

What is the Economic Engagement Footprint of Rising Powers in Africa?

The role of rising powers has become increasingly important in international development. Some of these countries base their development assistance strategy on the ‘South–South Cooperation’ framework, centred on a notion of equal partner relationships and extending cooperation beyond aid flows. Our research shows that rising powers’ economic engagement with countries in sub-Saharan Africa (SSA) is not that different to that of OECD countries in relation to sector and country allocations of aid, trade and Foreign Direct Investment (FDI). As such, the ‘South–South’ cooperation framework does not yet appear to be distinctive when looking at aggregate economic flows.

BRICS countries (Brazil, Russia, India, China, South Africa), as well as other rising powers countries such as the Gulf States or Turkey, have entered the development arena by expanding their relationships with low-income countries. A widespread perception is that these countries are establishing new forms of engagement, mainly under the ‘South–South Cooperation’ framework, which can be defined as: (1) two-way or equal partner relationships, as opposed to the engagement of traditional donors that is seen as relying on conditionality; and (2) extending cooperation beyond aid flows to include trade, investment, finance and other flows.

Other views, however, suggest that the significance of engagement from these countries is still small compared to traditional OECD donors, and that some aid allocation behaviours do not consider governance issues or the needs of poorer countries.

This potentially new cooperation framework translates in practice into a different type of economic engagement from the rising powers. To analyse this question empirically, we examined the economic engagement footprint of the rising powers in SSA, which constitutes an aggregated approximation of their impact as external actors and cooperation partners on the continent. Our findings can be summarised as follows:

Rising powers are important economic partners for sub-Saharan Africa regarding trade and FDI

The importance of rising powers’ economic engagement in SSA has increased dramatically in

the last decade, at the expense of OECD countries. China (the region’s main trading partner), along with other rising powers, constitutes 30 per cent of total trade with the region. This speed of change is highlighted by the dramatic increase in China’s share of exports to SSA, increasing from 4.5 per cent in 2000 to 14.5 per cent in 2010. India, China, South Africa and the Gulf States are also key sources of FDI in the region. However, when it comes to aid flows, only China is a significant donor in the region, although the importance of India and the Gulf States is increasing significantly over time.

In addition, the nature of this engagement between rising powers and SSA is strengthening, since all flows (exports, imports, FDI, development cooperation) are increasing over time.

Large sector concentration of trade, while more diversified FDI portfolio

Trade between rising powers and SSA, especially exports from Africa to the rising powers, is concentrated in natural resources and products of very little value added. On the other hand, FDI flows from rising powers to Africa appear to show some diversification towards important sectors for growth such as services.

Rising powers are not a homogenous group

When it comes to economic engagement, the rising powers are by no means a homogenous group. Exports from SSA to rising powers show similar patterns. However, there are significant differences in the allocation of aid flows and FDI sector and country composition across rising powers. ➔

Significant similarities between rising powers and OECD countries

Using a similarity index to assess the trade and FDI flows, we found that significant similarities appear, especially regarding trade flows and, to a lesser extent, investment, between some rising powers and some OECD countries. For example, although Brazil is similar to China regarding the sector composition of imports from SSA, these are also very similar to the US or the UK. China and France, or South Africa and the US, also show similar sector investment patterns in SSA.

Rising powers' aid allocation behaviour does not translate into significant

differences in country allocation vis-a-vis some OECD countries

While aid allocation of rising powers in SSA is perhaps more concentrated in natural resource-intensive countries and countries with a stronger UN affinity (that is, recipient countries which commonly vote alongside the aid provider in the UN), contrary to what some commentators suggest, allocation in SSA from rising powers such as China or India does not seem more concentrated in countries with higher income per capita, corruption or trade links than the allocation by some OECD countries. For example, the concentration curve of China's aid flows according to the country's intensity of natural resources appears very similar to that of the UK.

Policy implications

Looking forward, the importance of the rising powers' engagement in SSA is likely to increase in the near future given the recent trends and economic difficulties in OECD countries.

- **Trade flows** – this engagement does not appear particularly beneficial for SSA countries in terms of the sophistication and technological content of exports or encouraging export diversification and integrating in global value chains.
- **Aid flows** – there appear to be some complementarities between rising power priorities and other traditional donors, although there is also significant overlap in other sectors such as infrastructure.
- **FDI flows** – from the rising powers, especially investments in services (such as financial services, software, IT and communications), which present the most important opportunity to contribute to higher growth and development in the SSA region. As a result, it is important to ensure that rising powers strengthen FDI ties with SSA and offer market access to SSA exports, especially non-commodity exports.

Overall the economic engagement footprint suggests that given the allocation of economic flows observed, the 'South-South' cooperation framework does not yet appear to be distinctive regarding aggregate economic relationships. More work is needed in order to understand whether this form of cooperation is expected to impact development 'differently' from other forms of cooperation and move from development rhetoric. A critical element of this would be understanding and quantifying the more micro channels and specific projects under which the 'South-South cooperation' framework is expected to have a 'differential' impact on development as compared to more traditional donor frameworks.



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Further reading

- Cirera, X. (2013) *The Economic Engagement Footprint of Rising Powers in Sub-Saharan Africa: An Analysis of Trade, Foreign Direct Investment and Aid Flows*, IDS Evidence Report, Brighton: IDS, Forthcoming
- Navas-Aleman, L. (2014) *Business from the BRICS*, Forthcoming

Credits

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