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THE RISE OF BRICS FDI AND AFRICA

HIGHLIGHTS

- *BRICS (Brazil, the Russian Federation, India, China and South Africa) have emerged as major recipients of FDI and important outward investors.*
  - Over the past decade, FDI inflows to BRICS more than tripled to an estimated US$263 billion in 2012. As a result, their share in world FDI flows kept rising even during the crisis, reaching 20% in 2012, up from 6% in 2000.
  - BRICS countries have also become important investors, their outward FDI has risen from US$7 billion in 2000 to US$126 billion in 2012, or 9% of world flows - ten years before that share was only 1%.
- *Overseas investment by BRICS countries is mainly in search of markets in developed countries or in the context of regional value chains.*
  - 42% of BRICS outward FDI stock is in developed countries, with 34% in the EU.
  - Some 43% of BRICS outward FDI stock is in respective neighbouring countries in Latin America and the Caribbean, East Asia, South Asia and transition economies.
- *Economic linkages through FDI between BRICS countries themselves are still limited, although intra-BRICS FDI has grown faster than flows to non-BRICS over the past decade.*
  - The share of BRICS partners in the combined outward FDI stock of the BRICS grouping jumped from 0.1% to 2.5%.
  - Among BRICS countries, South Africa shows the largest share of intra-BRICS investment. In 2011, one fifth of the outward investment stock of South Africa was concentrated in other BRICS countries, mainly China.
- *BRICS countries are becoming significant investors in Africa, including in manufacturing and services.*
  - Although Africa accounts for only 4% of BRICS FDI outflows, BRICS countries have joined the ranks of top investing countries in Africa; in 2010, the share of BRICS in FDI inward stock to Africa reached 14% and their share in inflows reached 25%.
  - The share of BRICS countries in Africa’s total value of greenfield projects rose from 19% in 2003 to almost one quarter in 2012.
  - Most BRICS FDI projects in Africa are in manufacturing and services. Only 26% of the value of projects and 10% of the number of projects is in the primary sector.

BRICS and the global investment landscape

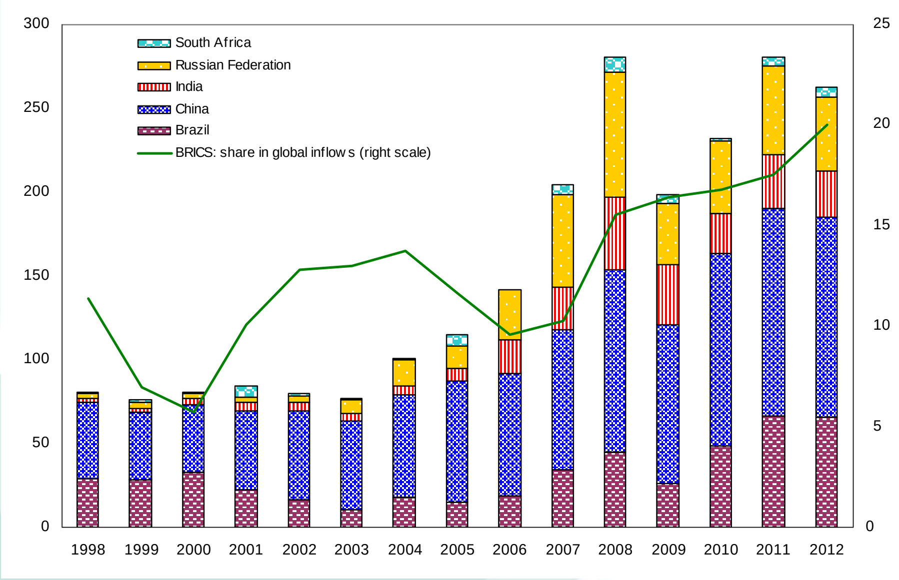
Since 2010, developing and transition economies have absorbed more than half of global FDI inflows, and in 2012 FDI flows to developing economies, for the first time ever, exceeded those to developed countries – with US$130 billion more. BRICS (Brazil, the Russian Federation, India, China and South Africa) have played an important role in the current pattern of global investment. With regard to FDI outflows, they account for nearly one tenth of global investment outflows and one third of those from developing and transition economies.

Inward FDI patterns

FDI inflows to BRICS are characterized by some key features:

- The big jump in FDI inflows to BRICS took place from 2003 to 2008, growing from $77 billion to $281 billion, with China and the Russian Federation accounting for the lion's share of growth (figure 1).
- FDI flows to BRICS remained relatively resilient to the crisis compared to other countries, with a decline in inflows by 30% in 2009 (compared to 40% for developed countries), and a much more rapid recovery to peak levels.
- As a consequence, the share of FDI flows to BRICS in the world total kept rising during the crisis and reached a record of 20% in 2012, almost three times more than the 6% share registered in 2000.
- Almost half (46%) of FDI flows to BRICS go to China, followed by Brazil (25%), the Russian Federation (17%) and India (10%).
- With the rapid rise in inflows, FDI stock in BRICS countries are increasing as well, standing at 11% of global FDI stock, and catching up with developed economies.

Figure 1. BRICS countries: FDI inflows and their share in global FDI inflows, 1998-2012
(Billions of US dollars and per cent)



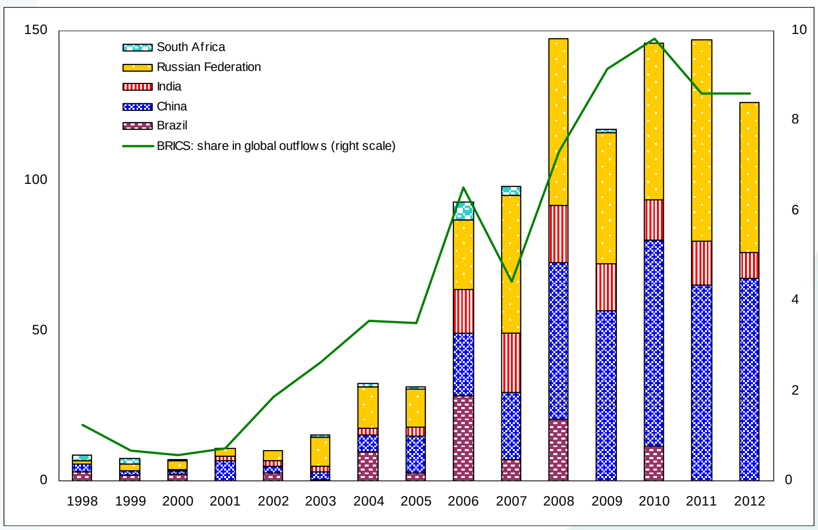
Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
Note: Data for 2012 are preliminary.

Outward FDI patterns

As noted above, BRICS countries are also increasingly important outward investors. FDI outflows show the following key features:

- The rise in FDI outflows started slightly later than that of inflows, jumping from US$31 billion in 2005 to US$93 billion in 2006 (figure 2).
- BRICS investors also remained resilient to the crisis, with outflows dropping by only 26% in 2009, compared to 41% for the world as a whole.
- As a result, the role of BRICS as investors increased significantly, now accounting for 9% of world outflows in 2012 - ten years before that share was only 1% (figure 2).
- China and the Russian Federation account for the lion's share of flows from the grouping, with 54% and 40% respectively.

Figure 2. BRICS countries: FDI outflows and their share in global FDI outflows, 1998-2012
(Billions of US dollars and per cent)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).
Note: Data for 2012 are preliminary.

Destinations of outward FDI from BRICS

Looking at the destinations for outward FDI from BRICS countries – disregarding investment flows to offshore financial centres, which are significant – a number of patterns can be observed:

- A significant share of BRICS outward stock is in developed economies (42%), with the bulk going to the EU (34%) (table 1). These investments are in large part driven by market-seeking motives, and cross-border M&As are a key mode of entry with M&A purchases in developed countries amounting to $105 billion in the 2010-2012 period.

- Intra-regional FDI is very important for BRICS countries, with neighbouring economies accounting for 70% of outward stock in the case of China, and 40% in the case of Brazil in 2011. These investments often take place in the context of regionally integrated production networks (or regional value chains).

Table 1. Outward FDI stock from BRICS, by destination region, 2011
(Millions of dollars)

Partner region/economy	Value	Share
World	1 130 238	100.0
Developed countries	470 625	41.6
European Union	385 746	34.1
United States	31 729	2.8
Japan	1 769	0.2
Developing economies	557 055	49.3
Africa	49 165	4.3
Latin America and the Caribbean	175 410	15.5
Asia	331 677	29.3
Transition economies	31 891	2.8
Memorandum		
BRICS	28 599	2.5

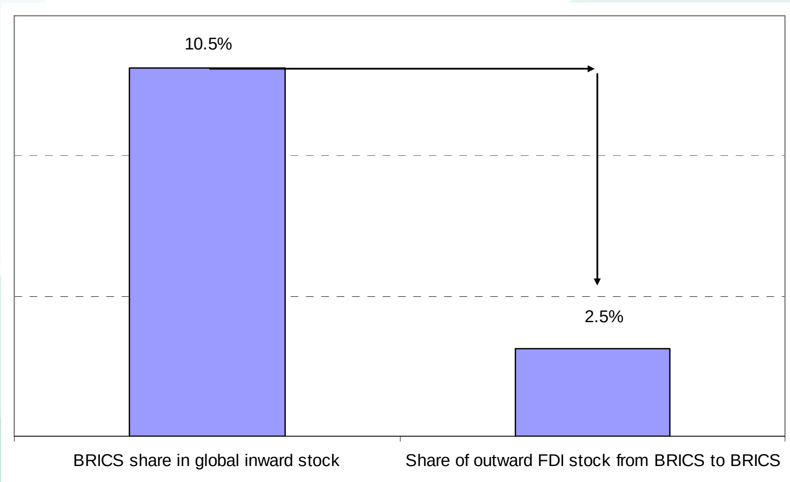
Source: UNCTAD, FDI database and data from the IMF, CDIS (Coordinated Direct Investment Survey).
Note: Data for Brazil are based on information from the partner countries.

- FDI between BRICS is relatively limited. FDI stock to other BRICS account for only 3.2% of Indian outward stock, 2.2% of Chinese stock, 0.3% of Russian and Brazilian outward stocks. And the share of FDI outward stock holdings by BRICS countries in other BRICS countries is only around 2.5%, compared to the 10% that BRICS represent in world inward stock (figure 3).

- FDI from BRICS to other developing and transition economies (outside their own region and excluding other BRICS) is also significant for the host region. For example 25% of FDI flows to Africa, originate in BRICS.

The following two sections will aim to shed more light on the last two phenomena, namely intra-BRICS FDI and BRICS investments in Africa.

Figure 3. The share of intra BRICS FDI stock global FDI stock, 2011
(Per cent)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Intra-BRICS FDI

Available evidence suggests that the bilateral FDI stock among BRICS countries is limited, although it has grown fast over the past decade, from US$260 million in 2003 to US$29 billion in 2011 (table 2). BRICS outward stock in other BRICS countries increased from 0.1% in 2003 to 2.5% in 2011.

Looking closely at individual BRICS countries, *Brazilian* direct investment in other BRICS countries is modest (US$0.5 billion). Bilateral economic relations are the strongest with China, but they are mainly driven by trade, amongst a boom in Brazilian exports of primary goods to China in recent years. The presence of Brazilian companies in China is limited, and their main business activity is the provision of services (such as finance, business consulting and trading), the sales and distribution of their products, and procurement.

China is the largest investor among the BRICS countries, with a total of nearly $425 billion in FDI stock worldwide. However, its outward FDI stock to other BRICS countries accounts for only 2.2% of the total. South Africa and the Russian Federation have been important targets of outward FDI from China. With FDI stocks of US$4.1 and US$3.8 billion, respectively, by the end of 2011, the two countries were the eighth and ninth largest recipients of Chinese FDI. The services sector accounts for a major share of Chinese FDI stock in these two countries. At the stock level, the amounts of Chinese FDI in Brazil and India were comparably small, at US$1.1 billion and US$657 million respectively, but their recent flows have been high, in particular in the Brazilian M&A market, only behind acquirers from the United States. For example, China Petrochemical Corp. (Sinopec) made a big upstream acquisition in Brazil in 2010 for US$7.1 billion, though the value of which is not necessarily all translated into FDI.

Table 2. Outward FDI stock from BRICS countries to other BRICS countries, 2011
(Millions of dollars)

	Host economy							
Home economy	**BRICS**	Brazil	China	India	Russian Federation	South Africa	*World*	*Share in the world*
BRICS	28 599.5	1 222.4	13 570.8	1 795.6	7 671.5	4 339.1	1 130 238	2.5%
Brazil	514.1	-	447.5	15.8	0.1	50.7	202 586	0.3%
China	9 552.5	1 071.8	-	657.4	3 763.6	4 059.7	424 781	2.2%
India	1 987.1	73.9	228.7	-	1 490.4	194.1	62 600	3.2%
Russian Federation	1 139.9	-	123.1	982.3	-	34.5	361 738	0.3%
South Africa	15 405.8	76.8	12 771.5	140.1	2 417.4	-	78 533	19.6%

Source: UNCTAD, FDI database and IMF, CDIS (Coordinated Direct Investment Survey).
Note: Data for Brazil are based on information from the partner countries.

Total outward FDI stock of *India* in other BRICs countries amounted to US$2 billion by the end of 2011, in which the Russian Federation accounted for three-fourths. The amounts of Indian FDI stock in Brazil, China and South Africa were US$74 million, US$229 million and US$194 million, respectively. Indian TNCs in the IT services industry, such as Infosys and Wipro, have expanded their business activities into Brazil and China through greenfield investment. Indian companies have also been active in extractive industries in the Russian Federation and manufacturing in South Africa. For example, India’s State-owned ONGC Videsh participated in various oil and gas exploration projects in the Russian Federation, and Tata Group has invested in automotive and ferrochrome plants in South Africa.

One-fifth of the outward FDI stock of *South Africa* was located in the "BRIC" in 2011, mainly in China. The Russia Federation is the second largest; followed by India and Brazil that have attracted marginal volumes of investment from South Africa. With the 20% BRIC share in 2011, this share was only slightly less than the country's outward stock in other African countries, which stood at 23%. In terms of sectoral distribution, South African outward FDI in BRIC is concentrated in mining, infrastructure and construction, and finance and business services.

Recently, *Russian* TNCs have found their way to the BRICS countries, increasing their stock to US$1.1 billion. In contrast to TNCs from other BRICS countries, the main aim of Russian TNCs is not simply to secure the supply of raw materials to their home country, but also to expand their control over the value chains of their own natural resources, to build sustainable competitive advantages vis-à-vis other firms, and to strengthen their market positions in key developing countries. For example Rosneft formed joint-venture with CNPC (China) to develop oil extraction projects in the Russian Federation and downstream operations in China.

BRICS investments in Africa

BRICS countries are significant investors in Africa. The BRICS' share in the continent's FDI stock and flows reached 14% and 25%, respectively, in 2010 (table 3). This trend is likely to be reinforced in the future. The rapid economic growth and industrial upgrading currently taking place in BRICS countries provide ample opportunities for their firms to seek opportunities to invest in Africa, including in manufacturing and services sectors. Indeed, the rise of FDI in manufacturing, which has positive consequences for job creation and industrial growth, is becoming an important facet of South–South economic cooperation.

Table 3. Estimated FDI flows and stock to African countries, 2010

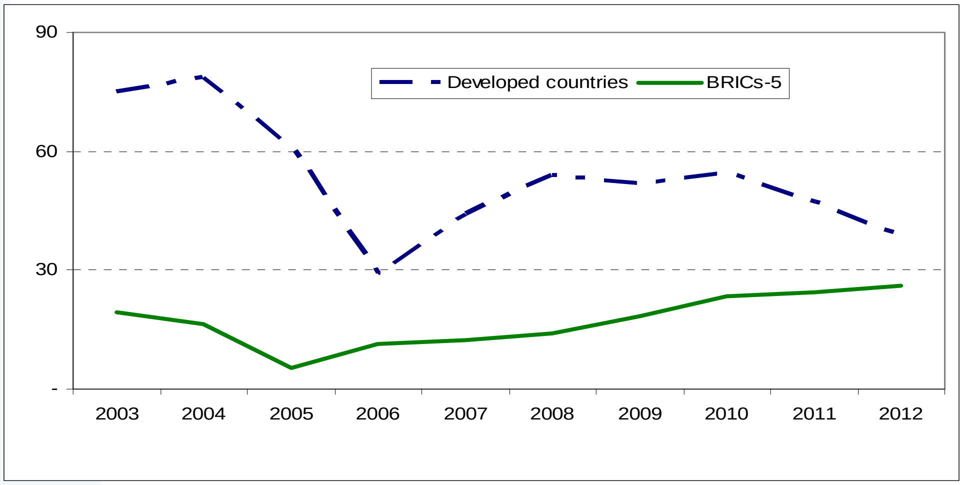
	Millions of dollars		**Share in total (%)**	
Home region	Flows	Stock	Flows	Stock
Total world	39 540	308 739	100	100
Developed countries	26 730	237 841	68	77
European Union	16 218	155 972	41	51
North America	9 281	53 412	23	17
Developing economies	12 635	68 890	32	22
Asia	9 332	50 077	24	16
South-East Europe and CIS	175	2 007	0	1
Memorandum				
BRICS	10 007	42 583	25	14

Source: UNCTAD, FDI/TNC database.

Note: Totals are based on outward FDI flows and stock to Africa as reported by the home countries and cover only those countries reporting outward FDI flows and stock to Africa in 2010.

Data on greenfield investment – the main mode of investment in Africa – confirm the significance of BRICS countries to investment projects in Africa. The share of this group of countries in Africa total value of greenfield projects rose from 19% in 2003 to more than one quarter in 2012 (figure 4).

Figure 4. The share of BRICS and developed countries in greenfield FDI projects in Africa, 2003-2012,
(Per cent)

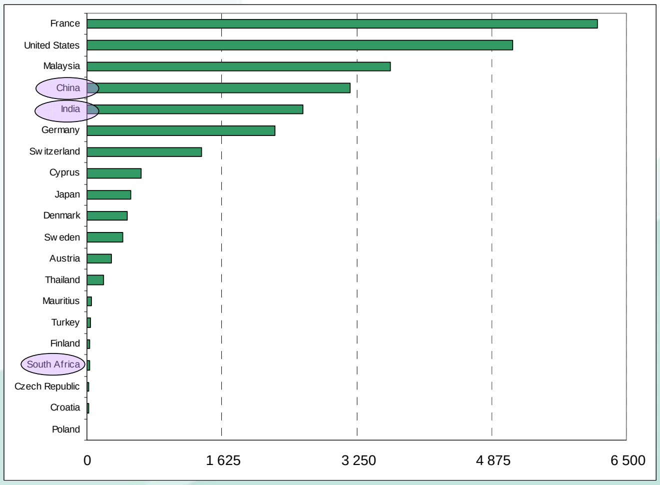


Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).
Note: Data refer to estimated amounts of capital investment. Data for 2012 are preliminary.

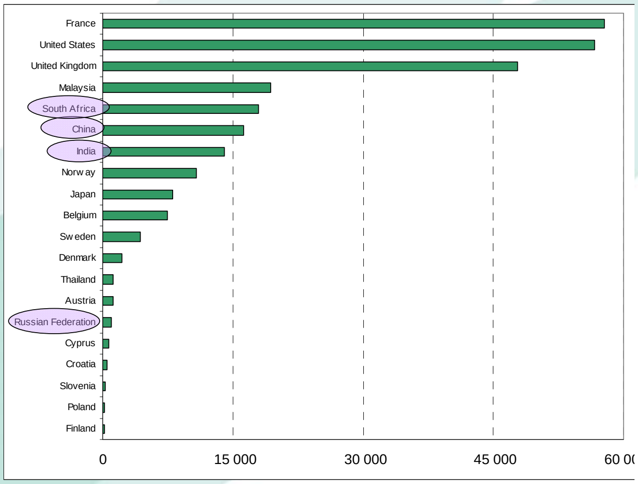
Four of the BRICS countries – South Africa, China, India and the Russian Federation – have grown to rank among the top investing countries in Africa on FDI stock and flows (figure 5).

Figure 5. Top 20 investors in Africa, 2011
(Millions of US dollars)

FDI flows



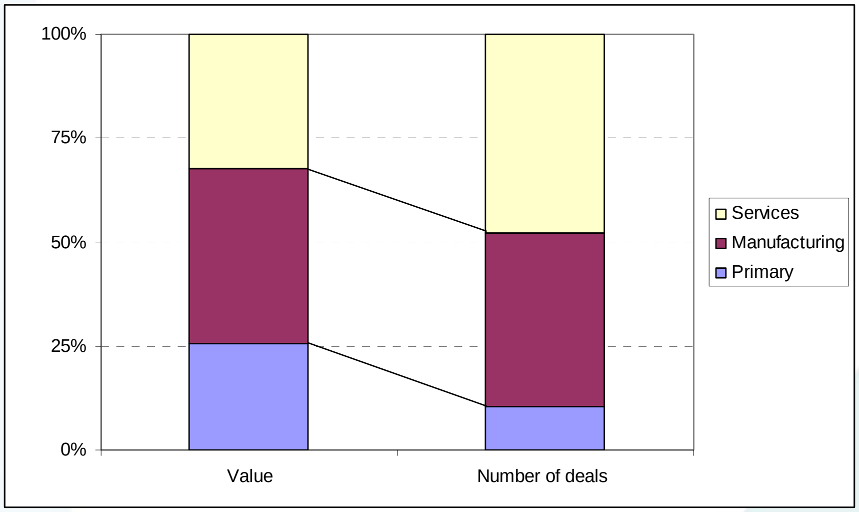
FDI stock



Source: UNCTAD, FDI/TNC database.
Note: Data shown are only for those countries reporting outward FDI to Africa in 2011.

When measured in value, one fourth of the investments in the region from BRICS are in the primary sector (figure 6), and often involve state-owned enterprises such as CNOOC (China) and ONGC (India). The largest number of investment projects undertaken by Chinese and Indian investors, however, are in the services and manufacturing sectors; 80% of Indian investments in eight East African countries, for example, are in these sectors. While labour costs in Africa may not differ significantly from those in the firms' home economies, the duty-free, quota-free access of African countries through initiatives such as the United States' African Growth and Opportunity Act (AGOA), the European Union's (EU's) Everything But Arms (EBA) and China's zero-tariff measures for African LDCs (least developed countries) or selected African countries have generated some manufacturing or efficiency-seeking investment.

Figure 6. Sectoral distribution of FDI projects, by value and number, 2003-2012
(per cent)



Source: UNCTAD, cross-border M&A database for M&As; and information from the Financial Times Ltd, fDi Markets (http://www.fDimarkets.com) for greenfield projects.
Note: Data for the value of greenfield FDI projects refer to estimated amounts of capital investment. Data for 2012 are preliminary.

As far as individual BRICS countries are concerned, although relatively limited, *Brazilian* FDI to Africa has been on the rise in recent years, with public financial institutions playing an important role in bringing the country closer to Africa. Among these, the Brazilian Development Bank (BNDES) deserves special mention as its incentives and disbursements to Sub-Saharan Africa have strongly increased over the past decade. It has played a key role in the expansion of Brazilian businesses in the new African ethanol industry, in countries like Angola, Ghana and Mozambique, which became important players in the expansion of worldwide biofuel supply. In other activities, Banco do Brasil and Bradesco in partnership with the Portuguese Banco Espírito Santo have been supporting Brazilian companies in Africa, while the Brazilian Caixa Econômica Federal has been supporting the development of housing projects in Angola and Mozambique.

Chinese FDI stock in Africa stood at US$16 billion by the end of 2011. South Africa is the leading recipient of Chinese FDI in the continent, followed by Sudan, Nigeria, Zambia and Algeria. China has joined the ranks of top investing countries in some LDCs, such as Sudan and Zambia. Apart from resources-seeking FDI, rapid industrial upgrading currently taking place in China provides opportunities for these countries to attract FDI in manufacturing.

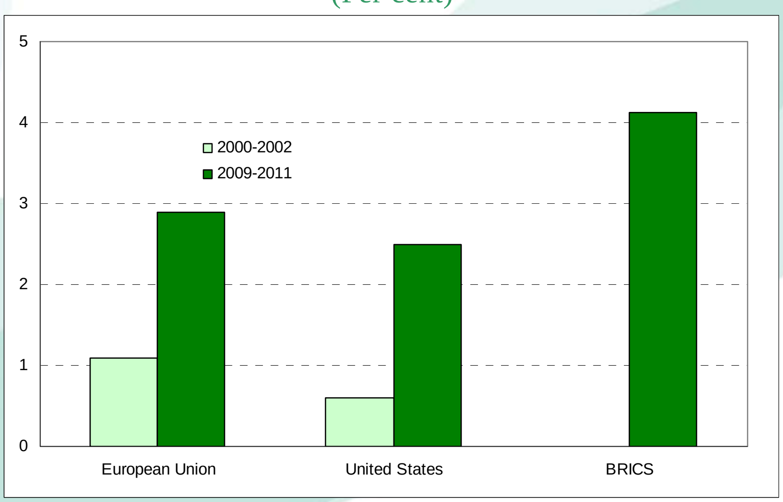
With US$18 billion, *South Africa* was the fifth largest holder of FDI stocks in Africa in 2011 and the second largest developing country – after Malaysia. The majority of this outward stock could be attributed to reinvested earnings in the private non-banking sector. Most of the outward FDI stock in Africa is held in Mauritius. A significant amount of FDI stock are also present in Nigeria and in two of South Africa's neighbours: Mozambique and Zimbabwe. Mining is the sector in Africa that has attracted the largest volumes of FDI in terms of value, but the sectoral distribution of the outward investment has been more diversified from the perspective of number of projects.

Indian FDI in Africa has traditionally been concentrated in Mauritius, taking advantage of the latter country's offshore financial facilities and favourable tax conditions; as a result, the final destinations of these investments have often been elsewhere. Indian investors have, however, been investing in other countries in the region, too, such as Côte d'Ivoire, Senegal and Sudan. In 2010, India's Bharti Airtel acquired the African mobile phone networks of Kuwait's Zain for US$10.7 billion (the value of which is recorded outside Africa). India's total FDI stock in Africa stood at about US$14 billion, making the country the seventh largest investor in the continent.

The expansion of *Russian* TNCs in Africa is fairly recent but rapid, reaching US$1 billion in 2011. The arrival of Russian TNCs has been motivated by a desire to enhance raw-material supplies and to expand to new segments of strategic commodities, as well as a desire to access local markets. For example Rusal, the world's largest aluminium producer, has operations in Angola, Guinea, Nigeria and South Africa. Russian banks are also moving into Africa. Vneshtorgbank for instance opened the first foreign majority-owned bank in Angola, and then moved into Namibia and Côte d'Ivoire, while the Russian Renaissance Capital owns 25% of the shares in Ecobank, one of the largest Nigerian banks.

Another perspective on BRICS FDI to Africa is provided by examining the relative importance of FDI in the continent in the total outward FDI of the BRICS. While in the early 2000s, FDI from the BRICS countries to Africa only accounted for a negligible share of the group's total outward FDI flows, by 2009-2011 it rose to 4%, which is higher than the share of Africa in the outward investment of TNCs from the United States and EU (figure 7).

Figure 7. Share of Africa in outflows of the European Union, United States and BRICS, 2000-2002 and 2009-2011
(Per cent)



Source: UNCTAD.

Concluding remarks: some questions for policymakers

The previous sections have provided background information on broad FDI patterns in BRICS countries, on intra-BRICS FDI, and on BRICS investments in Africa. A number of questions emerge for a broad policy discussion:

- Why is intra-BRICS FDI relatively limited?
- What policies would favour greater intra-BRICS economic cooperation in the area of investment?

…and:

- What are the prospects for further investment in productive capacity by BRICS in Africa?
- What policies by BRICS countries could favour investment in Africa in sectors that can make a particular contribution to productive capacity building and employment generation, including:
  - infrastructure development
  - manufacturing and services investments
  - investments beneficial to local enterprise development (operations with significant local linkages, financial sector investment improving access to finance etc.)
- What policies by BRICS countries could help ensure that investment in Africa is conducive to inclusive and sustainable development?