Emerging Economies and Africa's Natural Resources: Avoiding the "Resource Curse" and Building More Resilient Societies

by

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Africa finds itself at the epicentre of the global scramble for natural resources. It is known to hold about 30 per cent of world's mineral reserves and produce more than 60 different types of minerals, metals, and ores. At the end of 2010, 17 of the 53 African countries produced and exported oil. Recent discoveries of oil in Uganda, Kenya, Tanzania, Mozambique, and Liberia have further raised the profile of the continent (Ramdoo 2012). While traditional Western development partners remain dominant in Africa's extractive sectors, emerging economies have become major investors in, as well as consumers of, Africa's natural resources. The abundance of natural resources offers immense opportunities if associated challenges can be mitigated. Appropriate policy responses to the rise of emerging economies in Africa are necessary to make sure that African people benefit from the scramble.

This policy brief examines emerging economies' impacts on the governance and management of Africa's extractive sectors in the short and medium terms. It proposes policy recommendations to ensure that the continent is not shortchanged in the scramble and resource rents are smartly invested for the benefit of African people. This brief is based on a longer paper that was presented at the NSI Forum on Governing Natural Resources for Africa's Development, held on May 9th and 10th, 2013.

BRICS-Africa Relations: Key vectors of interactions

The three key vectors of interaction between emerging economies and Africa are trade, foreign direct investment (FDI), and development assistance. China and India in particular have taken strategic approaches to deepening their relationships with African countries. They both bundle their trade, FDI, and aid in order to secure long-term supplies of energy and other resources for their growing economies and capture significant portions of Africa's growing market in goods and services. The salience of each of the three vectors of interaction between these two groups of countries should be assessed in turn.

Trade

The number of African countries with which each emerging economy conducts trade varies greatly and the scope of engagements is constantly changing. African countries' share of trade volume with emerging economies has increased from 23 per cent in 2000 to 36.5 per cent in 2009. In nominal terms, the value of trade between the two groups of countries grew from approximately US$247 billion in 2000 to US$629 billion in 2009. China's share of trade with Africa improved from 4.7 per cent in 2000 to 13.9 per cent by 2009, surpassing the United States' share of trade with the continent. During the same period, the combined trade share of traditional Western partners shrank from around 77 per cent to 63.5 per cent (AfDB, OECD, UNDP, and UNECA 2011, 97). Of all emerging economies, China is currently Africa's largest trading partner with a 38.5 per cent share of Africa's total trade with this group of countries, but the combined volume of trade by other key emerging economies—India (14.1 per cent), South Korea (7.2 per cent), Brazil (7.1 per cent), and Turkey (6.5 per cent)—comes close in importance (AfDB, OECD, UNDP, and UNECA 2011, 103).

Table 1. Composition of African trade to Emerging Economies by Sector, 2009

	Mineral fuel and lubricants (%)	Crude material excluding food and fuels (%)
China	60.8	17.9
India	66.0	7.3
South Korea	57.2	12.0
Brazil	87.4	1.3
Turkey	25.9	7.6
Thailand	37.4	21.5
Singapore	22.7	3.2
Malaysia	31.6	25.1
Indonesia	67.7	15.2
Other countries	39.7	10.9

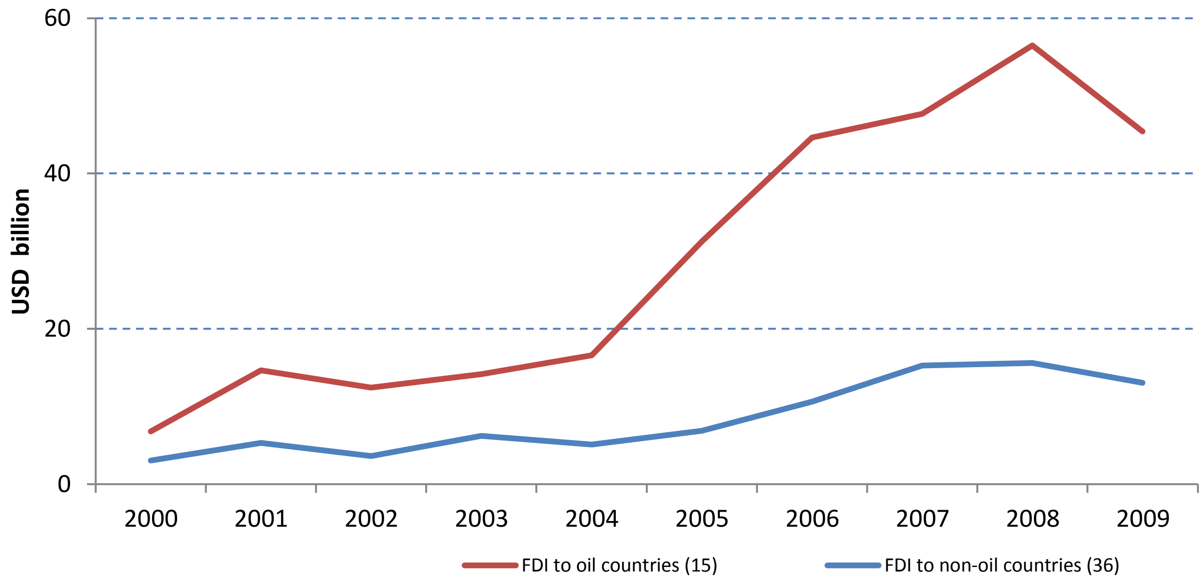
Source: AfDB, OECD, UNDP, and UNECA (2011, 108)

The total volume of trade between emerging economies and Africa can be misleading. A handful of African countries account for a large proportion of the continent's exports to emerging economies. In 2008, for example, the top five African oil exporters—Nigeria, Angola, Sudan, Equatorial Guinea, and Algeria—accounted for 67.5 per cent of Africa's total exports and the top 10 accounted for 89.2 per cent. Moreover, as shown in Table 1, the composition of Africa's exports to emerging economies is dominated by mineral fuel and lubricants, which include many petroleum products, as well as precious stones and other raw materials, a pattern that is similar to the composition of Africa's exports to traditional Western partners. African imports from emerging economies are dominated by manufactured goods, industrial products, and consumer goods—a pattern that is reminiscent of the old colonial division of labour (AfDB, OECD, UNDP, and UNECA 2011, 106–08).

Foreign Direct Investment

Despite the global slowdown, sub-Saharan Africa witnessed an estimated 25 per cent increase in FDI in 2011 on the year before. Besides big investors like China and India, other emerging economies such as Malaysia, Singapore, Hong Kong, South Korea, Taiwan, Thailand, and Vietnam have been investing in oil-exporting African countries (UNCTAD 2010; AfDB, OECD, UNDP, and UNECA 2011). A large share of FDI goes to extractive industries in a small number of these countries. In 2011, 15 received 75 per cent of FDI flows. These countries include South Africa, Nigeria, Angola, Sudan, the Democratic Republic of the Congo (DRC), Gabon, and Zambia. Investors from emerging economies are principally seeking natural resources and resource-based investments remain the dominant form of FDI to Africa, though FDI is indeed flowing to other sectors such as transportation, communication, infrastructure, and agriculture. FDI flows by country type are broken down in Figure 1.

Figure 1. FDI Flows to Oil-exporting and Non-oil-exporting African Countries



Source: UNCTAD (2013), author's calculations

A good picture of the magnitude of FDI flows to Africa is gained by observing trends in the continent's share of the global distribution of greenfield FDI projects—investments in commerce-related facilities where no previous facilities exist—as well as cross-border mergers and acquisitions. According to the most recent figures from the United Nations Conference on Trade and Development, the number of greenfield projects in Africa increased from 26 in 2003 to 125 in 2008 (UNCTAD 2012, 39). Between 2006 and 2010, foreign mergers and acquisitions in Africa were valued at US$29.6 billion. Deals by China, India, and Brazil represented three out of the five top mergers and acquisitions activities in 2010 (AfDB, OECD, UNDP, and UNECA 2011).

Development Assistance

Estimates of emerging economies' financial flows to Africa vary considerably and are sometimes contradictory. Some sources provide data on commitments and others on disbursements. Moreover, it is often difficult to differentiate export credits from concessional loans and resource-for-infrastructure deals. Despite these data-related challenges, however, three important trends are discernible.

- Unlike traditional Western partners, emerging economies provide more support in the form of concessional loans rather than grants. For example, both China and India extend concessional loans and export buyers' credit to Africa through their respective export-import banks.
- A large proportion of emerging economies' aid to Africa comes in the form of technical assistance tied to project support (UNCTAD 2010, 62). Direct transfer of financial resources to the treasuries of African governments in the form of untied general budget support does not happen. For some countries, like Brazil, such transfers are forbidden by law.
- Emerging economies tend to provide support to the infrastructure and productive sectors, while traditional partners increasingly target the social sector and promote broad macroeconomic and sectoral reforms (UNCTAD 2010, 57; Cheru and Modi 2013).

What is clear is that, unlike traditional Western partners, emerging economies strategically integrate trade, FDI, and aid more closely to achieve their respective national objectives (UNCTAD 2010, 54). Despite the rhetoric of non-interference and non-conditionality, emerging economies impose non-policy conditions, such as access to natural resources or the purchase of goods and services. They also do not adhere or subscribe to the Organisation for Economic Co-operation and Development's Development Assistance Committee's best practices on aid, which include country ownership, harmonization, mutual accountability, and results orientation. In short, trade, investment, and aid policies are the glue that sustain asymmetrical relationships between emerging economies and African countries.

Focus of the Scramble: Minerals, oil, and land

Emerging economies are competing in Africa for three crucial resources—minerals, oil, and land. The scramble for each should be assessed in turn.

Minerals

Minerals are at the heart of Africa's burgeoning relationship with emerging economies. Not only have they accounted for the bulk of the trade growth between Africa and these countries, Africa's extractive sectors have absorbed most of the FDI flows from these countries. Table 2 presents a partial listing of Chinese investments in African mining. A close look at the information reveals that many Chinese companies' entries into Africa's extractive sectors have been facilitated by the Export-Import Bank of China, the China Development Bank (CDB), and its specialized agency, the China-Africa Development Fund (CAD Fund).

Table 2. Top China-Africa Mining Investments, 2008–10

Project	Country	Financiers and Sponsors	Value
Sicomines-Gécamines Katanga copper project	DRC	Sicomines, Gécamines, and Export-Import Bank of China	$3 billion
China Union Bong iron ore deposit	Liberia	Wuhan Iron and Steel bought 60% of China Union, in part from CAD Fund, which held 48%	$2.6 billion
Tonkolili iron ore mine	Sierra Leone	Shandong Iron and Steel bought 25% stake in African Minerals projects	$1.5 billion
Simandou iron ore project	Guinea	Chinalco invested in a joint venture with Rio Tinto	$1.3 billion
Frischgewaagd-Ledig platinum group metals project	South Africa	$227 million equity injected by Jinchuan and CAD Fund and $650 million contributed through debt financing from CDB	$877 million
Bosai Minerals bauxite and alumina refinery	Ghana	Bosai Minerals joint venture with CAD Fund, financed by CDB	$1.2 billion
Luanshya copper mine and Chambishi Metals smelter	Zambia	China Nonferrous Mining Company	$600 million
African Minerals projects	Sierra Leone	China Railway Materials Commercial Corp. acquired 12.5% stake in African Minerals	$232 million
Société des Mines d'Azélik uranium operation	Niger	Joint venture between China National Uranium Corp. and Niger government	$95 million

Note: All figures are in US dollars. Source: Edinger and Pistorius (2011); http://www.docstoc.com/docs/109618113/Financing-mining-related-infrastructure-30-Nov-2011, p. 38.

Despite its rich natural resource endowments, Africa continues to suffer from high incidences of poverty and underdevelopment due to limited institutional, legal, and human capacities that hinder governments and populations from achieving broad-based development and structural transformation. These limited capacities are related to three critical challenges. The first is the challenge of creating linkages between mineral resource sectors and other sectors of economies through beneficiation, value addition, and intra-firm transactions. The second challenge involves how to effectively use resource rents to catalyze broad-based development. The third challenge has to do with the equitable sharing of resource rents between mining companies and host country governments—through various legal and illegal means, resource rents are not distributed equally. As a result of these challenges, both governments and populations lose out from the extraction of natural resources.

Oil and Gas

Asian energy companies in particular are both investors in African oil and gas sectors as well as consumers. Much attention has been paid to the competition for African oil by China and India, but a number of companies from other emerging Asian economies—Malaysia, South Korea, Thailand, and Taiwan—have also been heavily engaged in the exploration for, processing of, and export of African oil to their respective home countries as well as world markets (Vines et al. 2009).

In the specific cases of China and India, large state-owned oil and gas companies such as the China National Petroleum Corporation, Sinopec, the China National Offshore Oil Corporation, and the Oil and Natural Gas Corporation of India are important players in African energy sectors. With substantial state support, these companies have expanded their operations in Africa through mergers and acquisitions and participation in major capital projects. Lines of credit from the Export-Import Banks of China and India have regularly been used by Chinese and Indian oil companies to win competitive bidding processes and public tenders and secure drilling rights.

Land, Water, and Forest Resources

The latest frontier for FDI has been Africa's vast agricultural land. The rush to secure productive land to grow food, raw materials, and biofuels accelerated after global food and energy prices spiked in 2007–08. The Gulf states, Brazil, India, China, and South Korea have become major investors in African agriculture in recent years (Cheru and Modi 2013; Cotula et al. 2009). Although reliable figures on the amount of arable African land that has been leased to foreign investors are hard to come by, the

Food and Agriculture Organization of the United Nations estimates that more than 20 million hectares of African agricultural land were acquired by foreign investors between 2007 and 2010 (FAO 2011).

Increases in land transactions in Africa have raised concerns about their appropriateness and how to maximize development outcomes. Ongoing priority issues include long-term food security challenges, property rights protection for investors and local communities, particularly the rights of vulnerable and marginalized groups, inadequate capacities to structure complex land deals, lack of transparency, and potential for corruption (Baxter 2011a,b; Horne 2011). Fears of escalating social tensions spurred the African Union to adopt a framework on large-scale land deals in 2009 that urges African governments to take balanced approaches without compromising the needs of local communities to ensure food security (AU, AfDB, and UNECA 2010).

Foreign investments in agricultural African land bring with them many challenges, but they also offer Africa opportunities to address its yield gap through enhanced agricultural technologies, infrastructure, mechanization, market access, and value addition that can play an important role in boosting productivity and output. One challenge that must be addressed is moving agriculture along a transformational path without undermining land rights and livelihoods in local communities where large-scale land acquisitions are planned and executed. Another is ensuring that small farmers benefit from the expensive infrastructure—roads, irrigation systems, and so on—built to service large-scale farms (Cheru and Modi 2013).

Rebalancing the Unbalanced Rules and the Way Forward

The resources-for-development model that African countries have been following is not working to boost development and realize income equality. This is largely due to asymmetrical relationships between emerging economies, specifically their respective mining and energy companies, and African countries, the governments of which have limited knowledge about how extractive industries truly work. Going forward, African governments should:

- *Develop bargaining capacities*. African governments can do a lot more to garner significant shares of high receipts for commodities through better informed negotiations with mining and energy companies and greater transparency and public accountability to reduce opportunities for corruption. Effective bargaining capacities require knowledge and information. The United Nations Economic Commission for Africa and New Partnership for Africa's Development should assume proactive roles in filling the knowledge and information gaps through research, policy analysis, and monitoring and convene structured dialogues that include African policy-makers and extractive industry representatives.

- *Establish effective and transparent systems for awarding contracts*. Transparency in awarding contracts to foreign investors is a key issue. New legislation that would require public disclosure of the terms and conditions of contracts is needed. Enhancing the capacities of parliaments, civil society organizations, and other stakeholders to scrutinize contracts and monitor the activities of extractive industries is also necessary.

- *Delineate strategic approaches to beneficiation, diversification, and industrialization*. Governments must ensure that foreign investors build necessary infrastructure and industrial capabilities with forward and backward linkages to efficiently extract and process natural resources and promote regional value chains. This entails the adoption of integrated beneficiation, diversification, and industrialization strategies that encourage innovation and pay particular attention to the industries and services associated with inputs in extractive sectors, post-extraction processes, and the industrial uses of resources.

- *Increase transparency in the collection and use of resource rents*. Transparency in the collection of resource rents and accounting of revenue usage is also a key issue. The Extractive Industries Transparency Initiative and Publish What You Pay initiative both aim to increase revenue accountability through full corporate and government disclosure. While the United States and European Union have adopted legislation requiring publicly traded companies to disclose payments made to governments in exchange for oil, gas, and other resources, similar measures have not been taken by emerging economy governments.[1] The governments of resource-rich African countries should therefore prioritize resource revenue transparency as a precondition for signing contracts in their negotiations with emerging economy governments.

- *Implement environmental practices and standards*. Robust environmental practices and standards are woefully lacking in the management of African extractive sectors. These cover broad areas such as exploration, environmental impact analysis, water use and contamination, rehabilitation

[1] In 2010, the US Congress adopted the Dodd-Frank Act, a sweeping financial reform package that includes measures to ensure resource revenue transparency in mineral extraction in the DRC.

and reclamation, and health and safety standards. African governments must adopt new legislation and regulations to ensure that extractive projects do not undermine environmental sustainability or lead to instability and conflict.

- *Strengthen institutions that govern land rights and access to land*. In light of the challenges and opportunities associated with increased foreign interest in African land resources, African governments should adopt appropriate policy frameworks that articulate modalities for access to land by both domestic and foreign investors and recognize the land rights of local communities. The optimal structuring of land deals requires evidence-based, transparent, and consultative negotiations on optimal land sizes and land lease periods, potential costs and benefits and how they are to be distributed and shared, basis for and terms of compensation, and how to ensure that land deals attain their economic, social, and environmental goals.

The success of emerging economies, particularly China and India, in winning access to Africa's natural resources is linked to effective government strategies that combine trade inducements, increased investment flows, and aid largely for infrastructure. Emerging economies remain the main drivers defining the nature and directions of their relationships with African countries. In order to make natural resources a springboard for Africa's industrialization, it is imperative that African governments take the necessary measures to renegotiate the trade-investment-aid complex that keeps them as junior partners in their relations with emerging economy governments.

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