis had an impact on Russia's trade with Africa where during the 2008/2009 period, the value of total trade between Russia and Africa decreased by 23% from approximately US\$7.4 billion in 2008 to approximately US\$ 5.7billion at the end of 2009. Exports to Africa were affected the most, declining by 25% while imports from Africa declined by a relatively smaller 18% over the same period. In value terms, imports declined by approximately US\$359 million while exports declined by approximately US\$1.3 billion during this period.
- However, we witnessed some recovery in 2010 when the rate of decline in total trade eased to an estimated -1% annual growth to almost reach the 2009 levels of US\$5.7 billion. The rate of decline was slowed by a recovery in imports which experienced positive growth in comparison to exports where we witnessed a further decline (see graph above).

- The bulk of Russia's current trade with Africa is concentrated among a few countries for both imports and exports. The chart below depicts Russia's respective African trading partners for both imports and exports in 2010 together with the market share of each country.
- Among the major trading partners, trade is concentrated among just a few countries. For imports, South Africa (22%), Morocco (19%), and Egypt (13%) account for about 54% of total trade, while in terms of exports, Egypt (48%), Morocco (16%); and Tunisia (12%) account for about a 76% share.

**Figure 4: Russia: imports from and exports to Africa (2010)**



Source: World Trade Atlas

- The top 10 products Russia imported from Africa in 2010 accounted for 83% of Russia's total imports from Africa over this period. There is a greater concentration of trade in a few mainly agricultural products as reflected by Russia's composition of imports, in which the top three products accounted for 54% of total of imports from Africa. These were edible fruit and nuts (29%), cocoa (16%), and tobacco (9%).
- In terms of exports, the top 10 products Russia exported to Africa during the same period represented about 92% of total Russian exports to Africa. The products traded are relatively diversified and to a certain extent processed products comprising cereals (31%), mineral fuel, oil, etc. (22%), wood (12%), iron and steel (11%), fertilisers (6%), and machinery (3%). Together, these products accounted for over 80% of total exports. Table 3 below highlights the product composition of Russian trade with Africa.

**Table 3: Product composition of Russian trade with Africa**

Top 10 imports					Top 10 exports				
HS	Description	2002	2010	%share (2010)	HS	Description	2002	2010	%share (2010)
	All products	488.98	1,985.38			All products	1,281.91	3,632.22	
08	Edible fruit and nuts	105.98	569.38	29	10	Cereals	288.26	1,120.38	31
18	Cocoa	154.99	313.41	16	27	Mineral fuel, oil, etc.	120.29	781.19	22
24	Tobacco	67.16	178.58	9	44	Wood	113.34	433.50	12
28	Inorganic chemicals; rare earth mt	60.16	162.99	8	72	Iron and steel	366.65	410.99	11
07	Vegetables	7.74	95.64	5	31	Fertilisers	15.50	203.85	6
62	Woven apparel	0.63	78.88	4	84	Machinery	26.52	95.26	3
09	Spices, coffee and tea	14.27	74.99	4	25	Salt; sulphur; earth, stone	49.86	91.17	3
26	Ores, slag, ash	1.94	69.22	3	87	Vehicles, not railway	27.97	77.67	2
23	Food waste; animal feed	13.52	56.23	3	48	Paper, paperboard	37.00	74.29	2
64	Footwear	0.04	45.47	2	15	Fats and oils	3.47	63.09	2
	Other	62.54	340.59	17		Other	233.05	280.83	8

Source: World Trade Atlas

## India-Africa trade at a glance

### Economic and trade policy overview

With a population of over 1.2 billion people and a per capita Gross Domestic Product (GDP – PPP) of US\$3,500, India is ranked the second most populous country characterised by a diverse and rich cultural heritage. The nation is home to several hundred languages, of which 33 have 100,000 or more speakers. India is the birthplace of Buddhism, Hinduism, Jainism, and Sikhism (IBER, 2011).

Also viewed as the second fastest-growing emerging economy in the world, India was historically considered as underdeveloped with low levels of mechanised industry. Economic reforms that began in the 1990s have served to accelerate the country's growth and turned the country into an open-market economy with a modern industrial sector. These measures include economic liberalisation, including industrial deregulation, privatisation of state-owned enterprises, and reduced controls on foreign trade and investment. GDP (PPP) in 2010 was estimated at over US\$4 trillion with an average growth of about 7% over the past decade. A strong domestic demand partly contributes to India's positive economic performance, which saw a rebound in GDP growth after the financial crisis in 2009 to reach 8.5% growth in 2010. The services and manufacturing sectors contribute over 80% of GDP although agriculture continues to play a significant role in the economy in terms of providing livelihoods in this populous country accounting for about 52% of the total labour force (CIA, 2011 (India)).

Export promotion remains the focus of India's trade and investment policy. The effects of the global financial crisis have led to India adopting policies in the short term that are aimed at curbing and reversing the declining trend of exports and at providing additional support, especially to those sectors which have been badly hit by recession in the developed world. Amongst the measures adopted to meet India's objective is the need for export diversification and enhanced market access both at the multilateral and bilateral level (India. Ministry of Commerce and Industry, 2009).

According to IBER (2011), 'liberalisation in overseas investment policy, in order to improve exports and strengthen economic linkages with foreign countries, has intensified India's participation on the international canvas in terms of investment'. India has been ranked in the sixth place in global FDI and is expected to remain among the top ten attractive destinations for international investors during 2010 – 2012, according to a 2010 report on world investment prospects titled, 'World

Investment Prospects Survey 2010-2012' by the United Nations Conference on Trade and Development (UNCTAD).

### **India-in-Africa initiatives**

There is a growing realisation that the future growth of Indian companies will be substantially driven by the share they have in the global market. Indian companies are acquiring overseas assets to establish their presence in foreign markets and to upgrade their competitive strength (IBER, 2011).

The India–Africa Forum Summit is the official platform for the African–Indian relations. It was first held from April 4 to April 8, 2008 in New Delhi, India. It was the first such meeting between the heads of state and government of India and 14 Africa countries chosen by the African Union. The summit, an important platform for India and Africa to cooperate and coordinate in a spate of political and economic issues, is held every three years.

India has invested more than US\$33 billion in Africa to date (Indian Investments in Africa, 2011). Initially limited to Kenya, Nigeria and Uganda in the 1970s, its influence has expanded geographically between 2000 and 2007 with Indian companies now doing business in over 20 African countries (Dickerson-Nyema, 2011). The entry of Indian companies into Africa has largely been market seeking, and has been driven by the liberalisation of regulations and lowering of entry barriers in the host countries (Gelb, 2005). Indian companies are active in a range of sectors, including mining, pharmaceuticals, machinery and equipment, chemicals, textiles, paper and paper products, financial services, software, refinery and printing.

The East African region has been the main recipient of Indian investment accounting for over two-thirds of FDI flows in Africa. Major recipients in this region include Mauritius (which has attracted a large number of software companies), Kenya, Ethiopia and Uganda. North Africa, which is also another attractive region for Indian investment, has attracted significant investments since 2007, mainly in Sudan where most concessions were in the oil and gas sector, but some investments in automobiles and light engineering goods have also been recorded. West Africa has received a smaller amount of investment when compared to the East and North African regions due to the political instability of this region, although there is a strong presence of Indian companies especially in Nigeria, Liberia and Senegal. The Southern African region to date has attracted a minimal proportion of total Indian direct investment to Africa. However, major Indian corporations now have

a presence in industries such as mining (Verdanta, Arcelor Mittal), steel (Tata Steel), pharmaceuticals (Dr Reddy's Lab, Ranbaxy) and automotive (Tata, Mahindra). The bulk of the investments has been in South Africa which is increasingly becoming the gateway to the region (Dickerson-Nyema, 2011). Box 2 below provides an overview of the bilateral investment relationship between India and South Africa.

### **Box 2: India-South Africa investment relationship**

Since the renewal of diplomatic ties in 1993, India and South Africa have been continually forging and developing stronger ties, both economically and politically. Investments in both directions have increased and there are indications of more to come especially under the BRICS, IBSA and India-South Africa Free Trade Agreement (FTA) banners.

With close to 100 Indian companies operating in South Africa on projects worth over \$6 billion, India features among the top 10 countries investing in South Africa. From an Indian perspective, South Africa is considered a good investment destination and gateway to the rest of the African markets. Most of the current investments are privately driven and are mainly in the pharmaceutical, financial and automobile sectors. Information technology (IT) has also attracted interest from India.

Companies such as Tata, Cipla, Apollo, Godrej, Genpact, Aegis, M&M, Ashok Leyland, Ranbaxy and Aurobindo Pharmaceuticals are among the companies in the pharmaceutical and automobile sectors. Several Indian banks are also moving in, with the State Bank of India, ICICI Bank and Bank of Baroda already established. The richly endowed mining sector has also not been spared, with Indian companies expressing interest in acquiring coal, iron ore and manganese mines.

On the other hand, investment opportunities in the fields of agro processing and cold chains, tourism, hotel, the retail sector, iron and steel, organic and inorganic chemicals, precious metals have attracted the interest of South African companies. In the financial sector, besides South African banks, insurance and financial services companies have also developed their India-specific strategies to increase their presence in India.

Sources: KPMG (2011); PWC (2008)

## Indian trading relations with Africa

Figure 5 below shows the trade patterns between India and Africa from 2002 to 2010 – the latest available trade data year. The picture depicted clearly highlights the increased interest or cooperation between this economic giant and the African continent.

**Figure 5: Trade patterns between India and Africa from 2002 to 2010**



Source: World Trade Atlas

An analysis of the trade flows reveals the following:

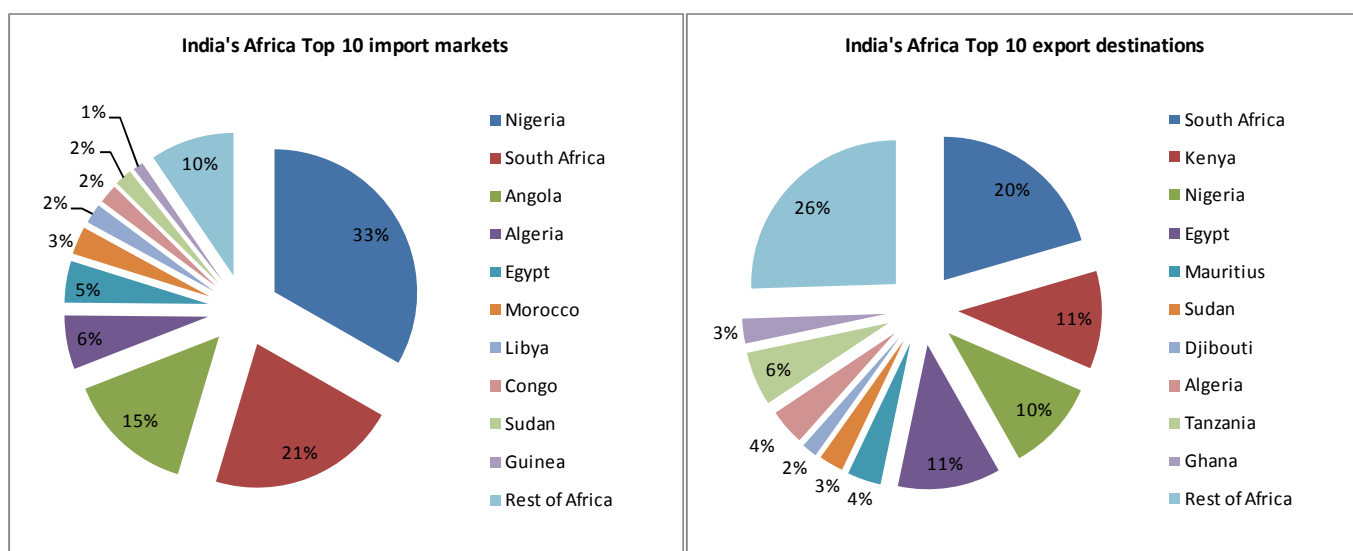
- Between 2002 and 2010 the compounded growth of India's total trade with Africa increased by 29% with imports and exports increasing by 32% and 25% respectively.
- The global financial crisis had an impact on India's trade with Africa where during the 2008/2009 period, the value of total trade between India and Africa decreased by 24% from approximately US\$43 billion in 2008 to approximately US\$33 billion at the end of 2009. Imports from Africa were affected the most, declining by 26% while exports to Africa declined by a relatively smaller 20% over the same period. In value terms, imports declined by approximately US\$7 billion while exports declined by approximately US\$3 billion during this period.
- However, we witnessed some recovery in 2010 where total trade increased by an estimated 44% annual growth to reach US\$47 billion. Imports recovered significantly in comparison to exports where we witnessed a 49% annual growth recovery for imports to reach about



US\$30 billion and a relatively lower 36% annual growth for exports to reach about US\$17 billion.

- The bulk of India's current trade with Africa is concentrated among a few countries for both imports and exports. The chart below depicts India's respective African trading partners for both imports and exports in 2010 together with the market share of each country.
- Among the major trading partners, trade is concentrated among just a few countries. For imports, Nigeria (33%), South Africa (21%) and Angola (15%) account for about 69% of total trade, while in terms of exports, South Africa (20%), Kenya (11), Egypt (11%) and Nigeria (10%) account for about a 54% share.

**Figure 6: India's top 10 African import and export markets**



- The top 10 products India imported from Africa in 2010 accounted for 96% of India's total imports from Africa over this period. There is a greater concentration of trade in a few primary resource-based products as reflected by India's composition of imports, in which the top three products accounted for 88% of total of imports from Africa. These were mineral fuel, oil, etc. (71%), precious stones, metals (13%), and inorganic chemicals (4%).
- In terms of exports, the top 10 products India exported to Africa during the same period represented about 94% of total Indian exports to Africa. The products traded are relatively diversified and to a certain extent largely value-added manufacturing products comprising mineral fuel, oil, etc.(22%), vehicles, not railway (10%), machinery (7%), ships and boats (6%), and electrical machinery (6%). Together, these products accounted for over 51% of total exports. Table 4 below highlights the product composition of Indian trade with Africa.

**Table 4: Product composition of Indian trade with Africa**

India's Top 10 imports from Africa				India's Top 10 exports to Africa			
HS	Description	2010	% share (2010)	HS	Description	2010	% share (2010)
	-AFRICA-	29,947.97			All products	17,247.04	
27	Mineral fuel, oil, etc.	21,161.60	71	27	Mineral fuel, oil, etc.	3,854.41	22
71	Precious stones, metals	3,804.48	13	87	Vehicles, not railway	1,666.19	10
28	Inorganic chemicals; Rare Erth Mt	1,219.23	4	30	Pharmaceutical products	1,494.47	9
26	Ores, slag, ash	662.69	2	84	Machinery	1,149.40	7
08	Edible fruit and nuts	499.75	2	89	Ships and boats	1,047.88	6
72	Iron and steel	391.28	1	85	Electrical machinery	1,016.11	6
25	Salt, sulphur, earth, stone	299.38	1	72	Iron and steel	712.3	4
31	Fertilizers	297.6	1	39	Plastic	528.77	3
07	Vegetables	257.14	1	73	Iron/Steel products	525.41	3
44	Wood	223	1	52	Cotton & yarn, fabric	523.27	3
	Other	1,131.82	4		OTHER	4,728.83	27

Source: World Trade Atlas

## China-Africa trade at a glance

### Economic and trade policy overview

With a population of over 1 billion, a GDP growth of 10%, China's GDP was US\$5.88 trillion in 2010. GDP composition by sector reveals manufacturing (47%) leading, followed by services (44%) and agriculture (10%). The country's per capita GDP (PPP) of about \$7,600 ranks the country at 126 in the world (CIA, 2011 (China)).

China's impressive economic performance in the past two decades has led to China being touted as the next economic superpower to become the world's top manufacturer, surpassing the United States. Export growth has contributed significantly to China's economic performance and, currently, China is the largest exporter and second largest importer of goods in the world.

The success of China is partly attributed to the economic reforms that were undertaken since the 1970s. We have witnessed China's economy change from a closed centrally planned system to a market-oriented economy that has a rapidly growing private sector. According to the CIA World Factbook (2011 (China)), the reforms saw the phasing-out of collective farming, the gradual liberalisation of prices, fiscal decentralisation, increased autonomy of state enterprises, a diversified banking system, and trade liberalisation among others.

The WTO Trade Policy Review (TPR) (2010) notes that trade and investment liberalisation played an important role in extending China's reform programme to the manufacturing sector. Since its accession to the WTO in 2001, China has continued to further undertake sweeping economic reforms towards a market economy.

China has also renewed its support for state-owned enterprises (SOE) in sectors it considers important to 'economic security', explicitly looking to foster globally competitive national champions. Agriculture and light industry have largely been privatised, while the state still retains control over some heavy industries. Despite the dominance of state ownership in finance, telecommunications, petroleum and other important sectors of the economy, private entrepreneurs continue to expand into sectors formerly reserved for SOEs (CIA, 2011 (China)).

The government of China plans to continue reforming the economy with an emphasis on increasing domestic consumption and less dependence on exports for GDP growth. This may be in response to

the effects of the global economic recession which left China vulnerable when exports declined by 16%, thus affecting its export-led growth. Real GDP growth declined from 9.6% in 2008 to a year-on-year rate of 6.2% in the first quarter of 2009, the lowest rate in more than a decade (WTO, 2010).

### **China-in-Africa initiatives**

With China's social, political and economic landscape changing for the long term, its need for more and diverse raw materials and different types of international business relationships has become significant. This has led to Chinese companies going global, a trend that has become a defining feature of the present stage of China's integration with the global economy. This trend has also marked a new phase in China's relations with Africa, with the continent increasingly becoming the target of Chinese foreign investment initiatives.

The establishment of the Forum on China-Africa Cooperation (FOCAC) Summit marked a significant turning point in China-Africa relations. The convergence of over 40 African Heads of State and Governments in Beijing, China, for the third Ministerial Conference in 2006 was suggested to be possibly the largest gathering ever of African leaders in Asia. From debt cancellations to preferential loans, China was making a statement on how serious it considers diplomatic relations with poor African countries as partners.

Official statistics from the Ministry of Commerce of the People's Republic of China reveal that from 2003 to 2008, China's outward FDI outflows to Africa increased by over US\$5 billion. The major recipients of the FDI for 2008 were South Africa (US\$4.8 bn); Zambia (US\$214 m) and Nigeria (US\$163 m). An important aspect to note is that these figures do not clearly reflect the actual FDI and caution needs to be taken in terms of them being an indication of Chinese activity on the continent, simply because, in most cases the recorded figures do not reconcile relations between China and the recipient country.<sup>4</sup> Despite these shortcomings, evidence on the ground reveal the growing presence of Chinese influence in Africa. Box 1 below highlights some of China's most recent engagements in Africa.

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<sup>4</sup> This information was made available during a personal communication with Hannah Edinger, Senior Manager & Head of Research, Frontier Advisory (Pty) Ltd.

**Box 3: Major Chinese investment activity in Africa (actual and planned) (August 2010 to February 2011)**

**Angola:** A framework agreement was signed for a joint venture between Liaoning Huajin Tongda Chemicals (a Chinese manufacturer of industrial equipment) and Sonangol (Angola's parastatal petroleum conglomerate) that is worth US\$2.1 billion. The deal is yet to be approved by both governments.

**Ethiopia:** A new leather factory worth US\$ 67million was opened by Chinese firm Xinxiang Kuroda Mingliang Leather Co. The project was financed to the value of 45% by the China-Africa Development Fund (CADF).

**Ghana:** Several investments were made; three investments fall under the auspices of CADF which allows Chinese investors to inject about US\$570 million into three projects in Ghana's mining, agriculture and health sector. These were i) US\$500 million available for the upgrade of the Korle-Bu Teaching hospital in Accra; ii) a new gold refinery worth US\$42 million in Accra; iii) a new palm oil refinery and processing factory worth US\$25 million; and finally iv) new loans available to fund energy, agriculture and transport development worth US\$13 billion.

**Mozambique:** A rehabilitation of existing road infrastructure, jointly funded by the Mozambican government and World Bank to the value of US\$35 million was handed over by the Chinese Henan International Cooperation Group. The 100 km section of the road was between Gaza and Inhambane.

**Nigeria:** CADF entered into a 40/60 joint venture with China Merchant Holdings to buy a stake in a container terminal operator for US\$154 million. The deal gives the partnership a 47.5% stake in the operator.

**South Africa:** Chinese company Yingli Solar signed an agreement which will see it partner with a yet unnamed South African company to build a manufacturing plant for solar products. The deal is worth approximately US\$435 million.

**Uganda:** An agreement between the China and Uganda governments was signed to build and manage a toll road from Kampala to the Entebbe airport. The 36 km toll road is worth US\$350 million. China is Uganda's main source of FDI.

**Zambia:** Luanshya Copper Mine in Zambia is set to receive rehabilitation and an upgrade of the underground mine. The China Non-ferrous Mining Corporation (CNMC) which runs the mine expects to invest more than US\$4 million in an attempt to improve safety and efficiency at the mine.

Source: Excerpt from The Beijing Axis, March 2011

The re-engagement of Africa by China is a strategic move that cannot be viewed as coincidental. Driven by its need to sustain its rapid growth as its economy booms, China requires adequate resources and Africa has resources and investment opportunities to offer. This includes the relatively

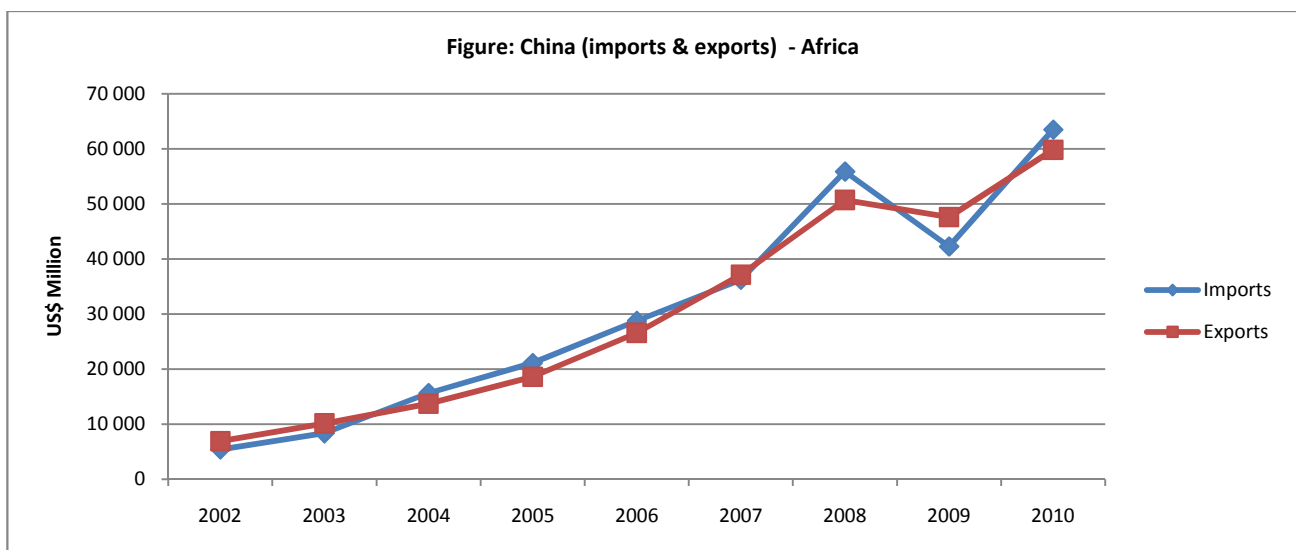
unexploited oil and gas, metals and minerals, and might also include agricultural or fishery products, but the main focus is on energy, metals and minerals. The economic and strategic consequences of China's increased focus on Africa have been the subject of much debate around the world. The resonating question has been, 'How good is this for Africa?'

Some commentators have suggested that China's involvement will erode efforts to promote transparency and reduce corruption in Africa. China has also been viewed as having no interest in pressing African governments to respect human rights issues or be more democratic. However, others have suggested that by importing Africa's raw commodities and more recently, African-manufactured value-added goods such as processed foods and household consumer goods, China has helped integrate the continent further into the global economy.

### The trading environment with Africa

Figure 7 below shows the trade patterns between China and Africa from 2002 to 2010 – the latest available trade data year. The graph clearly highlights the increased interest or cooperation between this economic giant and the African continent.

**Figure 7: Trade patterns between China and Africa from 2002 to 2010**

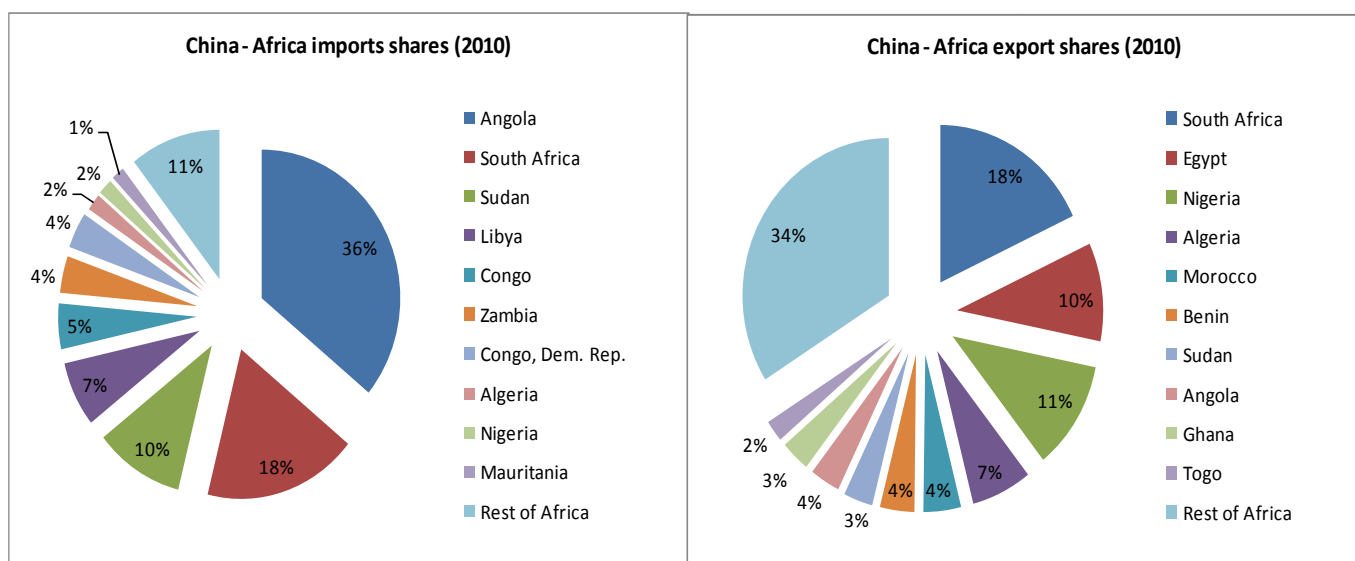


Source: World Trade Atlas

An analysis of the trade flows reveals the following:

- Between 2002 and 2010 the compounded growth of China's total trade with Africa increased by 33% with imports and exports increasing by 36% and 31% respectively.
- The impact of the global financial crisis had an impact on China's trade with Africa where, during the 2008/2009 period, the value of total trade between China and Africa decreased by 16% from approximately US\$106 billion in 2008 to approximately US\$90 billion at the end of 2009. Imports from Africa were affected the most, declining by 24% while exports to Africa declined by only 6% over the same period. In value terms, imports declined by approximately US\$13 billion while exports declined by approximately US\$3 billion during this period.
- However, we witnessed a recovery in 2010 where total trade increased by 37% to US\$123 billion. Imports from Africa had a spectacular recovery, recording a 50% annual growth to reach US\$63 billion, while exports recorded a relatively lesser 25% annual growth to reach about US\$60 billion.
- The bulk of China's current trade with Africa is concentrated among a few countries which have more or less the same value for imports and exports. The chart below depicts China's African trading partners for both imports and exports respectively in 2010 together with the market share of each country.
- Amongst the major trading partners as already highlighted, trade is concentrated among few countries. For imports, Angola (36%) and South Africa (18%) account for over 50% of total trade, while in terms of exports, South Africa (18%), Nigeria (11%) and Egypt (10%) account for about a 39% share.

**Figure 8: China's share of exports to and imports from Africa (2010)**



Source: World Trade Atlas

- The top 10 products China imported from Africa in 2010 accounted for 96% of China's total imports from Africa over this period. There is a greater concentration of trade in a few primary resource-based products as reflected by China's imports composition in which the top three products accounted for 85% of total African imports. These were mineral fuels (65%), ores and slag (14%), and copper (6%).
- In terms of exports, the top 10 products China exported to Africa during the same period represented a relatively lesser 64% of the total Chinese exports to Africa. This is an indication of the diversity of China's export product base, which is largely value-added manufacturing products comprising machinery (29%), vehicles, not railway (7%), ships and boats (7%), iron/steel products (5%) and knit apparel (4%). Table 5 below highlights the product composition of China trade with Africa.



**Table 5: Product composition of China's trade with Africa**

China's top 10 imports from Africa				China's top 10 exports to Africa			
HS	Description	2010	% share	HS	Description	2010	% share
	All products	63,495.46			-AFRICA-	59,830.72	
27	Mineral fuel, oil, etc.	41,474.58	65	85	Electrical machinery	9,317.63	16
26	Ores, slag, ash	8,864.35	14	84	Machinery	7,876.91	13
74	Copper & articles thereof	4,086.63	6	87	Vehicles, not railway	4,148.62	7
71	Precious stones, metals	2,407.49	4	89	Ships and boats	3,946.96	7
44	Wood	1,207.68	2	73	Iron/Steel products	3,234.16	5
72	Iron and steel	1,164.46	2	61	Knit apparel	2,550.56	4
81	Other base metals, etc.	549.22	1	52	Cotton & yarn, fabric	2,156.64	4
52	Cotton & yarn, fabric	463.62	1	64	Footwear	1,814.09	3
12	Misc grain, seed, fruit	438.18	1	39	Plastic	1,551.74	3
28	Inorganic chemicals; rare earth mt	345.72	1	94	Furniture and bedding	1,513.24	3
	OTHER	2,493.53	4		OTHER	21,720.18	36

Source: World Trade Atlas

Since **tralac** began monitoring the Africa-China trading relationship over the past six years (2006 – 2011), the evaluation has revealed the following:

- In 1995 China's total trade with Africa was only 1% of China's total world trade. However, total China-Africa trade steadily increased from 1995 to 2006 and has remained constant, ranging between 3% and 4%, over the last five years.
- Over the last five years mineral products have dominated China's imports from African countries with Angola and South Africa as China's main African trading partners.
- China's main export products have remained unchanged; however, the composition of the top five export products has changed on an annual basis.

## South Africa-Africa trade at a glance

### Economic and trade policy overview

South Africa has a population of over 45 million people and an estimated GDP (PPP) of US\$524 billion in 2010 (CIA, 2011). The country employs a mixed economy to address the legacies of apartheid, with the state's role being dynamic, shifting emphases to meet the changing developmental needs of society. It is the economic powerhouse of Africa, with a GDP four times that of its Southern African neighbours, and accounts for approximately 30% of the continent's GDP. Its industrial output and mineral production is 40% and 45% of total output in the continent respectively, and the country generates over 50% of Africa's electricity (DTI, 2010).

South Africa enjoyed an exceptional 62 quarters of uninterrupted economic growth from the first quarter of 1993 to the second quarter of 2008. However, as the effects of the global crisis hit, GDP contracted in the last two quarters of 2008, officially plunging the economy into its first recession in 18 years. Higher interest rates, power shortages and weakening commodity prices were also contributory factors. Real GDP, however, recovered from -1.7% in 2009 to 2.8% in 2010 albeit below the estimated potential of around 4% per annum for South Africa. According to the African Economic Outlook (2011) GDP is expected to grow at a rate of 3.6% in 2011 and 4.3% in 2012.

Over the review period South Africa has also managed to keep inflation within the target range of between 3% and 6% per annum. Current inflation indicators reveal that South Africa's inflation for 2011 is expected to be about 5% year-on-year (Nedbank Group, 2011). Despite achieving budgetary discipline and contained inflation, South Africa still faces the daunting task of reducing inequalities and enhancing growth performances 17 years after the end of apartheid.

Looking at the trade policies adopted by South Africa over the past few decades, we note that historically, South Africa's trade policy was guided by three interrelated strategies, that is, import substituting industrialisation, the development of strategic industries (in arms, oil and coal) – due to imposed sanctions – and the development of minerals-related exports. This was aided by heavy incentives to develop and sustain these industries (Lewis, 2001).

Accession to the WTO increased the pace of trade policy reform where the key aspects of liberalisation were contained in an offer to the WTO of phased tariff-reduction measures. The tariff reform programme took effect in early 1995 signalling the commitment of the new government to

trade reform, which resulted in the reduction of the average tariff from about 15% in 1996 to below 7% in 2011. To date, South Africa has shifted its policy towards market-led supply-side support measures that are in line with WTO rules to facilitate industrial restructuring, technology upgrading, investment and export promotion as well as small, medium and micro enterprises (SMME) development.

### **South African initiatives in Africa**

South African businesses have made great strides in Africa, and particularly in southern Africa. This expansion of South African companies into African markets has displayed the vast opportunities that Africa has to offer in terms of investment. Joint ventures, Greenfield investments, and mergers and acquisitions characterise South African business presence throughout Africa. Key to the success of South African investments has also been the state's promotional role through entities such as the Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA) which not only provide funding but also share the risk by taking a direct stake in some projects.

We therefore expect South Africa's role as a major investor in the region to continue assuming that the trend seen over the past decade prevails. For instance, more than 22% of FDI flows received by the South African Development Community (SADC) between 1994 and 2004 were from South Africa, with the share in some years exceeding 40% (UNCTAD, 2004). Between 2005 and 2009, South Africa increased investments in Africa by around US\$13 billion, from US\$3 billion in 2005 to US\$16 billion in 2009 (UNCTAD, 2011). Again the bulk of this has been in neighbouring countries, where South African companies have continued to establish a visible footprint.

Six main sectors of the South African economy can be identified that have taken the lead in terms of investing in Africa. Companies from the mining, retail, construction/manufacturing, financial services, telecommunications, and tourism sectors have ensured that South Africa is clearly visible as a major investor in Africa. In the past decade, investments that were usually concentrated in mining have tended to move into other, mainly services, sectors. According to UNCTAD (2004), 'since 2000, 8 of 21 major investments by South Africa in Africa were in natural resource sectors; 8 in services, 1 in utilities (electricity), and 2 in basic industries'. In recent years, however, South Africa has also become prominent as an investor in telecommunications, financial and retail sectors in Africa as reflected by the expansion and increased appetite for investment into Africa by major players in these particular sectors. Countries where South Africa has a visible footprint include Angola,

Botswana, DRC, Namibia, Mozambique, Swaziland, Tanzania, Zimbabwe (all SADC), Cameroon, Ghana, Guinea, Mali, Nigeria, Rwanda and Uganda. The big investors are MTN, Vodacom, Eskom, Sasol, SABMiller, Shoprite, Protea, Multichoice, Standard Bank, ABSA and, recently, FNB, among others. Below table is a list of companies with operations in Africa.

**Table 6: South Africa Outward FDI stock**

	2005	2009
To Africa	3,017	15,676
To the World	36,826	72,583
<b>Africa % share of world</b>	<b>8</b>	<b>22</b>

Source: UNCTAD (2011)

**Table 7: Main South African investors in Africa (2010)**

Company	FDI Recipient	Sector
SecureData Holdings	Kenya	Software & IT services
Tourvest	Zimbabwe	Hotels & tourism
MTN Group	Rwanda	Communications
Dimension Data Holdings (DiData)	Uganda	Communications
Standard Bank Group	Zimbabwe	Financial services
Sanlam Group	Uganda	Financial services
Pick n Pay	Zambia, Mauritius	Food & tobacco
JHI	Zimbabwe	Real estate
Basil Read	Zimbabwe	Metals
Altech Group	Kenya	Communications

Source: COMESA Investment Report (2011)

**Table 8: Major South African investors**

Presence in the top 100 non-financial TNC from developing countries, ranked by foreign assets (2010)							
		(US\$ millions and number of employees)					TNI <sup>a</sup> (%)
		Rankings by			Foreign		
Corporation	Industry	Foreign assets	TNI *	Assets	Sales	Employment	
MTN Group Ltd	Telecommunications	18	25	14,420	8,606	22,930	67
Sasol Ltd	Chemicals	46	82	6,679	7,781	6,041	30
Naspers Ltd	Other consumer services	55	42	5,196	1,185	7,698	55
Steinhoff International Holdings Ltd	Other consumer services	59	38	5,060	3,492	15,397	56
Netcare Ltd	Other consumer services	61	48	5,017	1,261	9,130	54
Gold Fields Ltd	Metal and metal products	65	76	4,839	1,443	2,594	36
Sappi Ltd	Wood and paper products	66	27	4,788	4,190	9,046	66
Medi-Clinic Corp. Ltd	Other consumer services	68	36	4,433	1,214	6,837	58

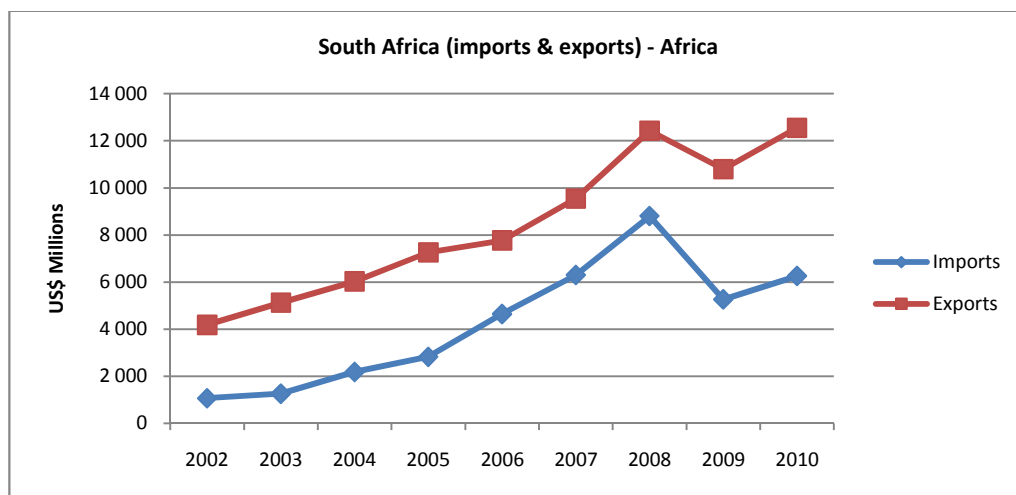
\* The Transnationality Index (TNI) is calculated as the average of three ratios: foreign assets/total assets; foreign sales/ total sales; and foreign employment/ total employment

Source: UNCTAD (2011)

## South Africa's trading relations with Africa

The figure below shows the trade patterns between South Africa and the rest of Africa from 2002 to 2010 – the latest available trade data year. The picture depicted clearly highlights the increased interest or cooperation between this regional economic giant and the African continent.

**Figure 9: Trade patterns between South Africa and Africa from 2002 to 2010**



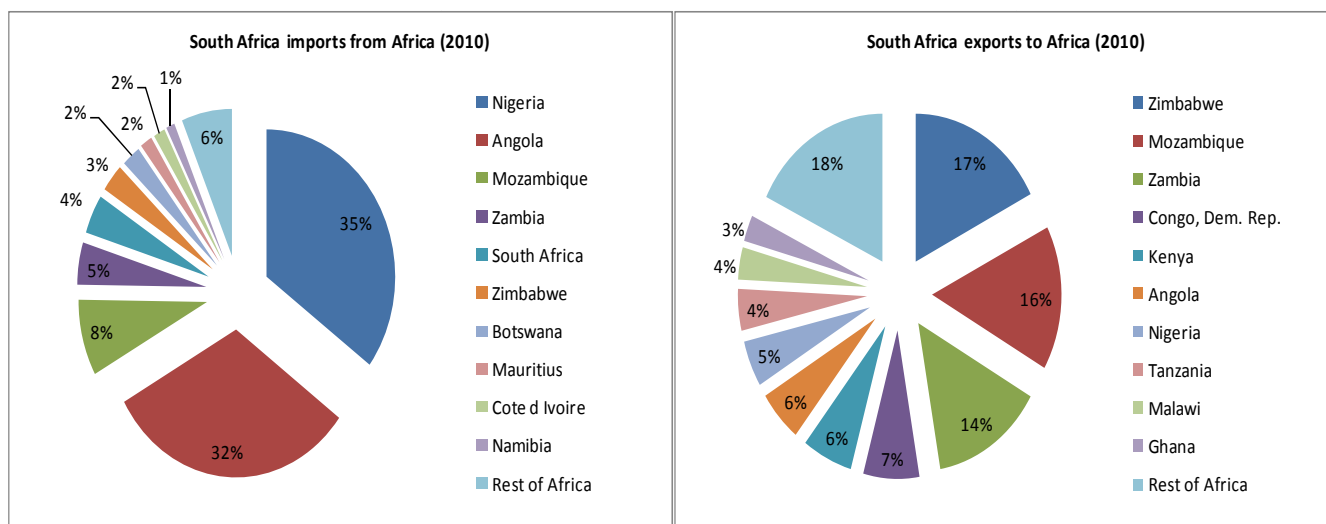
Source: World Trade Atlas

An analysis of the trade flows reveals the following:

- Between 2002 and 2010 the compounded growth of South Africa's total trade (imports + exports) with Africa increased by 17% with imports and exports increasing by 25% and 15% respectively. The global financial crisis had an impact on South Africa's trade with Africa where, during the 2008/2009 period, the value of total trade between South Africa and Africa decreased by 24% from approximately US\$21.2 billion in 2008 to approximately US\$16 billion at the end of 2009. Imports from Africa were affected the most, declining by 40% while exports to Africa declined by a relatively smaller 13% over the same period. In value terms, imports declined by approximately US\$3.5 billion while exports declined by approximately US\$1.6 billion during this period.
- However, we witnessed a recovery in 2010 where growth in total trade increased by an estimated 17% annual growth from US\$16 billion in 2009 to US\$18.8 billion in 2010.
- The bulk of South Africa's current trade with Africa is concentrated among a few countries for both imports and exports. The chart below depicts South Africa's respective African trading partners for both imports and exports in 2010 together with the market share of each country.

- Among the major trading partners, trade is concentrated among just a few countries. For imports, Nigeria (35%), Angola (32%) and Mozambique (8%) account for about 75% of total trade, while in terms of exports, Zimbabwe (17%), Mozambique (16%) and Zambia (14%) account for about a 47% share.

**Figure 10: South Africa's share of exports to and imports from Africa (2010)**



Source: World Trade Atlas

- The top 10 products South Africa imported from Africa in 2010 accounted for 91% of South Africa's total imports from Africa over this period. There is a greater concentration of trade in a few products as reflected by South Africa's composition of imports, in which the top three products accounted for 85% of total of imports from Africa. Mineral fuel, oil (76%) accounted for the bulk of imports.
- In terms of exports, the top 10 products South Africa exported to Africa during the same period represented about 35% of total South African exports to Africa. The products traded are relatively diversified, and to a certain extent processed products comprise machinery (14%), mineral fuel, oil, etc. (9%), vehicles, not railway (9%), iron and steel (9%), iron or steel products (6%) and electrical machinery (6%). Together, these products accounted for over 53% of total exports. Table 9 below highlights the product composition of South African trade with Africa.

**Table 9: Product composition of South Africa's trade with Africa**

South Africa Imports from Africa				South Africa Exports to Africa			
HS	Description	2010	% share (2010)	HS	Description	2010	% share (2010)
	-AFRICA-	6,261.55			-AFRICA-	12,549.99	
27	Mineral fuel, oil etc.	4,765.57	76	84	Machinery	1,715.27	14
71	Precious stones, metals	360.77	6	27	Mineral fuel, oil, etc.	1,175.01	9
74	Copper and articles thereof	171.58	3	87	Vehicles, not railway	1,127.02	9
84	Machinery	82.41	1	72	Iron and steel	1,071.78	9
52	Cotton and yarn, fabric	68.94	1	73	Iron/Steel products	812.88	6
85	Electrical machinery	62.06	1	85	Electrical machinery	730.07	6
24	Tobacco	57.17	1	39	Plastic	602.38	5
61	Knit apparel	54.89	1	48	Paper, paperboard	411.65	3
9	Spices, coffee and tea	51.36	1	22	Beverages	315.71	3
62	Woven apparel	46.58	1	38	Miscellaneous chemical products	243.1	2
	OTHER	540.22	9		OTHER	4,345.10	35

Source: World Trade Atlas



## Japan-Africa trade at a glance

### Economic and trade policy overview

In the post-World War 2 era, Japan moved from being a less developed country to its current developed country status. This achievement was based largely on an export-driven economic model, which did relatively little to tap into growth in the domestic economy (Schuman, 2011). Other important factors included (MOFA, 2010):

- high rates of both personal savings and private sector facilities investment;
- a labour force with a strong work ethic;
- an ample supply of cheap oil;
- innovative technology; and
- effective government intervention in private-sector industries.

These factors led to Japan becoming an influential actor in the world economy as the second largest economic power after the US. Together they accounted for over 30% of world domestic product and a significant portion of international trade in goods and services (Cooper, 2011).

Having experienced exceptional growth prior to the 'lost decade' of the 1990s, Japan maintained its position as the world's second largest economy until China surpassed it in 2010. Japan has a GDP of approximately US\$4.3 trillion, while GDP grew by about 3.9% in 2010. The initial effects of the recent global financial crisis did not affect Japan's financial institutions until later when the economy went into a recession and eventually contracted by 6.9% in 2009. The recent devastating earthquake in March 2011 is expected to affect the economy negatively with a contraction of 0.7% in GDP expected this year (CIA, 2011 (Japan)).

The WTO Trade Policy Review (TPR) (2011) notes that Japan's overall trade policy objective has remained relatively unchanged and is mainly focused on ensuring long-term prosperity and growth by promoting business activities in Japan and at an international level. Japan views its regional and bilateral trade agreements as complements to the multilateral system, while it acknowledges that the level of complication increases as the entry into force of various free-trade agreements occurs. In terms of investments, although Japan has adopted measures to facilitate the approval of FDI,

inward FDI remains substantially lower than outward FDI and is relatively low compared to levels in other large Organisation for Economic and Cooperation Development (OECD) economies.

The future sustainable growth prospects for Japan require the country to undergo far-reaching structural changes. According to the WTO Trade Policy Review (2011), improving productivity, especially in the services sector, through increased competition and further deregulation, as well as reducing the cost of doing business so that the sector attracts more investment (both foreign and domestic), is imperative. Furthermore, domestic demand will need to be stimulated and there is also a need to address the ageing working population, by, amongst other measures, increasing labour productivity.

### **Japan-Africa initiatives**

Japan's engagement with Africa is shaped by the Tokyo International Conference on African Development (TICAD) framework which builds on the process of support for Africa and consensus building around African development priorities. 'Ownership' and 'partnership' form the underlying principles. Initiated in 1993, an agreement – the Tokyo Declaration, which is the basis of Japanese-African cooperation – was reached amongst African countries and development partners regarding the direction of cooperation for Africa. To date, four TICAD meetings have been held and Japan views the concept of 'African ownership' which it has emphasised through the TICAD process as beginning to firmly take root (MOFA, 2002).

In terms of investment, over the past five years Japan has been investing directly into Africa an annual average of US\$4.2 billion. This level of investment has already exceeded Japan's pledge to double direct investment in Africa to US\$3.4 billion by 2012 (TICAD, 2010). It should be noted, however, that relative to other developed countries, it is not a major source of FDI flows to Africa.

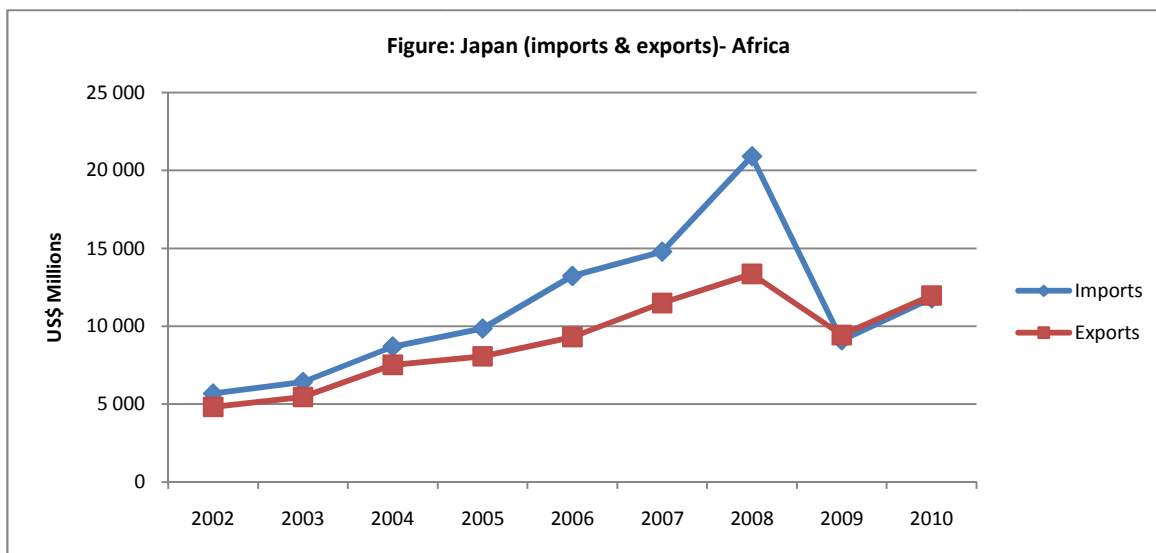
Investments have mainly been directed towards infrastructure and mining. Investments in services and manufacturing have been limited and concentrated only on a few countries, with South Africa being one of the major recipients. Recent investments include the 2009 Ambatovy Madagascar project, one of the world's biggest joint mining projects run by Japan (holding 27.5% share through the Sumitomo Corporation), Korea and Canada. The project is jointly financed by the African Development Bank and the Japan Bank for International Cooperation (JBIC) amongst other financiers. Other investments in 2010 financed by the JBIC include the ERC Refinery Project in Egypt,

the renovation of a National Textile Company Plant in Angola, and a Metro Construction Project in Egypt (TICAD, 2010). Another large-scale investment concluded in 2010 was the acquisition of the South African firm Dimension Data by the Japanese telecommunications services provider Nippon Telegraph & Telephone Corp (NTT) at a total acquisition cost of approximately US\$3.2 billion (NTT to Buy Dimension Data , 2010).

### Japanese trading relations with Africa

Figure 11 below shows the trade patterns between Japan and Africa from 2002 to 2010 – the latest available trade data year. The picture depicted clearly highlights the increased interest or cooperation between this economic giant and the African continent.

**Figure 11: Trade patterns between Japan and Africa from 2002 to 2010**



Source: World Trade Atlas

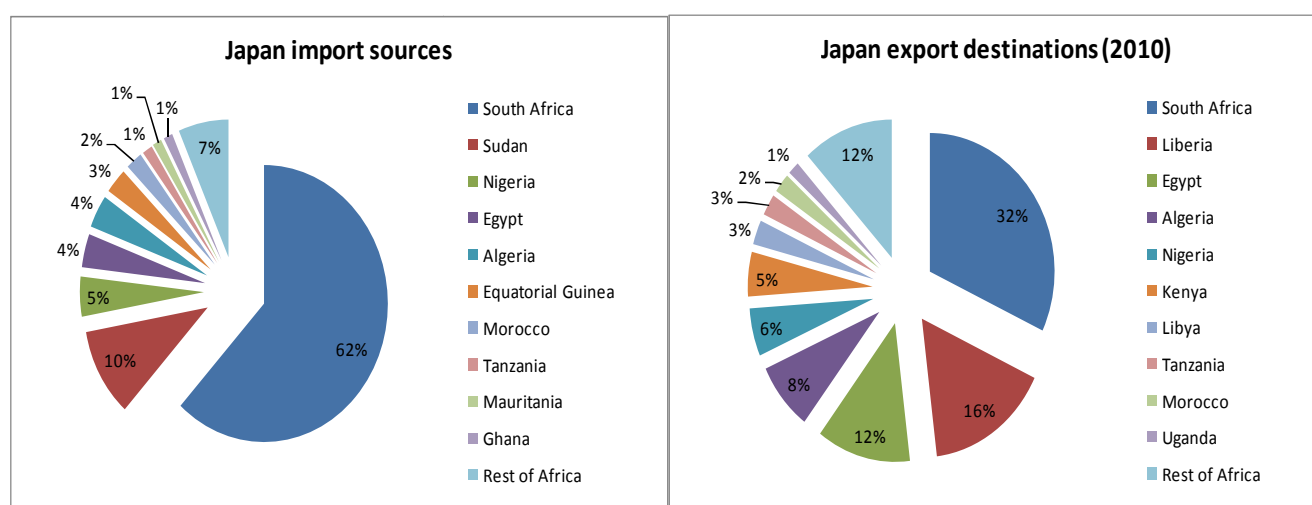
An analysis of the trade flows reveals the following:

- Between 2002 and 2010 the compounded growth of Japan's total trade with Africa increased by 27% with imports and exports increasing by 30% and 28% respectively.
- The global financial crisis had an impact on Japan's trade with Africa where during the 2008/2009 period, the value of total trade between Japan and Africa decreased by 46% from approximately US\$34 billion in 2008 to approximately US\$19 billion at the end of 2009. Imports from Africa were affected the most, declining by 57%, while exports to Africa declined by a relatively smaller 29% over the same period. In value terms, imports declined by

approximately US\$12 billion while exports declined by approximately US\$4 billion during this period.

- However, we witnessed some recovery in 2010 where total trade increased by 28% to US\$24 billion. Both imports and exports recovered by more or less the same margin, with the former recording a 29% annual growth to reach about US\$12 billion, while exports recorded a relatively lower 26% annual growth to reach about US\$12 billion.
- The bulk of Japan's current trade with Africa is concentrated among a few countries for both imports and exports. The chart below depicts Japan's respective African trading partners for both imports and exports in 2010 together with the market share of each country.
- Among the major trading partners, trade is concentrated among just a few countries. For imports, South Africa (62%) and Sudan (10%) account for over 70% of total trade, while in terms of exports South Africa (32%), Liberia (16%) and Egypt (12%) account for about a 60% share.

**Figure 12: Japan's share of exports to and imports from Africa (2010)**



Source: World Trade Atlas

- The top 10 products Japan imported from Africa in 2010 accounted for 89% of Japan's total imports from Africa over this period. There is a greater concentration of trade in a few primary resource-based products as reflected by Japan's composition of imports, in which the top three products accounted for 78% of total of imports from Africa. These were precious stones, metals (32%), Mineral fuel, oil, etc. (26%) and ores and slag (10%).

- In terms of exports, the top 10 products Japan exported to Africa during the same period represented about 94% of total Japanese exports to Africa. The products traded are largely value-added manufacturing products comprising vehicles, not railway (39%), machinery (19%), ships and boats (16%), electrical machinery (6%) and rubber (3%). Table 10 below highlights the product composition of Japanese trade with Africa.

**Table 10: Product composition of Japan trade with Africa (US\$ million)**

Japan's Top 10 imports from Africa				Japan's Top 10 exports to Africa			
HS	Description	2010	% share (2010)	HS	Description	2010	% share (2010)
	All products	11,792.67			-AFRICA-	11,979.01	
71	Precious stones, metals	3,730.73	32	87	Vehicles, not railway	4,723.28	39
27	Mineral fuel, oil, etc.	3,056.38	26	84	Machinery	2,288.39	19
26	Ores, slag, ash	1,207.51	10	89	Ships and boats	1,908.20	16
72	Iron and steel	581.87	5	85	Electrical machinery	686.98	6
76	Aluminium	518.01	4	40	Rubber	399.76	3
87	Vehicles, not railway	430.94	4	72	Iron and steel	386.22	3
03	Fish and seafood	359.17	3	73	Iron/Steel products	269.5	2
44	Wood	304.69	3	90	Optic,nt 8544;medical instruments	234.01	2
75	Nickel and articles thereof	173.91	1	00	Special	183.62	2
18	Cocoa	150	1	55	Manmade staple fibres	164.04	1
	OTHER	1,279.47	11		OTHER	735.02	6

Source: World Trade Atlas

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