Ethiopia and the BRICS: An Assessment of Trade and Investment Flows

Ekor, Maxwell and Adeniyi, Oluwatosin and Saka, Jimoh

2015

Ethiopia and the BRICS: An Assessment of Trade and Investment Flows

Maxwell Ekor[1*] --- Oluwatosin Adeniyi[2] --- Jimoh Saka[3]

[1]Preston Consults, Abuja, Nigeria
[2]Department of Economics, University of Ibadan, Nigeria
[3]Department of Economics, Lagos State University, Nigeria

Abstract

Ethiopia is the 83rd largest economy in the globe according to the World Bank figures for 2013. The country is considered to have huge but untapped potentials in the sub-Saharan Africa region as well as one of the attractive investments destinations on the continent. This study therefore examined the investment flows and intensity of trade between Ethiopia and the individual BRICS for the period 1995 to 2011. A striking finding is that not a significant proportion of the BRICS investments in Africa go to Ethiopia. With respect to trade flows, Ethiopia recorded trade deficit with all the BRICS countries in the period under review, while its trade intensity index with all of them was less than one. Arising from these findings a number of relatable policy implications are documented. First, given that Ethiopia is considered as one of the recent success stories in Africa, the BRICS in general and South Africa in particular may explore areas of potential benefits by improving bilateral economic relationship with the country. Second, given that Ethiopia is experiencing massive developments in its infrastructure, South Africa may take advantage to invest in some of the projects. Third, the relatively low trade intensity with Ethiopia means that going forward there are possible areas of opportunities that may exist which may ultimately boost trade flows between Ethiopia and the BRICS.

Keywords: Real GDP, Foreign direct investment, Trade intensity, Policy, BRICS, Ethiopia.
JEL Codes: C32, C51, F14, F52.

* *Corresponding Author*

1. Introduction

Ethiopia is considered one of the countries in Africa that is recording steady progress in its economic transformation process. Blessed with natural resources such as gold, platinum, copper, potash, natural gas, and hydropower, Ethiopia's gross domestic product (GDP) as shown in Figure 1 has increased from $11.4 billion in 1981 to $94 billion in 2011. The real GDP growth as depicted in Figure 2 indicates that Ethiopia recorded average growth of 4.8% between 1980 and 2011 and this was partly due to the negative growths recorded in some years in the 1980s as well as in the early 1990s. However, since 2004 the country has witnessed robust real GDP growth which averaged approximately 11% between 2004 and 2011.

With respect to the GDP composition, the Ethiopian economy is mainly agrarian, with the agriculture sector contributing on average 46% to the GDP between 2002 and 2011 whereas the service sector is the second highest contributor of average 42%. While the industrial sector contributed approximately 12% to the GDP in the period, the manufacturing sector had the least share of average 4.7%. Given the strategic importance of the agriculture sector and the need to ensure food security and sufficiency, the government has continued to consolidate on its relationship with donors in the area. This has strengthened the country's agricultural resilience thereby contributing to the reduction in the share of the population prone to starvation. The downside, however, is that real income continues to be eroded by inflation given that the consumer price index averaged 8.9% between 1982 and 2011 while growth in GDP per capita averaged 8.9%. Nevertheless, the integration of the Ethiopian economy into the global system has improved consistently since 1993 with trade (% of GDP) averaging 38% between 1993 and 2011, higher than the average 17% recorded between 1981 and 1992.

Given the progressive stance of the Ethiopian economy, it may in the near future be strengthening and consolidating its bilateral relationship with key countries, not just in Africa but also on the global stage. To this end and given the rising relevance of the BRICS (Brazil, Russia, India, China and South Africa) countries as highlighted in studies such as De Castro (2012), it may be interesting to see how Ethiopia is currently relating with these countries, especially with respect to trade and investment.

The BRICS presently account for about 43% of global population, 18% of international trade and 25% of the world's GDP in purchasing power parity terms. Ethiopia is currently the 8th largest economy on the continent of Africa and one of the fastest growing. This means that a consolidated relationship between the individual BRICS and Ethiopia may be beneficial to all parties involved and the African continent at large. Of particular interest is the relationship between South Africa and Ethiopia due to suggestions that for the former to improve and consolidate its involvement in the BRICS group, it must improve on its bilateral trading and investment relationships with other key countries on the African continent.

Therefore, following from the above, the goal of this paper is to provide some evidence on the trading and investment relationship between Ethiopia and the individual BRICS countries.

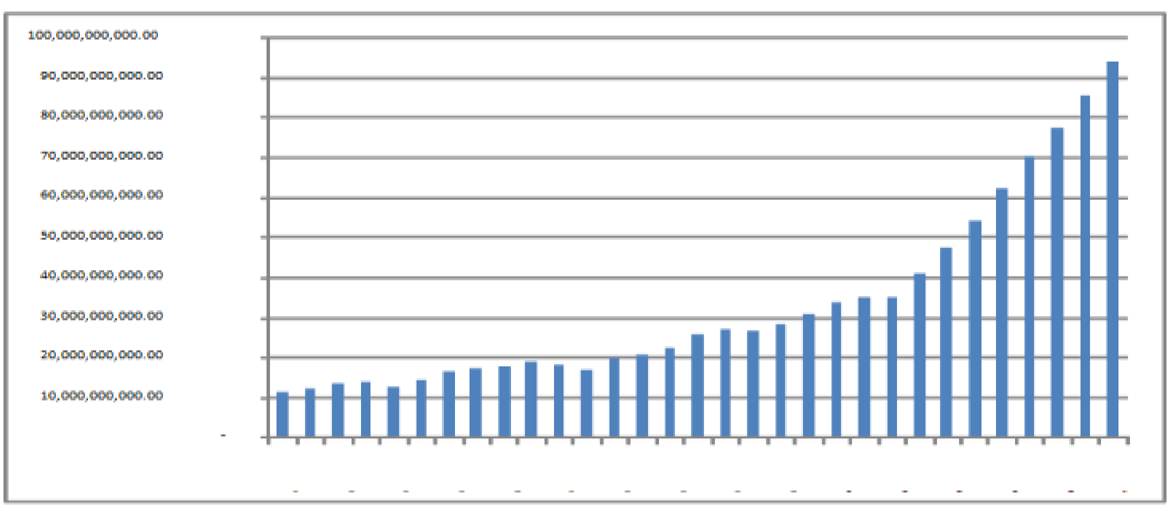


Fig-1. Ethiopia's Nominal GDP (1981-2011) (million)

Source: World Development Indicators (2012)

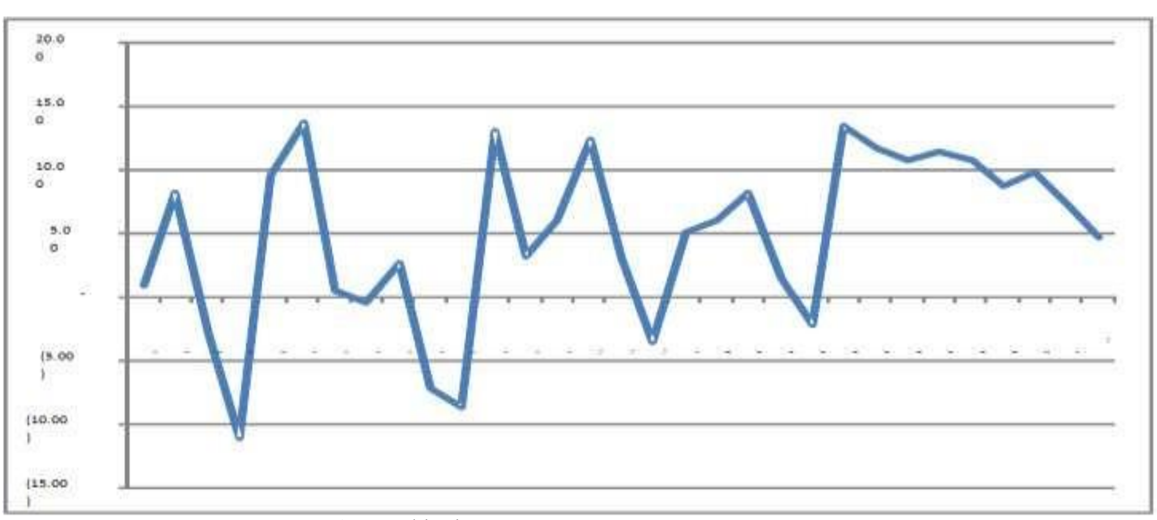
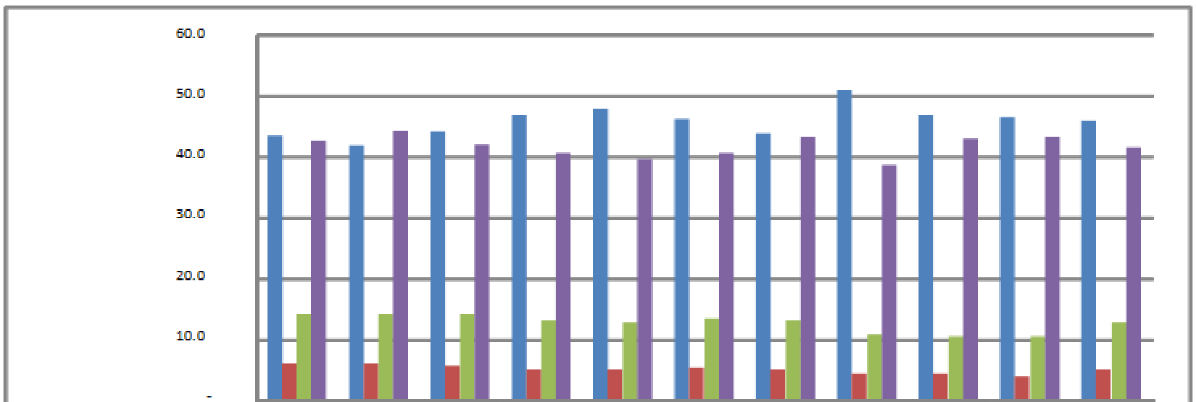


Fig-2. Ethiopia's Real GDP Growth (%) (1981-2011)
Source: World Development Indicators (2012)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Ave.
Agriculture	43.5	41.9	44.2	46.7	47.9	46.2	43.9	50.8	46.7	46.4	45.8
Manufacturing	5.7	5.7	5.3	4.8	4.5	5.0	4.8	4.0	3.9	3.6	4.7
Industry	13.9	14.1	14.1	13.0	12.7	13.3	13.0	10.8	10.3	10.5	12.5
Services	42.6	44.0	41.8	40.3	39.4	40.5	43.1	38.5	43.0	43.1	41.6

Fig-3. Ethiopia's GDP Composition (% of GDP) (1981-2011)

Source: World Development Indicators (2012)

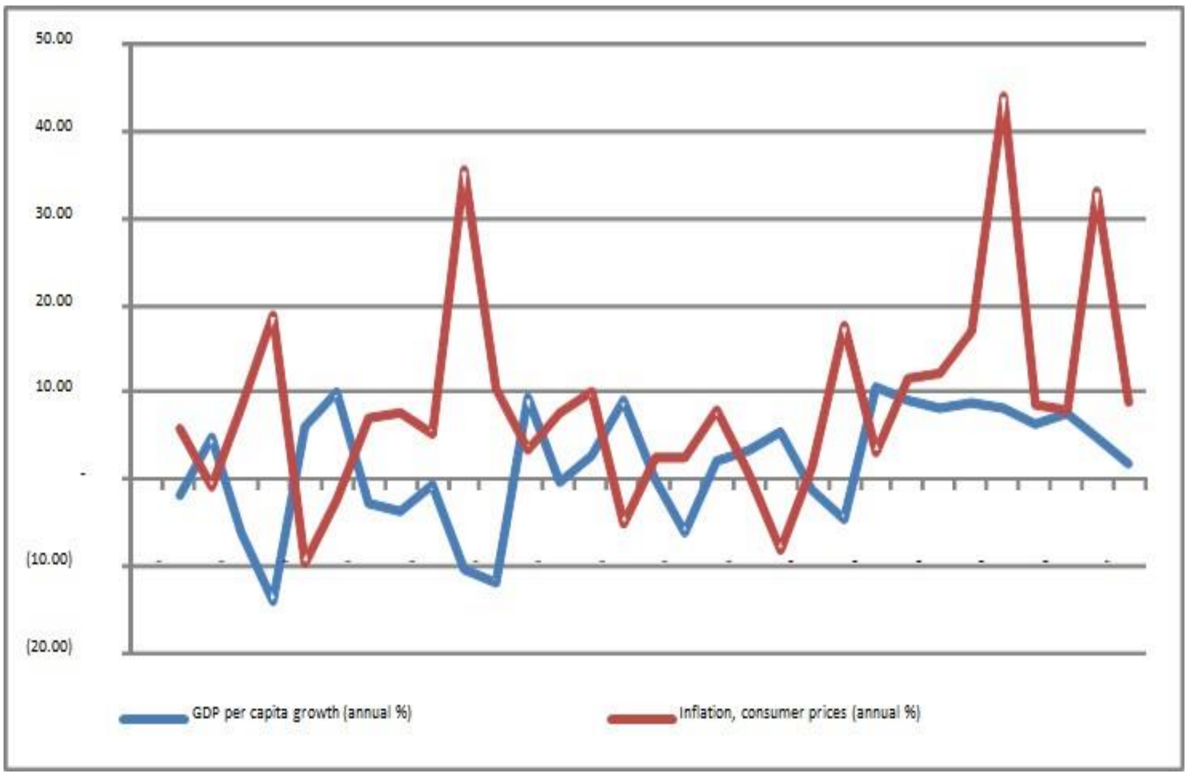


Fig-4. Growth in GDP Per Capita and Inflation

Source: World Development Indicators (2012)

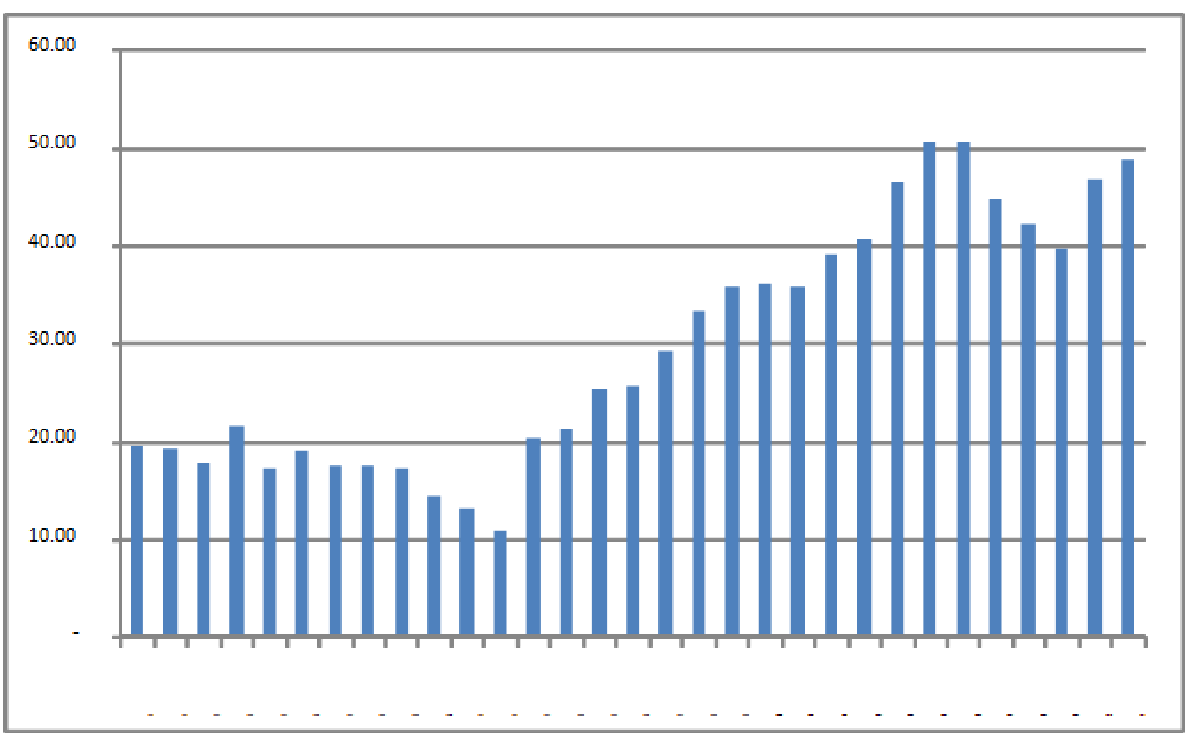
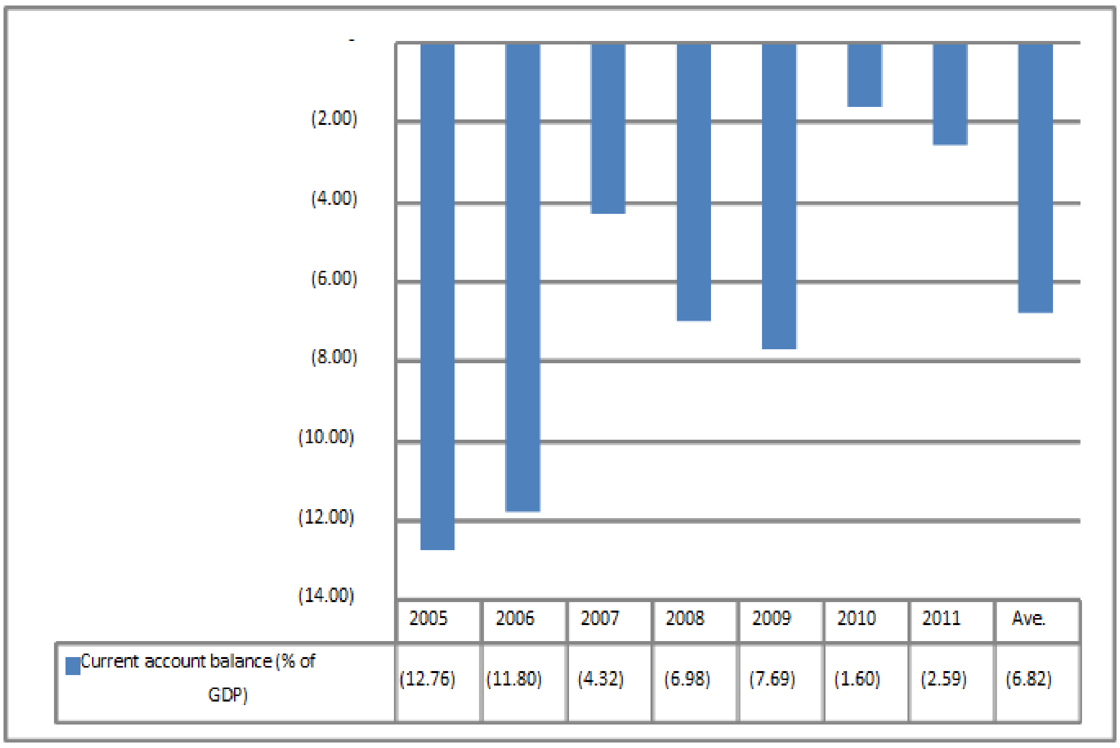


Fig-5. Ethiopia's Trade Balance (% of GDP) (1981-2011)

Source: World Development Indicators (2012)

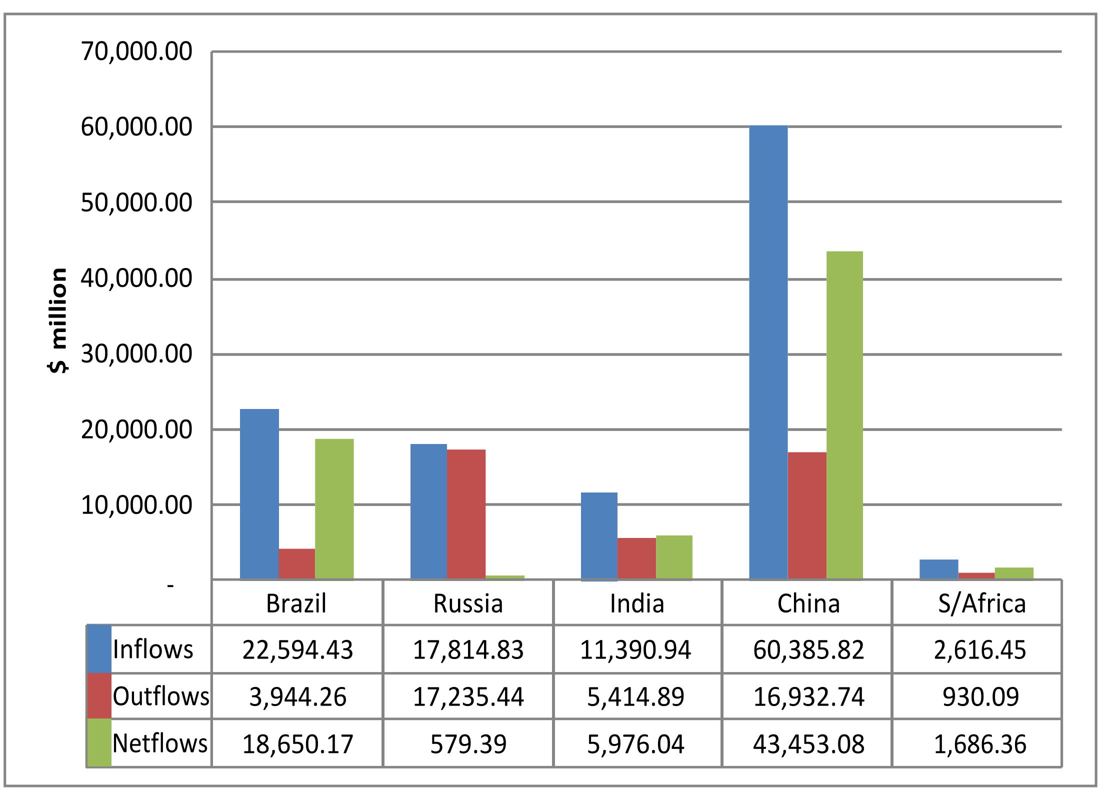


	2005	2006	2007	2008	2009	2010	2011	Ave.
Current account balance (% of GDP)	(12.76)	(11.80)	(4.32)	(6.98)	(7.69)	(1.60)	(2.59)	(6.82)

Fig-6. Ethiopia's Current Account Balance (% of GDP)
Source: World Development Indicators (2012)

2. Overview of BRICS Investment Flows

The aggregate inflows, outflows and consequently the net-flows of the BRICS investments in the period 1992 to 2011 are shown in Figure 7. The picture shows that China leads the pack with an average foreign direct investment (FDI) outflow of $16.9 billion and inflows of $60.4 billion, resulting in a net-flow of $43.5 billion in the period. Brazil recorded the second highest flows of FDI with an estimated average outflow of $3.9 billion compared with inflow of $22.6 billion, resulting in net-flow of $18.7 billion. While Russia's average inflow and outflow of FDI are estimated at $17.8 billion and $17.2 billion resulting in a net flow of only $579 million, India recorded a net flow of $5.9 billion. South Africa had the least flows of FDI, but its inflows outperformed the outflows making the country record a net flow of $1.6 billion.



	Brazil	Russia	India	China	S/Africa
Inflows	22,594.43	17,814.83	11,390.94	60,385.82	2,616.45
Outflows	3,944.26	17,235.44	5,414.89	16,932.74	930.09
Netflows	18,650.17	579.39	5,976.04	43,453.08	1,686.36

Fig-7. Average FDI Flows of the BRICS 1992 - 2011
Source: UNCTAD Statistics - http://unctad.org/en/pages/Statistics.aspx

When the BRICS FDI outflows are considered as percentage of GDP, Figure 8 shows that Russia outperformed the other BRICS members with its FDI outflow averaging 1.8% of GDP in the period. This is followed by South Africa's 0.9% of GDP, while Brazil and India both recorded an average of 0.5%. China recorded the least FDI outflow of 0.4% of GDP in the period. With respect to FDI inflows as percentage of the GDP, Figure 9 shows that China recorded the highest as the FDI inflow into the country averaged 3.6% of GDP, while Brazil and Russia followed with averages of 2.1% and 1.9%. South Africa recorded average 1.3% in the period and India had the least inflows in the period with its FDI inflow averaging only 1.1% of GDP between 1992 and 2011.

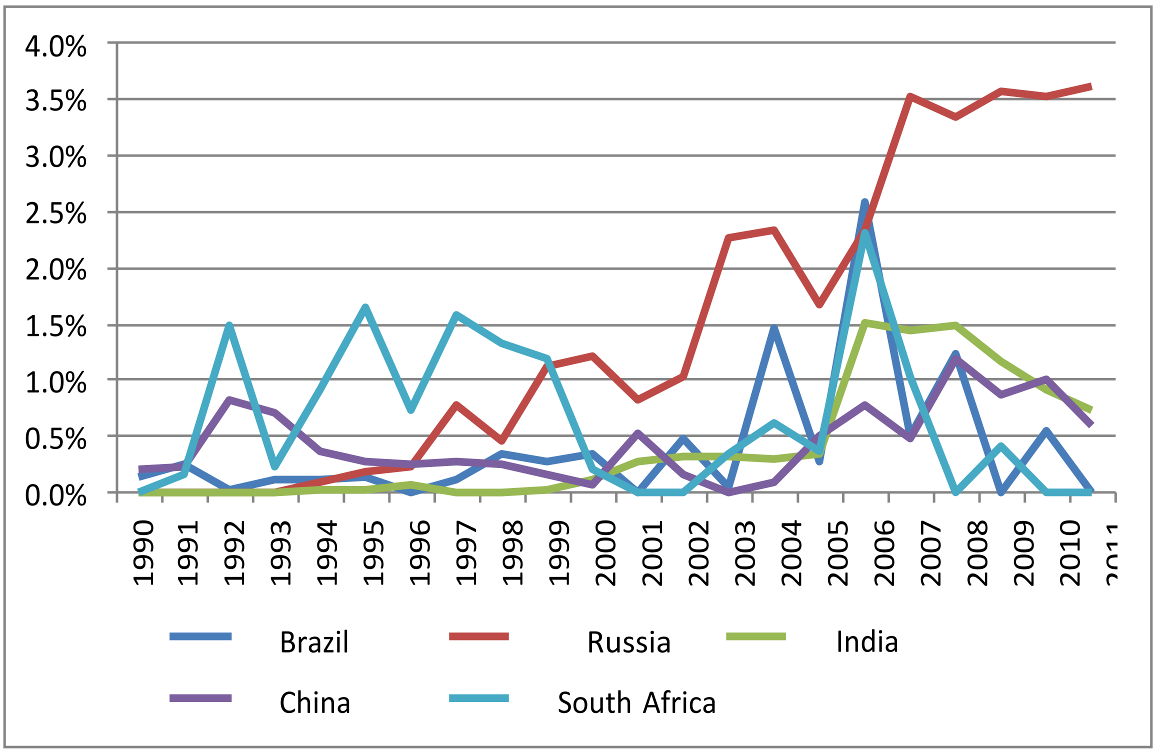


Fig-8. BRICS FDI Outflow as a % of GDP

Source: OECD Statistics - http://stats.oecd.org/

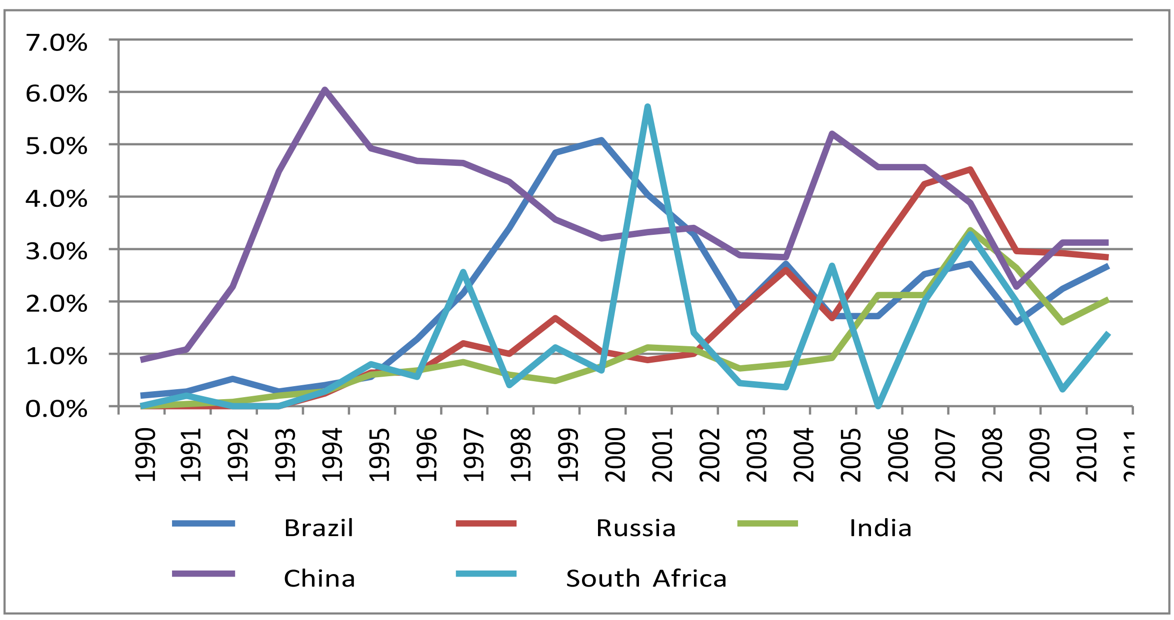
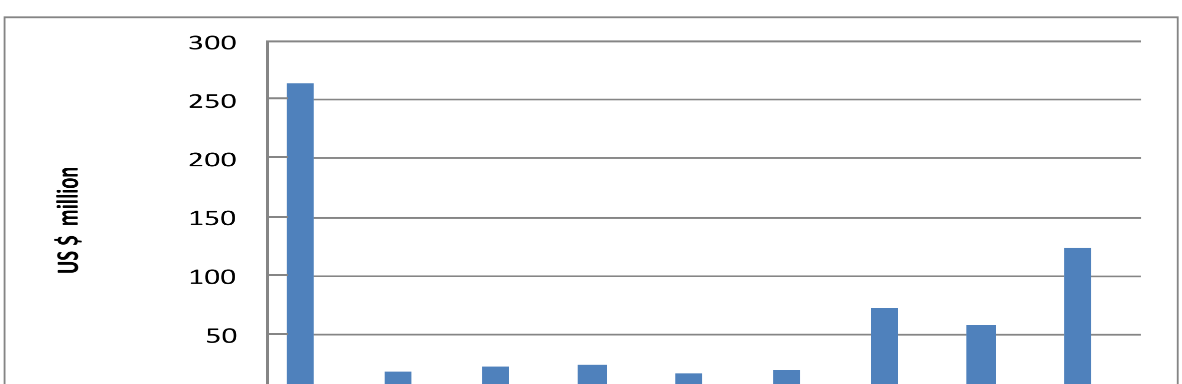


Fig-9. BRICS FDI Inflow as a % of GDP

Source: OECD Statistics - http://stats.oecd.org/

3. BRICS Investments in Africa

Although ascertaining the exact volume and value of FDI flows from the BRICS to specific countries in Africa is challenging due to data constraint, Figure 10 provides an indication that Angola is a key beneficiary of Brazil's investment flows into Africa. In addition, Figure 11 shows that most of the loans by Brazil into Africa has flowed more to Angola relative to other countries on the continent.



	2001	2002	2003	2004	2005	2006	2007	2008	2009
Angola	265	18	22	24	17	20	73	58	124
South Africa	8				0	2			

Fig-10. Main Brazil's FDI Investment in Africa

Source: World Bank (2012)

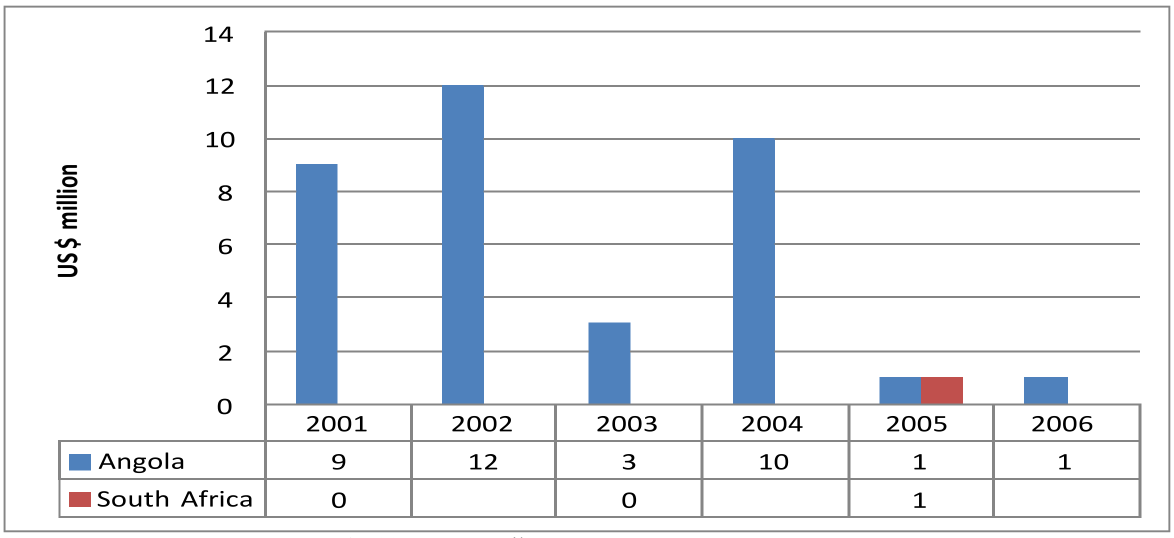


Fig-11. Main Brazil's Intercompany Loans to Africa

Source: World Bank (2012)

Russia's investments in Africa as shown in Table 1 indicate that the country's areas of interest are in oil exploration, mining, aluminum and power. The countries that have benefited from this preference and choice of investments include South Africa in the area of mining and exploration (oil, gas, diamonds and copper), while Botswana had Russia investing about $2.5 billion in 2007 in its mining and processing industry. Also, Russia's Rusal invested about $250 million in Nigeria's ALSCON in the aluminum refining sector through acquisition. Angola benefitted from Russia's investments in 1992 and 2006 when Russia's Alrosa and Sintez made investments in Greenfields.

Table-1. Major Investments of Russian Companies in Africa

Russian Investor	Host Country/Company	Industry	Investment Type	Value	Year
Norilsk Nickel	S/ Africa/Gold Fields	Gold Mining & Processing	Acquired 30% of Gold Fields	$1.16bn	2004
Norilsk Nickel	Botswana/Tai Nickel	Nickel Mining & Processing	Acquisition	$2.5bn	2007
Sintez	S/Africa, Namibia, Angola	Oil, gas, diamonds & copper	Greenfield Investment	$10-50m	2006
Lukoil	Cote d' Ivoire, Ghana	Oil Exploration	Acquisition	$900m	2010
Rusal	Nigeria/ALSCON	Aluminium Refining	Acquisition	$250m	n/a
Severstal	Liberia	Iron Ore	Acquisition	$40m	2008
Gazprom	Algeria/Sonatrach	Natural Gas Exploration	Joint Exploration & Development	$4.7bn & $7.5bn	2006
Alrosa	Angola, Namibia,DRC	Diamond Mining & Hydro Electricity	Greenfield Investment	$300-400m	1992
Rosatom	Egypt	Nuclear Power		$1.8bn	2010

Source: African Development Bank (2011)

India is one of the top investors in Africa, with investments in joint ventures and wholly owned subsidiaries. The bulk of these investments flow into the Chemicals, Plastic and Rubber sectors which accounts for about 31% of the country's investments in the continent. Other sectors that India's investors find attractive in Africa include marketing, sales, and distribution (17%) and the Food, Beverage and Tobacco (FB&T) sector (12%). The agriculture, fish and natural resource sector has approximately 6% share, while professional services and financial intermediaries had 5% share of inflows from India. Sectors categorized into other sectors had 24% of the shares of investments from India.

With respect to the destination of China's investments in Africa, Figure 13 shows that South Africa and Nigeria had the largest shares of 20% each between 2003 and 2007, followed by Sudan and Algeria with 12% each. Angola had only 2% share of the total investments of China in Africa while Ethiopia had 1% in the review period. In terms of infrastructure financing by Chinese investors in 2007, approximately 24% of the total share went to Nigeria followed by Angola's 20% and Ethiopia's 10%.

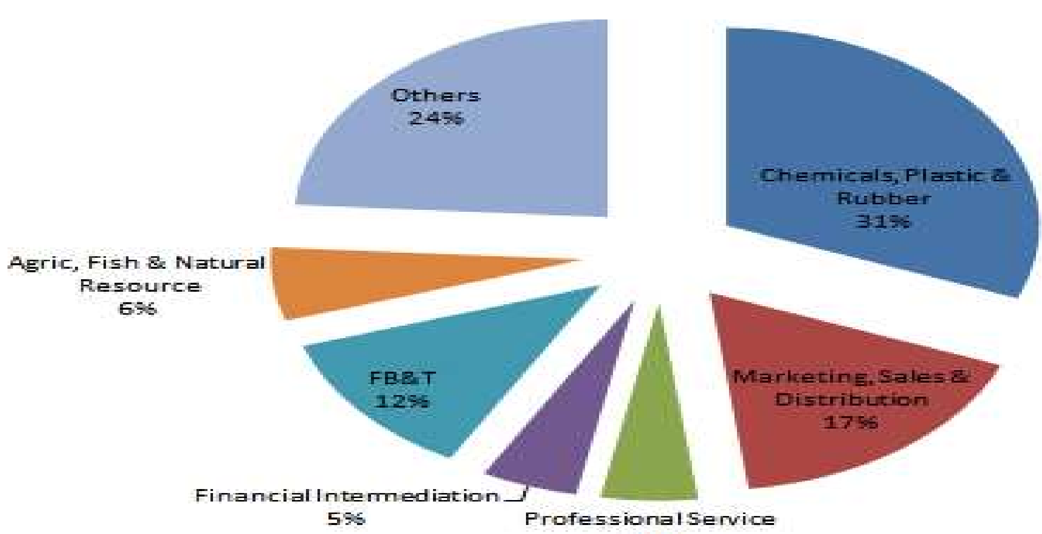


Fig-12. India's Investments by subsectors in Africa

Source: KPMG Research (2012)

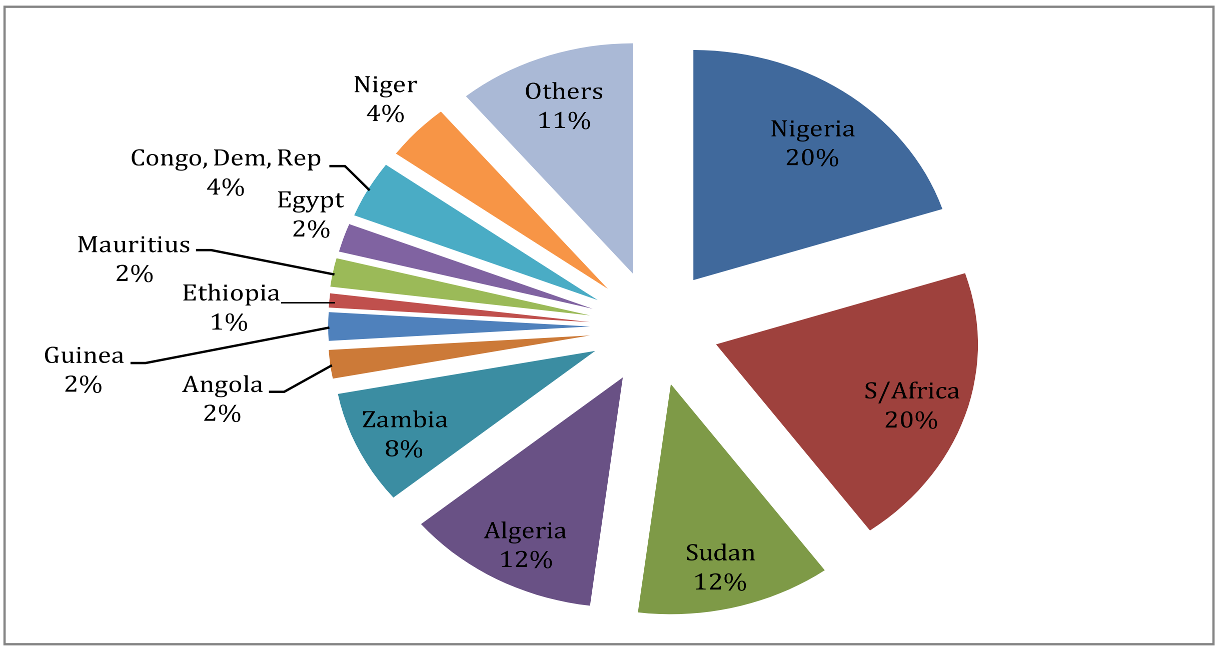


Fig-13. China's FDI Flows to Africa by Destination
Source: China Ministry of Commerce Report (2008)

4. Trade Flows and Intensity between Ethiopia and the BRICS

The trade flows between Ethiopia and the BRICS countries in Figures 14 – 18 indicates that all the members of the group recorded trade surpluses with Ethiopia in the period 1995 to 2011. From Figure 14, Brazil's export to Ethiopia was significantly higher than its imports from Ethiopia. Specifically, while exports averaged $24.1 million, imports from Ethiopia averaged only $0.2 million between 1995 and 2011. This means that Brazil recorded trade surplus of $23.9 million with Ethiopia in the review period.

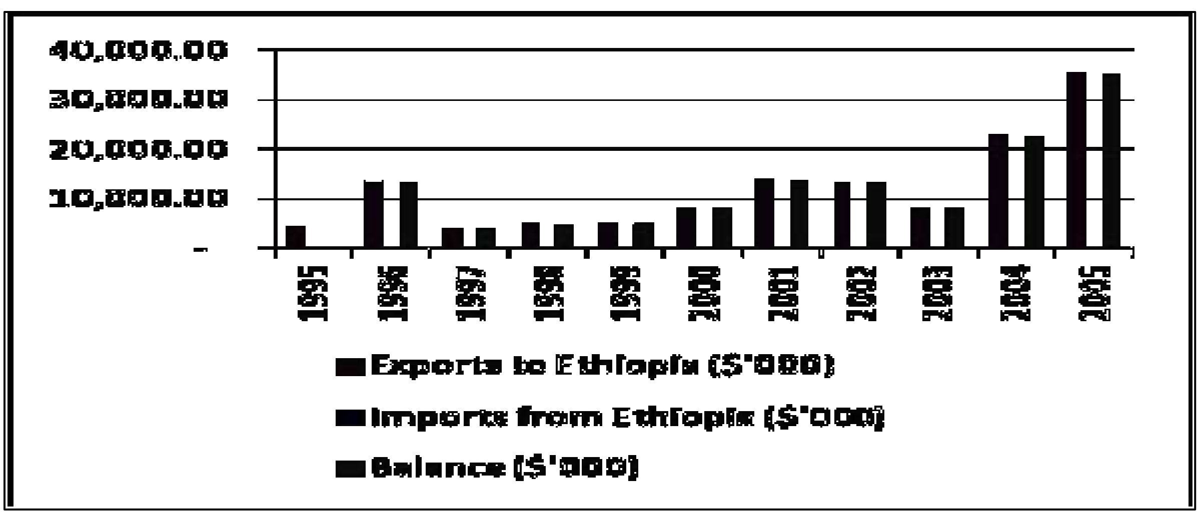


Fig-14. Brazil – Ethiopia Trade Balance
Source: UNCTAD Statistics - http://unctad.org/en/pages/Statistics.aspx

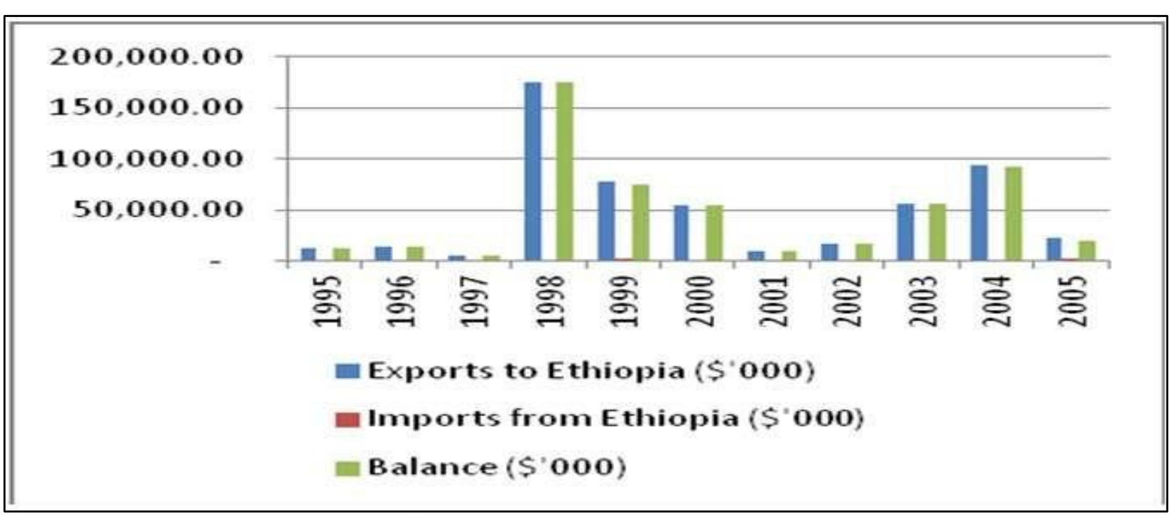


Fig-15. Russia-Ethiopia Trade Balance
Source: UNCTAD Statistics - http://unctad.org/en/pages/Statistics.aspx

Similarly, Figure 15 shows that Russia maintained a trade surplus of $52.0 million with Ethiopia given that its exports averaged $55.9 million and imports $3.9 million. With respect to India's trading relationship with Ethiopia,

Figure 16 shows that India's exports to Ethiopia between 1995 and 2011 averaged $121.6 million while imports averaged $11.9 million, giving a trade surplus of $109.7 million.

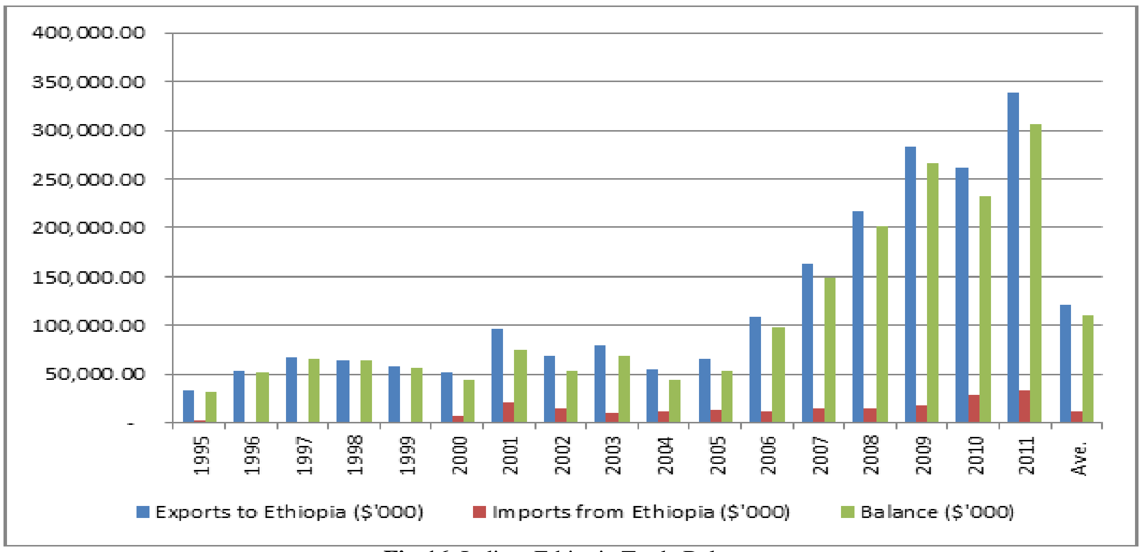


Fig-16. India – Ethiopia Trade Balance
Source: UNCTAD Statistics - http://unctad.org/en/pages/Statistics.aspx

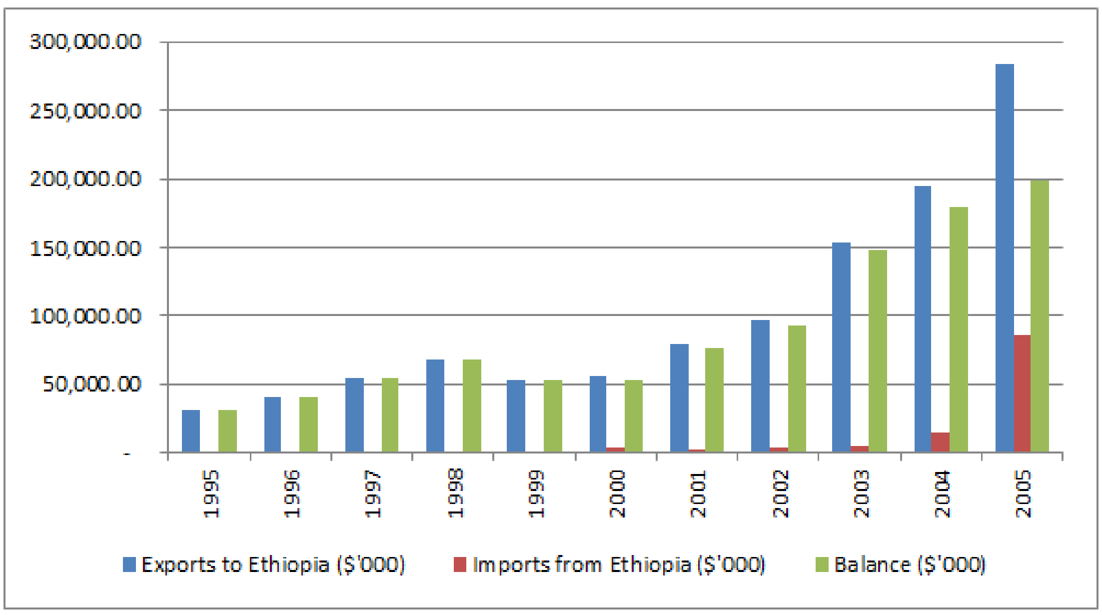


Fig-17. China – Ethiopia Trade Balance
Source: UNCTAD Statistics - http://unctad.org/en/pages/Statistics.aspx

In terms of the relationship with China, Figure 17 explains that while China's exports to Ethiopia averaged $405.8 million, imports averaged only $70.4 million, bringing the surplus in the period to $335.4 million. Figure 18 shows that South Africa also exported more to Ethiopia compared with its imports from that country and ended up with an average trade surplus of $20.9 million.

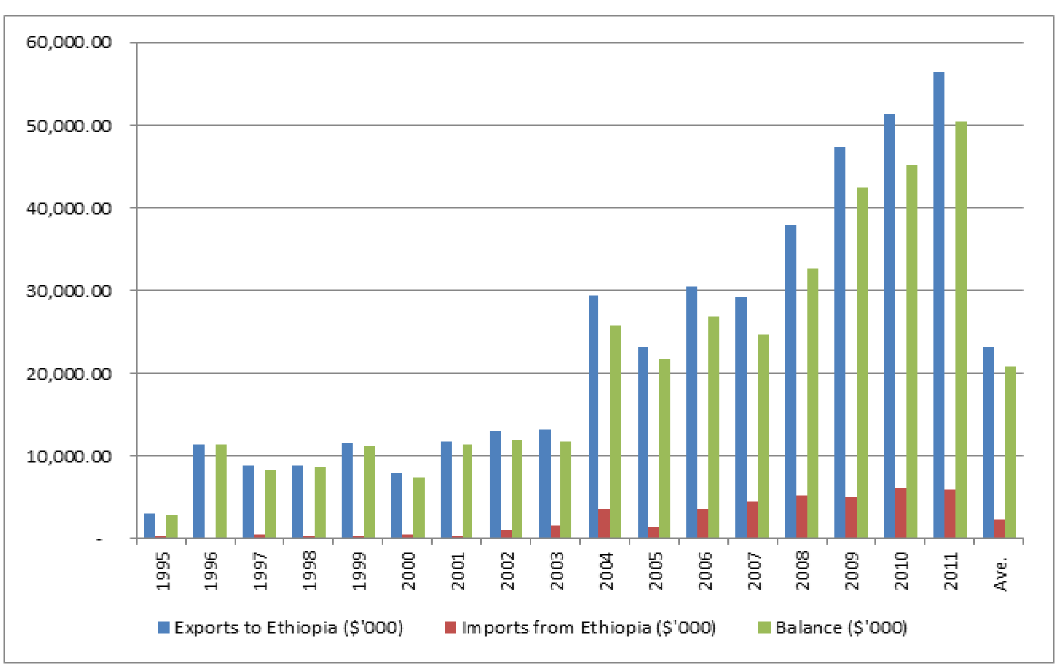


Fig-18. S/Africa – Ethiopia Trade Balance
Source: UNCTAD Statistics - http://unctad.org/en/pages/Statistics.aspx

Although Ethiopia recorded trade deficit with all the BRICS countries between 1995 and 2011, it is pertinent to find out how intensive the trading activities were in the period. Therefore, in line with the study by De Castro (2012) who examined the trade intensity between the individual BRICS and selected countries in the European Union, the trade intensity index is defined as:

Trade Intensity = $\frac{Kij}{Ki} / \frac{Kwj}{Kw}$

Where

Xij = country i exports to country j

Xi = country i total exports

Xwj = world exports to country j

Xw = total world exports.

The results of the computation as shown in Figure 19 depicts that Ethiopia's trade intensity index is less than one with all the BRICS countries, implying that trade with Ethiopia is relatively small when compared with what these countries individually carried out with the rest of the world. However, in relative terms, the trade intensity index is highest with India, followed by China and then South Africa. The implication of this is that although trade with Ethiopia is relatively small when compared with the rest of the world, India and China have found Ethiopia an attractive destination for trade.

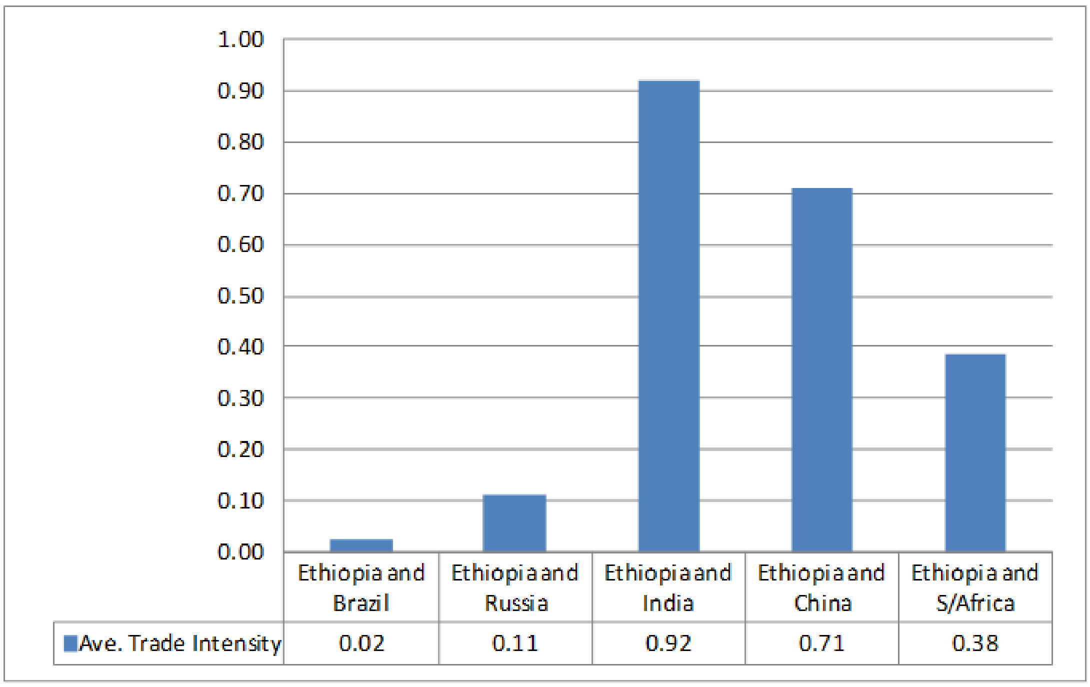


Fig-19. Ethiopia's Average Trade Intensity with the BRICS, 1995 - 2011

Source: Authors' Estimations

5. Summary and Policy Implication of Findings

The study examined the investment flows of the BRICS as well as attempted to provide an insight into country-specific destinations of these investments, with specific focus on Ethiopia. Also, the trade relationship between Ethiopia and the individual BRICS is analyzed for the period 1995 to 2011 with a view to examining the level of trade intensity. Two main issues stand out from the findings. First, not a significant proportion of the BRICS investments in Africa go to Ethiopia. Second, the country is getting a fair share of infrastructure finance investments from the BRICS. With respect to the trade flows, Ethiopia recorded trade deficit with all the BRICS countries, while its trade intensity index was less than one in all cases. However, in relative terms, its trade intensity index was highest with India, followed by China and then South Africa.

A number of policy implications can be deduced from the study. First, given that Ethiopia is considered as one of the recent success stories in Africa, the BRICS in general and South Africa in particular may explore areas of potential benefit by improving bilateral relationship with the country. Second, given that the country is experiencing massive developments in its infrastructure, South Africa may take advantage to invest in some of these projects. Third, the relatively low trade intensity with Ethiopia means that there are possible areas of economic engagement which may ultimately boost trade flows between Ethiopia and the BRICS.

References

African Development Bank, 2011. Russia's economic engagement with Africa. Africa Economic Brief, 2(7). Available from http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Russia's_Economic_Engagement_with_Africa.pdf [Accessed August 14th 2012].

China Ministry of Commerce Report, 2008. Available from http://gzly.mofcom.gov.cn/website/comment/foreign/message/js [Accessed August 14th 2012].

De Castro, T., 2012. Trade cooperation indicators: Development of BRIC bilateral trade flows. International Review of Business Research Papers, 8(1): 211-223.

KPMG Research, 2012. India investing in South Africa and Africa. Available from http://www.kpmg.com/ZA/en/IssuesAndInsights/ArticlesPublications/Doing-Business-with-India/Documents/India%20investing%20in%20South%20Africa%20and%20Africa.pdf [Accessed August 14th 2012].

World Bank, 2012. Bridging the Atlantic' South-South partnering for growth. Available from http://siteresources.worldbank.org/AFRICAEXT/Resources/africa-brazil-bridging-final.pdf [Accessed August 17th 2012].

World Development Indicators, 2012. Available from data.worldbank.org/sites/default/files/wdi-2012-ebook.pdf [Accessed August 10th 2012].