ATLANTIC FUTURE

SCIENTIFIC PAPER

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Continuities and changes in patterns of direct investment flows between South America and Africa

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ABSTRACT

The countries of Africa and South America have been experiencing in the last years a substantial growth in their direct investment flows, deepening their integration into the international economy. Recently, we notice the emergence of new partners, who gained weight in Africa and South America direct investments flows, to the detriment of their traditional partners – the European Union (EU) and the United States (US). Both Africa and South America are diversifying their direct investments towards emerging countries, which includes deepening their own bilateral relationship. The main objective of this paper is to present a general analysis of direct investment relations between South America and Africa, and its relations with the world as well as with the two other important actors in the Atlantic space, the US and the EU. The paper also presents an analysis of Brazilian direct investments in Africa as well as a brief review of South African investments in Brazil.

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1. Introduction

In the last years, the countries of Africa[1] and South America[2] saw their importance as players in the global direct investment flows grow substantially, deepening their integration into the international economy. Between 2000 and 2011 the direct investments inflows to Africa rose almost by 400%, and more than doubled to South America. As for outflows, Africa direct investments abroad rose from US$ 1.5 billion to US$ 5.3 billion, while South American foreign direct investments (FDI) increased from US$ 8 billion to US$ 28 billion (Unctadstat).

In general, investment flows towards Africa focus heavily on the exploitation of natural resources, especially in the oil industry. However, this configuration is changing over time. Since the middle of last decade, some African countries have been going through a greater sector diversification. Countries like Gambia, Ghana, Uganda and Zambia have been receiving more and more projects in the financial, tourism, construction, manufacturing, telecommunications, transportation, commerce and real estate sectors. Throughout the years, the primary sector is losing its participation in foreign mergers and acquisitions in Africa, while the tertiary sector – more specifically transport, storage and communication – is strongly increasing its share (Unctad 2013).

In the case of South America, it also receives great investments in the sector of natural resources. But unlike African countries, sectors like manufacturing, engineering and services of the region are already large recipients of foreign investments. In Brazil, for example, in the last years, most part of the FDI directed to the country focused in technology-intensive industries (CNI 2013).

Recently, we notice the emergence of new partners that gained weight in Africa and South America direct investments flows, to the detriment of their traditional partners – the European Union (EU) and the United States (US). Transnational corporations (TNCs) from developing countries are increasing their activities in both regions, particularly Asian ones. According to the World Investment Report 2010 published by Unctad *"The share of those emerging investors in FDI inflows to Africa increased from an average of 18 per cent in 1995–1999 to 21 per cent for the period 2000–2008".* More recently, in 2012, Malaysia, China and India were the developing-country investors with highest FDI stock in Africa. The presence of China in the continent is becoming even greater every day. Chinese investments in exploration and extraction of oil and other minerals for industrial use are increasingly central to its production of goods.

Both Africa and South America are also diversifying their direct investments towards emerging countries, which includes deepening their own bilateral relationship. Despite not being historically strong partners, investments between both areas have been increasing during the recent years, although still very incipient, specially the investments from Africa to South America. Most part of the FDI outflow of BRICS is located in their respective regions - although this applies more in the case of South Africa and Brazil, and least in the case of Chinese and Indian companies. The most notable case of FDI between both regions is the Brazilian direct investments in some African countries. Recently, Brazil has developed an active strategy of rapprochement

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[1] Africa: Angola; Benin; Cameroon; Cape Verde; Cote d'Ivoire; Dem. Rep. Congo; Rep. Congo; Equatorial Guinea; Gabon; Gambia; Guinea; Guinea-Bissau; Liberia; Mauritania; Morocco; Namibia; Nigeria; Sao Tome and Principe; Senegal; Sierra Leone; South Africa and Togo.

[2] South America: Argentina; Brazil; Colombia; Guyana; Suriname; Trinidad and Tobago; Uruguay and Venezuela.

with African countries with varied motivations, both economic and political. This strategy, which includes initiatives in the area of trade policy and cooperation, occurred simultaneously with the growth of direct investments. This narrowing in investment relations, but also commercial and cooperation, between the countries of both regions has been contributing to a pattern of change, which is shaping the relationships in the Atlantic, making them stronger. In the other direction, that means from Africa to South America, the most important investor in the region is South Africa, especially in Brazil (Iglesias and Costa 2011).

This paper is presented as follows: Section 2 introduces the theme of direct investment flows in the Atlantic, more specifically between South America and Africa taking into account the impacts of their relations (in terms of FDI) with both the United States and the European Union. Section 3 presents an analysis of South America direct investment outflows to the world and Africa, with emphasis in the case of Brazilian investments in the region (Subsection 3.1). Section 4 addresses a general analysis of FDI outflows from Africa to the world and South America, with a brief review of South African investments in Brazil. Finally, the last section presents the conclusions.

2. FDI in the Atlantic

Direct investment flows around the world have increased by 17% between 2000 and 2011. They reached a record of around US$ 2 trillion in 2007 (Table 1) due to two main reasons: high economic growth and strong corporate performance - increased profits of foreign affiliates, notably in developing countries - in many countries around the globe. After this peak, direct investments started to decline because of the recent financial crisis, which has halted, or even reversed, years of economic growth in many countries and slowed the rate of growth in others. On the other hand, as a consequence of the domestic downturn, many firms were encouraged to look for business opportunities abroad, leading to a relevant increase in the number of MNEs around the world (McAllister and Sauvant 2012).

In 2000, 81% of the global direct investment flows went to developed countries - notably the US and the EU -, and 19% to developing economies. However, this situation changed in the last years and in 2011 almost half of these flows went to developing countries (44.5%), including nations in Africa and South America. In terms of participation in the world investments flows (inflows), Africa´s share rose from 0.7% to 2.9%. In 2009, before the worst negative effects of the financial crisis occurred, this share reached 4.4%. South America's share rose from 4% (in 2000) to 8% (in 2011). These data reflects, among other things, the great ability of many developing countries to withstand the worst of the global crisis, displaying greater resilience than developed economies.

Table 1. FDI inflows, by region, 2000-2011 (millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World	1,413,169	836,012	626,081	601,246	734,148	989,618	1,480,587	2,002,695	1,816,398	1,216,475	1,408,537	1,651,511
Developed economies	1,141,586	602,479	445,597	387,501	423,654	621,480	985,888	1,319,893	1,026,531	613,436	696,418	820,008
Developing economies	264,545	224,071	169,212	193,751	280,262	334,526	432,113	589,430	668,439	530,289	637,063	735,212
Africa	9,621	19,943	14,613	18,158	17,370	30,918	36,575	51,274	58,894	52,964	43,582	47,598
South America	57,056	37,853	27,990	22,685	36,885	44,041	43,480	71,672	93,384	56,719	92,134	129,423

Source: Own Elaboration based in Data from Unctadstat

In the case of Africa, a big part of this increase was due to the good economic performance of many countries, which has attracted more and more investors to the continent. Over the last years, Africa´s GDP grew by 5% in average and there is the prospect of an increasingly dynamic African consumer market. According to the World Investment Report 2013, there have been recently some incipient signs of an investor reorientation towards consumer-related manufacturing and service industries. The large amount of mineral resources in the continent and better prices of these products in the international market seem to have been also one of the main reasons for this growth in direct investments in the last decade (till 2009), especially in mining and infrastructure associated with the disposal of natural resources. It is also important to note another factor that has attracted FDI to Africa, especially from developing economies: the tariff preferences. According to Unctad 2013 "*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*".

In South America, the increase of direct investments flows to the region was mainly due to factors such as the high presence of natural resources in the region (oil, gas, metals and minerals) and a fast-expanding middle class, which have been attracting market-seeking FDI to South America. Another important driver for FDI growth to the area has been its relatively high rate of return on investments. Additionally, because of the financial crisis, many firms around the world decided to slow down their investments in developed countries such as Europe and the United States and started to direct them to the South American main economies that, on average, have been less affected by the turmoil in the rest of the world. They were, on average, better prepared than in the past to weather the shocks resulting from the global crisis, with more comfortable fiscal and external positions, and much more resilient financial systems (Unctad 2012).

It is also important to note that both continents had made a strong effort in the end of the 1990s and the beginning of this century to attract more investments. Many countries in Africa have opened their economies to more FDI entry by, for example, facilitating investment startup, abolishing price controls, concluding bilateral investment treaties, or adopting a more prudent macroeconomic management. Many governments around the region also harmonized their investment codes and customs duties. In the case of South America, various countries implemented privatization programs, which influenced heavily the FDI flows into the region. They have significantly modified their national investment regimes making them more liberal; have entered into numerous BITs with developed countries and, increasingly, among themselves. What's more, the opening of the region's economies in the late 1980s and early 1990s also brought a liberalization of investment regimes.

Most of the direct investment flows and stock of foreign capital in Africa keeps coming from developed countries and historically, the most important investors in Africa and South America are the United States and the European Union. Despite that, both Africa and South America represent a small share of their FDI outflows, and in the case of Africa it seems to be slowly declining.

Table 2. United States: FDI outflows, by region, 2001-2011 (millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World	124,873	134,946	129,352	294,905	..	224,220	393,518	308,296	266,955	304,399	396,656
Africa	2,438	-578	2,697	1,611	..	5,157	4,490	3,837	9,447	9,281	5,127
South America	2,839	-3,631	466	4,424	..	6,584	12,765	11,221	9,378	12,603	21,375

.. Data with problem

Source: Own Elaboration based in Data from OECD

In 2001, the US FDI flows to South America were about US$ 3 billion. It did experience a substantial drop in the following years, 2002 and 2003, and then recovered reaching US$ 21.3 billion in 2011. In the case of Africa, the US outflows were around US$ 2.5 billion in 2001. In 2009 and 2010 it reached two records around US$ 9 billion but then it declined to US$ 5 billion in 2011.

Despite the increase in the amount of US FDI flows to Africa in the last decade, its participation in US FDI outflows has declined between 2001 and 2011, from 2% to 1.3%. On the other hand, South America ´s share rose from 2.3% to 5.4%.

In 2004, the direct investments from EU to Africa were US$17 billion. In average, this value increased over the years till 2011 when it declined by 40% to US$ 10 billion. The share of Africa in European Union total outflows has also decreased, from 3.8% in 2004 to 1% in 2011[3].

Table 3. European Union 27: FDI outflows, by region, 2004-2011 (millions of dollars)

	2004	2005	2006	2007	2008	2009	2010	2011
World	458,344	832,016	1,103,717	1,749,322	1,346,711	850,927	775,490	1,009,132
Africa	17,257	20,253	14,736	22,894	33,568	27,991	27,198	10,206
South America	10,105	13,764	16,276	26,414	29,027	17,808	68,217	47,262

Source: Own Elaboration based in Data from Eurostat

The direct investments from the EU to South America rose by 370% - from US$ 10 billion in 2004 to US$ 47 billion in 2011. The participation of the region in the EU's outward investments also increased in the period from 2.2% to 4.7%. In 2008 it reached 8.8%.

The negative effects of the financial crisis on Europe and the United States were one of the main reasons for the declining share of Africa in both Europe and United States direct investments outflows. Several European banks most active in Africa, for example, had their funds to finance operations in the region considerably reduced.

The reduction of Europe and US presence in Africa seemed to give more room for the Transnational Corporations (TNCs) from the developing countries to increase their activities in the region. Asian countries, like China and India, are getting more and more active in Africa and South America countries.

The financial crisis also has encouraged the inflows of, for example, Chinese capital to Africa and South America, for two other reasons. The first one was that the reduction of the consumption capacity of the population in these countries (EU and US) led Chinese companies to look for new consumer markets to exploit. The second reason was the subsequent drop in market value of assets of companies, mainly European, overseas. This devaluation seemed to have created an advantage for Chinese companies to buy assets in developing markets. In sum, the crisis was set into an opportunity for China to purchase impaired assets of European and American firms in developing countries, especially in South American countries like Brazil (Cebc 2013).

[3] The data concerning the FDI from EU to Africa and South America are not available before 2004.

Investments between South America and Africa are also growing gradually. Brazilian large TNCs as Vale and Petrobras have important investments in African countries such as Angola - the main receptor of Brazilian investments in the continent -, Nigeria and South Africa (Vilas-Bôas 2011). Intraregional investments are becoming more and more important as well, and are growing quickly, notably from South Africa to other countries of the continent. Its propensity to invest at regional level has been very high. Other countries such as Ghana, Kenya, Mauritius, Nigeria, Senegal and Togo, have also significant investments in the region (Bhinda and Martin 2009).

Box - The presence of China in Africa and South America

In recent years, especially since 2005, Chinese direct investments abroad accelerated strongly. More recently, since 2009, these investments have been directed particularly to regions such as South America and Africa (Apex, 2012).

The main drivers of Chinese FDI are the search for natural resources, the access to consumer markets and the facilitation of the process of creating leading Chinese companies in strategic sectors. The expansion of its economy implies a growing demand for resources, including natural ones, such as oil and minerals. To give an idea, China currently consumes about 20% of the world's resources of aluminum and copper, and 30% of steel and coal. Moreover, around half of iron ore, shipped globally, is absorbed by China, and the country is the second biggest global oil consumer after the US (Sandrey and Edinger 2011). In addition, in a few years China will lose its self-sufficiency in food production for domestic consumption. In this sense, the country sees South America and Africa as means of sustaining its rapid process of industrialization and economic growth and also two potential consumer markets for its industrial products. China seems also to believe that the relationship with the countries in both regions is a way to ensure the supply of certain commodities for its domestic market as well as the supply of natural resources for its industry.

Chinese investment flows toward these two continents are quite diverse in terms of sector and kind of investment. In the case of Africa, for example, by following its worldwide standard, Chinese investments are concentrated heavily in the primary sector, mainly in the oil industry, therefore, predominantly in resource-seeking. According to the data of the African Economic Outlook 2011, only 15 African countries, all oil exporters, received alone 75% of the FDI directed to the whole continent. Most of these countries are located in North Africa. The FDI from China to Africa has followed the same movement. Between 2000 and 2010, about 75% of China's FDI in Africa was directed to oil-exporting countries. However, this pattern has been changing. Recently, there has been a diversification and growth of investments in sectors like infrastructure, retail, clothing, tourism, telecommunications, services and manufactures (Broadman 2008, 2011). The country has invested in major projects in the hydroelectric and transport sectors. By all indications, China’s goal is to facilitate access to markets and reduce transaction costs. For example, large investments in infrastructure in Zambia are linked to China's strategic interests in copper supply (Sandrey and Edinger 2011). China also sees in Africa job opportunities for its population (Baah and Jauch 2009).

In relation to South America, Chinese direct investments are divided between resource-seeking and market-seeking. China's great focus in the region has been Brazil. The country, in addition to being an important source of natural resources, also has a large and expanding domestic consumer market, what constitutes a strong appeal for Chinese firms established in their territory. In addition, good macroeconomic conditions and favorable policies make the country a strategic location for the installation of companies that seek to exploit natural resources and serve the consumer market, not just from Brazil but also from other South American countries.

The sectors in the region, particularly in Brazil, that have received more investments from China, are: energy (oil and gas), electricity and mining, electronics, telecommunications, production of equipment for the automotive sector and production of machinery and equipment.

In both regions, if on one side the Chinese presence meant a boost to its development, since, among other advantages, Chinese companies tend to enter new markets, creating new facilities and doing business, on the other side it brings some problems with them.

In the case of Africa, for example, they tend to use mainly Chinese labor. These employees rarely receive incentives of Chinese companies to integrate themselves into the African economy and society. Furthermore, the portion of the African population that works for these firms usually does so through informal employment, receive very low remuneration and face poor working conditions. Some African countries have also expressed growing concerns about the quality of some infrastructure projects carried out by Chinese companies. These worries often relate to non-compliance with standards, episodes of international corruption and the bad quality of these projects. Another issue is the adoption of a strictly commercial posture on the part of the Asian country, without, for example, any socio-environmental constraints (Renzio et al. 2013; Vieitas and Aboim 2013).

In the case of the South American countries, the biggest concern is with the capacity of the domestic industry of the region to compete with Chinese manufactured products, since Chinese companies give preference to import inputs from their country of origin at the expense of the local markets.

3. South America FDI outflows

In the last decade the direct investments inflows to South American countries have increased significantly - as already mentioned above. Likewise, investments flows from South America to the world also rose. Between 2000 and 2011 South American countries investments abroad increased around 40% in average.

Table 4. South America: FDI outflows, 2000-2011 (millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World	7,731	5,617	7,619	9,805	19,868	19,739	44,879	26,571	39,080	13,845	46,493	41,893
Africa	178	419	276	284	404	662	650	886	1,268	1,516	1,416	914
% Africa/World	2.30	7.46	3.62	2.90	2.03	3.35	1.45	3.33	3.24	10.95	3.05	2.18

Source: Own Elaboration based in Data from Unctad

The economic liberalization in the 1990s was one of the most important causes of this process. It boosted South American firms to increase their productivity and modernize themselves in order to create conditions to compete with imports. As a result, some local firms disappeared, but others consolidated and expanded overseas. This movement promoted the creation of large TNCs in the region (the so-called *multilatinas*).

The improved regional macroeconomic environment, robust growth and structural factors such as current account surplus, reductions in the cost of credit, and abundant natural resources, were also causes of the expansion of South America direct investments abroad in the period.

In this context, Brazil has emerged as the main foreign investor of the area. The internationalization of its companies has the support of the country´s Development Bank - BNDES. The Bank has a specific credit line for this purpose, despite the fact that the access of the county´s TNCs to domestic finance is still limited and most have to use their own capital or rely on foreign funding.

The participation of African countries in South America FDI is still very incipient though investments flows to the continent have increased almost six times in the period. The only investor from the region in Africa with any relevance is Brazil, the largest economy of the region. In 2011, for example, almost 100% of the investments from South America in the continent were Brazilian.

Although Africa does not yet have a prominent position in terms of preferred location of the main Brazilian TNCs - in 2011 Brazil has invested US$ 608 million in the continent, around 5% of its total direct investments outflows. Recently there has been a rapid growth in the establishment or expansion of these companies on the continent, and the region represented the third highest growth as a destination for Brazilian direct investments (Fundação Dom Cabral 2010).

The most important factor that attracts the Brazilian firms to the continent is the possibility to explore its potential in the sectors of oil, mining and civil construction, which are nowadays the ones that receive more investments by Brazilian firms. Besides that, the potential of the continent consumer market for the Brazilian products and services, and the opportunity to benefit from the trade agreement ACP (Africa-Caribbean-Pacific) between the European Union and the former colonies to export to the EU market under special conditions are also great attractive for Brazilian investments in some countries of the region (Iglesias and Costa 2011).

Brazil also has several initiatives of cooperation and trade promotion that have contributed to the expansion of its company's investments on the continent. The country has training centers in Angola, Cape Verde and Guinea-Bissau. This cooperation has helped to facilitate the operation of Brazilian companies in Africa through the implementation of local workforce training programs. The Brazilian government has also trade promotion activities through APEX (Brazil's Agency for Export Promotion). The Brazilian presence in Angola in particular is very important: it ranks among the top three more important and influential countries in this oil-rich African state. And Brazil-based TNC Odebrecht, for example, is one of Angola's largest employers.

Despite the growing interest of Brazil in Africa it still faces lots of difficulties such as the lack of knowledge of the African reality, credit constraints, lack of good infrastructure for the transport of passengers and goods, as well as corruption and poor juridical security in many African countries. But it is hard to make generalizations about the investment climate in African countries, as it is not a homogeneous continent.

3.1 The case of Brazilian direct investments in Africa[4]

3.3.1 An overview

Currently, around twenty five Brazilian companies operate in twenty seven countries on the African continent (BNDES, 2012). The relationship between the Brazilian firms and some African countries is not new for the major companies of the South American country with investments on the continent. Despite doing business in the region for many decades, most of these firms only expanded their activities there in the past decade, attracted largely by the natural resources vast availability and demand for infrastructure works, with large projects focused on energy (generation, transmission and distribution) and logistics (Vieitas and Aboim 2013). Furthermore, it was during this period that the internationalization process of some of them acquired intensity. Also, until recently the investment projects and strategies suffered both from the high political instability within the continent and from economic difficulties and payment problems of some countries, especially those located in the Sub-Saharan area, which, however, were partly overcome in recent years.

According to the last ranking of Brazilian transnational corporations published in 2013 by *Fundação Dom Cabral (FDC)*, around 30.16% of the Brazilian companies have franchises or subsidiaries in Africa. The region ranks the sixth place in terms of preference of location for the main Brazilian transnational corporations, behind South America, Central America and Caribbean, Europe, Asia and North America. Despite its low position in this ranking, the importance of the African continent has been increasing recently, since the region presented the third largest growth in terms of Brazilian direct investment destination (FDC 2010). Moreover, in 2012 all new countries selected by Brazilian companies to make investments in that year were African countries: Cape Verde, Ghana, Morocco and Tunisia. These countries had never had Brazilian investments before (FDC 2013).

Investments made by Brazilian companies on the African continent are concentrated in only three countries: South Africa, Angola and Mozambique. It is important to note that the first two countries border the Atlantic Ocean, as Brazil does (BNDES 2012). The presence of Brazilian companies in South Africa can be explained mainly by the fact that the country is the most developed economy of the region and it owns the largest consumer market of the whole continent. In the case of Angola and Mozambique, three main factors contribute to the strong presence of Brazilian firms in their territories. These countries speak the same language that Brazil, which facilitates business, mainly in Angola, where the Brazilian companies are present since the 1980's. The relation between Brazilian companies and Portuguese firms working in the region is also an important factor due to the history of Brazilian colonization. And, finally, both countries are rich in natural resources and lacking in infrastructure, sectors in which Brazilian companies act strongly on the continent, as we will see below. It is important to note that between these three countries Angola is the main recipient of Brazilian investments in the African continent (Vilas-Bôas 2011). The country hosts 58% of the Brazilian companies present in Africa, in addition to being the only African country with Brazilian franchises (FDC 2013). One of the largest facilitators of their relation with Angola was the government of Brazil since it has exercised, in the last years, especially

[4] This section builds on Iglesias and Costa 2011. The article analyzes the strategies and constraints faced by Brazilian firms in Africa through seven interviews with companies that have investments in the continent. Companies in the oil, mining, construction, transportation equipment, engines and farming were interviewed (see Annex 1).

in the terms of President Lula, a policy of rapprochement with the country, helping Brazilian companies to settle there.

The civil construction segment is the one with the largest number of Brazilian companies in Africa. Among the twenty-five Brazilian companies with a presence on the continent, nine of them belong to this segment and operate in seventeen of the twenty-seven African countries that host Brazilian investments. Angola, Mozambique and Libya are the countries with the highest concentration of Brazilian companies in the segment of civil construction (BNDES 2012). The petrochemical and mining industries are also important.

Brazilian companies in African countries bordered by the Atlantic

Countries	# Firms	Activity Sector	Companies
South Africa	8	Civil construction, mining, truck and car bodies, electric motors and IT	Camargo Corrêa; Magnesita; Marcopolo; Marfrig; Randon; Stefanini; Vale; WEG
Angola	13	Civil construction, mining, exploration and production of oil and gas and IT	Andrade Gutierrez; Asperbras; Camargo Corrêa; Engevix; ETH; Fidens; Galvão; OAS; Odebrecht; Petrobras; Queiroz Galvão; Stefanini; Vale
Benin	1	Exploration and production of oil and gas	Petrobras
Cape Verde	1	Civil construction	Camargo Corrêa
Cameroon	1	Civil construction	Andrade Gutierrez
Congo	2	Civil construction	Andrade Gutierrez; OAS
Gabon	2	Exploration and production of oil and gas and mining	Petrobras; Vale
Ghana	2	R & D in agriculture and Civil construction	Embrapa; Odebrecht
Guinea	3	Civil construction and mining	Andrade Gutierrez; Odebrecht; Vale
Guinea-Bissau	1	Industrial installations	Asperbras
Equatorial Guinea	2	Civil construction	Andrade Gutierrez; A.R.G.
Liberia	2	Civil construction and mining	Odebrecht; Vale
Morocco	1	Civil construction	Camargo Corrêa
Namibia	3	Exploration and production of oil and gas	Cowan; HRT; Petrobras
Nigeria	1	Exploration and production of oil and gas	Petrobras
Dem. Rep. of Congo	1	Mining	Vale
Senegal	1	R & D in agriculture	Embrapa

Source: Own Elaboration based in BNDES 2012

One of the factors that contribute the most to the Brazilian presence in Africa, especially in the sectors of civil construction and mineral extraction, are alliances between companies (FDC 2011). For example, some engineering companies have been doing infrastructure works in African countries by invitation of mining companies. The strategy "follow the customer" has also led companies in the information technology industry to meet Brazilian corporate customers in their subsidiaries in the region. Due to institutional and logistical difficulties of doing business in the region, Brazilian direct investments in Africa were concentrated amongst large corporations. However, recently the major projects developed by these companies have also attracted a segment of smaller firms, from their respective supplier chains (Vieitas and Aboim 2013).

Efforts in the area of trade promotion and cooperation have also contributed to the expansion of investments from Brazilian companies in Africa. A Brazilian private institution of public interest that acts into forming and qualifying professionals to meet the needs of industry in different segments known as *Senai* (*Serviço Nacional de Aprendizagem Industrial*) has already put into operation professional training centres in Angola, Cape Verde, and Guinea-Bissau. In turn, the Brazilian Agricultural Research Corporation called *Embrapa*, with offices in Ghana since 2006, provides support in the area of scientific research and development in agriculture. The Brazilian Trade and Investment Promotion Agency called *ApexBrasil* acts in the region through its business centre in Luanda, Angola, that was created at the end of 2010, helping the installation of Brazilian companies in the country but also all around the continent. Finally, a Brazilian science and technology health institution known as *Fiocruz* (*Fundação Oswaldo Cruz*), is building in partnership with the Government of Mozambique a factory for the production of generic medicines to treat diseases like AIDS. It is also building a center for treating anemia in Ghana (Vieitas and Aboim 2013).

2.3.2 Challenges

Africa offers numerous opportunities for companies that plan to invest there – as we will see below – however the firms still have to face many difficulties in most part of the countries of the continent. It is difficult to generalize about the investment climate in African countries because it is not a homogenous continent. However, it is possible to name a few issues that seem to be more general. Lack of knowledge of the African reality, credit constraints, as well as lack of good infrastructure for transport of passengers and goods are some of them (IPEA 2011). Added to these, there are a lot of bureaucracy and slowness and risk of political instability still present in some countries.

The weakness of institutions of many countries, which is reflected, for example, on issues such as corruption and a poor legal system, is also a major constraint to the expansion of investment in the region. Some Brazilian companies operating on the continent comment that the procedures in the implementation of the rules or information about the existing legal framework is unclear – which can be classified as regulatory risk. Furthermore, personal relationships count for a lot in the results of contracts with the state or national government, which further undermines credibility of the institutional apparatus.

Another problem faced by Brazilian companies is the low qualification of the workforce, which reflects the low degree of development of the continent, the problems of the educational system and the insufficiency of professional training structured programs.

Some countries of the continent do not seem to have enough people to do simple, unskilled work and it is not feasible or profitable for companies to bring foreign workers to do this kind of tasks. When the number of workers demanded is too high, certain Brazilian companies tend to offer training programs to a large set of the population. These programs usually have the support from some civil society institutions or governments. Although this is typically the case of the civil construction sector, in the sector of mining, for example, companies like Vale already created partnerships with SENAI in order to train workforce to be used in their projects. Another strategy that some firms use to tackle the problem of lack of workforce is to send groups of employees to their factories in Brazil to receive training and technical updates. One of these companies maintains in one of its factory, located in South Africa, training programs and on-site recycling programs. Another company has created a Professional Training School in an African country.

A very serious problem for the companies that operate in the region is the bad quality of electric power service, which is at the moment very precarious in some African countries. Frequent power outages affect the quality of the production and overcharge it.

In addition, the lack of national routes or overland routes with closer countries, which is essential to enable the firms to trade between African countries and to deliver goods in other relatively close African countries, generate high costs. This, in turn, becomes a disincentive to the installation and the permanence of companies in these countries.

Issues of low availability and high costs of financing, credit insurance and guarantees, are also mentioned by construction and industrial companies, which rely on public resources for long-term projects or need to export components from Brazil. For large enterprises of the extraction industry, however, this is not a problem.

African countries have a very particular issue regarding their access to the Brazilian public funding. In the past, many countries of the continent were declared in default, which led them to a long process of renegotiating their external debt – in some cases not yet finished, like Sudan. This also resulted in their downgrade in the ranking of international and Brazilian export credit insurance companies and finance agencies, once they started to be considered as high risk nations. This situation causes some difficulties to the Brazilian engineering companies, for example, to access credit lines in order to export to Africa some equipment they need to use in their projects on the continent. They also have to pay higher premiums in credit insurance. However, the Brazilian Government recently initiated a plan to cancel the debt of 12 African countries at the level of US$ 900 million (Melo 2013). Therefore, it is expected that this effort will help the credit granted by Brazil for investment projects in these countries become more accessible and affordable.

An additional difficulty faced by some Brazilian companies in Africa is competition with Chinese companies. If on one hand, mineral extraction companies do not consider that Chinese companies in this sector are an impediment or a constraint to its activity and to its expansion, on the other hand, from the point of view of the construction companies, Chinese companies of engineering services are their main competitors. They are large State-owned companies, with a turnover of 60 or 70 billion dollars annually and with a very low operating cost. More importantly, Chinese construction companies rely on abundant funding and favorable conditions to offer to African governments. Projects of high values in exchange for purchase contracts (off-take agreements) at favorable prices and/or concessions of exploitation of gas, coal, petroleum and ores are widely used by China as a counterpart to leverage financing for its large infrastructure projects (Melo 2013).

Some Brazilian companies that have a presence on the African continent still refer to two problems, which need addressing:

i. The pressures for association with local businesses, without the necessary capacity or associated with local officials;

ii. the existence of the Black Economic Empowerment (BEE), which is a valuing system of employment of blacks in senior positions or executives, which exists in some countries such as Angola and South Africa. For companies dealing with public sector purchases it is relevant to have a high score in terms of BEE, because this accounts for public bids. Often this implies additional costs for the functioning of companies looking to comply with the requirements of the BEE.

2.3.3 Opportunities

In spite of the fact that African countries still have a number of constraints that hinder performance of many firms in its territory, the continent has increasingly become a source of countless business opportunities. The great economic performance of most part of African countries in the last years is not its only attraction. A promising consumer market, due to the increase in disposable income, stimulated by high mineral and oil prices, compounded by the high potential for agriculture, the availability of water resources and the urgent need for integrated logistics and telecommunications on the continent are also important advantages that the region offers to the investors. According to the Infrastructure Consortium for Africa, sub-Saharan Africa requires $ 93 billion in infrastructure investment per year until 2015. The latest estimates put the annual cost at $ 45.3 billion, less than half of what will be needed (Melo 2013).

In the case of Brazilian companies that have presence in Africa, there is no doubt that the continent represents potential market for their products and services. The shortcomings in the energy and infrastructure sectors constitute major investment opportunities in niches as sophisticated civil construction services and technical agricultural and agro-industrial domains. Brazil has comparative advantages in these sectors and in others, such as mining, oil and gas, environmental engineering, and technology of information.

The Brazilian infrastructure works are recognized for their excellent quality, which is a differential for Brazilian companies in relation to Chinese competition, for example. Often the complexity of work may require greater planning and experience, ability to structure complex projects, etc., what Brazilian companies seem to have better conditions to offer than Chinese companies do.

The issue of shortages in electricity and in infrastructure is also a great opportunity for construction companies and suppliers of inputs, like the Brazilian company WEG, for example. One of the reasons for this company to be present in South Africa is the supply of engines and electrical equipment for the generation of electric power in the continent. Another example of possible operations in the sector is the Odebrecht Group and the Group AG, as both have already participated in the construction of dams, roads and highways, ports and airports.

In the agricultural sector, Brazil may also help Africa with interesting prospects for the continent and for the Brazilian agribusiness sector. Although this help will provide smaller features than those offered by China, the U.S. and EU. The country can transfer their technology and their agricultural knowledge, contributing to the development and security for feeding the continent and generating export agricultural equipment business and investments in processing of agricultural products on the continent. A promising sector in the continent is the production of biofuels. Brazil has a strong know-how in this area, despite the fact that the ethanol industry seemed to be left out after the discovery of pre-salt.

In terms of funding, the support that the Brazilian government grants to companies present in Africa is essentially via its National Development Bank called *Bndes*. However, this is still too small, especially if compared to the funding provided by China for its companies. Gradually, this situation has been reverting. The incentives and disbursements of the Bank to Sub-Saharan Africa have strongly increased over the past decade. The Bank has played a key role in the expansion of Brazilian businesses in the new African ethanol industry. Countries like Angola, Ghana and Mozambique became important players in the expansion of worldwide biofuel supplies thanks to the support given to them by the Bank (Unctad 2013). Furthermore, the Bndes recently announced the creation of a Board for African Affairs and the opening of a branch of the bank in South Africa. According to Unctad 2013 two other Brazilian banks have been acting on the continent, "*...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*".

The debt relief for some countries and the consequent reconsideration of country risk of some African economies could facilitate the provision of public financing to Brazilian exports of goods and services, in addition to reducing the cost of credit insurance and guarantees.

Two sources of financing, however, still not much explored today on the continent, and in which Brazilian companies could find support are the bond market and pension funds (Melo 2013).

In the case of the bond market, today, this feature is mostly used for debt restructuring rather than as an instrument of financing for infrastructure. However, as there is a great demand in the market, its use as a source of funding for this type of projects should not be ruled out in the near future. Currently, countries such as Ghana and Tanzania are studying together with some investment banks how to make their next sovereign bonds issue (Melo 2013).

In the case of pension funds, these constitute the main source of financing in the world. However, in Africa, a proper regulatory framework is still missing for this kind of financial market operation. It is thus, to those that have interest in this financing instrument, to encourage the development of an appropriate institutional environment that will allow its use as soon as possible (Melo 2013).

4. Africa FDI outflows

The direct investments from African countries to the world rose substantially in the last years – 250% between 2000 and 2011–, especially since 2006 (Table 5), but they are still very small when compared to other nations around the globe or even to other developing nations.

In 2007 when Africa´s direct investments reached a peak of US$ 11 billion, it accounted for about only 0.5% of total World´s FDI outflows, and around 3.4% of developing countries.

Despite its still very incipient participation, African countries are becoming gradually relevant outward investors, especially within the continent. Slowly a number of firms from Africa are beginning to emerge as TNCs. They remain relatively rare and small in size but they are becoming more and more competitive internationally. The most important investors from Africa are South Africa, Nigeria and Angola.

Table 5. Africa: FDI outflows, 2000-2011 (millions of dollars)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World	1,534	-2,644	287	1,268	2,631	2,051	8,277	11,081	10,080	6,281	9,311	5,376
South America	-18	-0.15	0.41	0.23	0.49	8.53	-5.70	14.02	25.29	125.18	343.52	-1.63
% SA/World	-1.17	0.01	0.14	0.02	0.02	0.42	-0.07	0.13	0.25	1.99	3.69	-0.03

Source: Own Elaboration based in Data from Unctad

As mentioned before, the countries within the continent are the most important destinations to African direct investments.

In terms of African direct investments to South America, they had a huge growth from 2000 to 2010, going from US$ -18 million to US$ 343.52 million in the period (Table 5). The share of the region in Africa´s total FDI reached 3.7% in 2010. Nevertheless, these data are not very precise, since not all countries of the region report their investments to Unctad, so we can only have a general idea about this trend[5].

According to the Unctad´s database, between 2000 and 2011, in average, Brazil was the most important recipient of Africa´s FDI, followed by Chile and Argentina. In the period, Brazil´s share was almost 70%. And, the most important African country with direct investments in the region was South Africa.

Among all South American countries bordering the Atlantic Ocean, only Argentina, Brazil and Uruguay have relevant investments relations with Africa. Colombia, Guyana, Suriname, Trinidad and Tobago and Venezuela have little or no FDI from or to the region.

4.1 A brief review of South African direct investments in Brazil

South Africa is one of the most important countries in Africa in many aspects especially in terms of outward foreign direct investments (OFDI). The country is considered the single largest foreign investor from Africa and a leading source of FDI in other African countries (Samuel 2013). Until the middle of last decade, the majority of its direct investments had gone to countries of Organization for Economic Co-operation and Development (OECD), but this has been changing in the last years. South Africa is becoming one of the most important investors in other countries within the continent – especially after the process of privatizations in many neighboring countries that has resulted in equal investments opportunities (Gammeltoft 2004). It has also expanded its investments to other developing countries, including countries in South America, with Brazil figuring as the most important recipient of South African FDI.

It is a really hard task to find data on FDI when we are talking about some developing countries, especially African countries including South Africa. Because of the scarcity and bad quality of data there is little literature on South African direct investments abroad. An alternative to this problem could be, for example, to do interviews with the players involved in the process, and try to extract as much information as possible in order to cover the lack of empirical data and literature. This is what was done in the

[5] In this case, there could be an underestimation or overestimation of the data reported by African countries to Unctad.

case of Brazilian investments in Africa (Section 3.1), but unfortunately it was not possible to be done in the case of South African firms in Brazil. We identified around five South African firms with investments in Brazil. We tried to contact few of them, but only one answered our questions.

4.1.1 An overview

Since the late 1980s South Africa has become a significant source of FDI. But it was only after apartheid, in the middle of the 1990s, that the South African government started to adopt policies to further strengthen South African investment abroad, encouraging its multinational companies (MNC) to go into the rest of Africa, easing foreign exchange restrictions on South African companies' outward FDI (Aykut and Goldstein 2006). Despite the government incentives, until the middle of the last decade, South African MNCs have traditionally invested in other Commonwealth countries, including some high-income OECD ones, much more than in fellow developing countries mainly due to the fact that in South Africa, domestic enterprises are structured in the form of conglomerates with exceptionally strong ties to European companies (mainly British) (Naidin 2011). Just to have an idea, in 2005 the share of South African FDI stock in Europe was 81.24%, whereas it was just 8.18% in Africa (Goldstein and Prichard 2010).

This configuration however started to change in the middle of last decade with South African firms starting to look for expansion opportunities in other parts of the world, especially in developing countries. The privatization process in many African countries has provided a unique opportunity for South African firms to enter into a number of, for example, sub-Saharan markets. Despite that, the South African government recently tabled a Foreign Investment Bill, which focuses on inward FDI and investor protection; and it is "*considering a series of new generation BITs with those African countries viewed as key to its trade and economic strategy*" (Samuel 2013). Outward FDI projects of the country in Africa are very diversified and include mining, infrastructure, engineering, manufacturing, wholesale, retail, media and financial services (Samuel 2013). This trend has also occurred toward other regions such as South America, especially Brazil. An example of South African investment in the region was Nasper´s acquisition, in 2006, of a minority shareholding in the Brazilian media group Abril (Goldstein and Prichard 2010).

In 2011, one-fifth of the outward FDI stock of South Africa was located in the "BRIC" countries - 20%-, mainly in China. The country's outward stock in other African countries stood at 23%. In terms of sectorial distribution, South African outward FDI in BRIC is concentrated in mining, infrastructure and construction, and finance and business services. In 2011 Brazil has attracted marginal volumes of investment from South Africa (Unctad 2013). According to Naidin et al. 2011, in the same year Latin America, i.e., Brazil, participation in South African OFDI was around 10%. The region was ranked behind Europe (40%); Asia and Oceania (30%) and Africa (20%), the main destinies of South African OFDI.

4.1.2 South African firms in Brazil

Five South African firms operating in Brazil through direct investments have been identified: Naspers, Anglo American, Anglo Gold Ashanti, Aspen Pharma and Dimension Data. They are distributed in the following sectors: telecommunications, mining and pharmaceutics.

As mentioned before, Naspers - a multinational group of media and e-commerce platforms - acquired, in 2006, a minority shareholding (30%) in the Brazilian media group Abril. In the same year the Internet entrepreneurs Fabrice Grinda and Alec Oxenford (current CEO) co-founded OLX, one of the world's leading free classifieds online platform. Napers is the owner of the company subsidiary in Brazil.

In 2009 the company acquired Buscapé - a digital commerce platform directed to consumers, retailers, distribution companies, financial market and advertising agencies that need to connect their products and services to consumers. The Buscapé Company is one of the leading e-commerce groups in Brazil.

Recently, the firm has also acquired 49% of Rio Bravo participation in Compera nTime, a Brazilian company specializing in systems for mobiles. It has also acquired 27.7% of VTEX, an e-commerce platform.

In Brazil, Naspers also controls the Movile mobile platform - a leading publishing platform for mobile content and commerce - (since 2008); the shopping club Bransdclub (since 2011) and the developer of games Level Up!

Anglo American[6] is a mining company that operates in Brazil since 1973. It currently has three business units in the country: nickel, iron, and niobium and phosphate. It also has a division of exploration. Recently, in 2013, the firm decided to increase its production capacity of nickel in Brazil.

The firm has also a 50% participation in a joint-venture with Prumo Logística Global in LLX Minas-Rio, a firm in port logistics.

Aspen Pharma, a South African pharmaceutics company, controls the Aspen Pharma do Brasil. The Group officially entered the Brazilian pharmaceutical market in 2009, after acquiring 100% of Cellofarm.

Recently AECI, an explosives and specialty chemicals group that service the mining and manufacturing sectors both locally and internationally has shown interest in investing heavily in Brazil. But it was not possible to find any information that these investments have been carried out so far. According to information on their website, one of the focus for growth of the company is on South America, especially Brazil. In 2006 their chemical services division acquired 60% of Resitec. But after a few years they sold their participation in the company in Brazil.

Unfortunately, lack of literature in this theme and the difficulties to get some information from the firms involved in this process prevents us to have an idea of the challenges these companies face to settle in Brazil, as well as to expand and keep operating in the country. It was also hard to identify potential opportunities specifically for South African firms in the country.

5. Conclusions

Even if African and South American countries are emerging as important players in the global direct investment flows, their participation in world´s FDI is still small. However, in the last two decades, both regions have put a lot of effort to change that situation and are gradually reaping some rewards.

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[6] Despite Anglo American is considered a British multinational mining company headquartered in United Kingdom, it is also considered a South African company.

Historically, the most important investors in Africa and South America are the United States and the European Union. Recently this pattern has been changing and some developing countries are now emerging as new partners, including nations of both continents. Flows of direct investments between Africa and South America are very incipient at the moment, but they are rising slowly and have a great of potential to develop and increase more and more during the following years. Brazilian firms, for example, have been investing more and more in some African countries. We can also notice the interest of certain South African firms in expanding or starting to operate in Brazil.

According to the literature in FDI, the emergence of multinationals has important implications in terms of economic development of the country that carries out the investments. In the specific case of Southern multinationals, surveys report that direct presence in foreign markets has enabled many firms to increase their competitiveness and to respond better to consumer demand. It is also known from the literature that the presence of MNCs in host countries have positive effects to their economic development (Costa 2005).

As emerging economies and part of the BRICS countries group, both Brazil and South Africa have comparative advantage investing in each other over their Northern counterparts. The Dunning paradigm of FDI - ownership, location and internalization (the OLI Model)- shows that these determining factors significantly shift bargaining power towards emerging-economy MNCs, leapfrogging some of the expected steps in foreign entry mode – exports, minority joint ventures, and mergers and acquisitions (M&As). Developing country MNCs are also able to adapt to other developing host countries better, since conditions, including prices, supply chains and the scale of production are similar – or comparable – to the MNC home country. They have also greater familiarity with technology and business practices suitable for other developing-country markets so they may enjoy some advantages over industrial-country firms, for example, being able to use more appropriate production processes and source locally available inputs than firms from developed economies would do. According to Gammeltoft 2008, "*In poor countries in specific, developing-country multinationals often do better than their developed-country rivals. While they are not as cash rich, they can operate with lower overheads, and while their technology may be less advanced, it is better suited to the countries in which they invest. They are also often closer to the host country, both geographically and culturally, and tend to be more accustomed to the risks of investing in countries with unpredictable political and regulatory environments and less table economies*".

In the case of Brazilian companies' performance in Africa, it has many chances to thrive in the coming years, and the Brazilian government can play a key role in making this happen. It should continue and deepen its political ties with African countries, once the political interests of Brazil in Africa increase the receptivity of these countries in relation to Brazilian investment, and facilitate the participation of Brazilian companies in bidding processes. For the extractive and construction companies, this diplomatic approach and intensification of technical cooperation of the Brazilian government seem to be central. Because companies from other countries that operate on the continent, notably China, have larger government financial resources to be used in cooperation with economic and social development projects, these end up influencing the decisions of local governments.

It is also important to stimulate the commercial exchange between Brazil and Africa. International experience shows that foreign trade leads to direct investments abroad, which in turn generate more trade and investments. The Brazil-Africa trade relationship has grown, but remains at the same levels as it was at the start of the decade.

We must also take into account that FDI flows between developing countries may pose risks, and not only bring benefits. In general MNCs in developing countries face greater operational and financial challenges than multinationals from developed countries. This mixed with a deteriorating situation of economic conditions of the host country can contribute, as it was already the case, to the failure of South-South investment, followed by a trend of divestment. In addition, increased investment flows between developing countries may facilitate the negative effects of an economic shock to be transmitted between them, which increases the risk of contagion between the economies involved and consequently lead to a widespread financial crisis.

In addition, more and more countries have required companies to take initiatives of corporate social responsibility. Such initiatives are less likely to be implemented by companies in the South, which may also have lower environmental and labor standards.

Another factor that draws attention is that in the case of developing countries the State is holder of major multinational in these countries. This indicates that a considerable amount of South-South FDI may be driven not only by economic factors, but also by political and strategic factors that can affect the stability of these FDI flows in the long term.

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ANNNEX 1

List of the Brazilian firms interviewed for the paper "*O Investimento Direto Brasileiro na África*" written by Roberto Magno Iglesias and Katarina Pereira da Costa:

- Petrobras Internacional
- Vale S.A.
- Grupo Odebrecht
- Grupo Andrade Gutierrez
- Marcopolo
- WEG
- Laticínios Tirolez Ltda