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Brazil-Africa: Booming business across the Atlantic

Introduction

The giant Brazilian mining company *Vale do Rio Doce*, better known as Vale, was awarded a major coal-mining concession in Mozambique in 2008 and, within three years, it had built a US\$ 1.6 bn state-of-the-art coal mine in Moatize. President Armando Guebuza of Mozambique and Vale's President Roger Agnelli officially opened the mine on Sunday 8 May 2011. It forms part of Vale's larger ambitions, namely to expand the country's limited transport capacity and construct a 900-km railway between Moatize and the deep-water port of Nacala, where the company will also build a new coal terminal. The lion's share of Mozambique's coal exports will be destined for Asia.

Vale's billion-dollar investment in Mozambique is big business and one of many examples of Brazil's greater engagement with Africa over the past decade, with trade increasing more than six-fold from US\$ 4.2 bn to US\$ 27.6 bn annually in the same period. This rapid expansion is in line with the vision formulated by Brazil's former president, Lula da Silva, who made Africa a priority in Brazilian foreign policy. He visited the continent twelve times during his eight years in power (2003-2010), more than any other foreign head of state. And the number of Brazilian embassies in Africa more than doubled, from 17 to 37, with more than 200 bilateral accords being signed with various African countries while he was president.



On his first visit to Mozambique in 2003, then President Lula discussed Brazilian interests in the Moatize coal basin with Guebuza's predecessor Joaquim Chissano. He again visited Mozambique in 2008 to urge his Mozambican counterpart to speed up decision-making on coal-mining con-

cessions. This economic diplomacy clearly paid off as Vale's biggest coal mine opened just three years later.

History

Contact between Africa and Brazil started in the sixteenth century under Portuguese colonial rule with the transatlantic slave trade. In total, an estimated 3.5 m slaves, mostly from the west coast of Africa, were shipped to Brazil between 1530 and 1850. The majority were put to work on sugarcane plantations and after the slave trade ended, Brazil lost interest in Africa until the 1950s when it hesitantly started to support anti-colonial struggles in Africa. Brazil was one of the first to recognize Angola's MPLA government after its independence in 1975.

Nowadays Brazilian politicians and officials are employing a discourse of solidarity and frequently refer to their deep historical and cultural ties with Africa. On his last African tour as president, Lula said that Brazil could never repay its historic debt to Africa: 'Brazil would not be what it is today without the participation of millions of Africans who helped build our country'.

Until recently, however, Brazil was ill-equipped to fulfil its self-imposed moral obligation to Africa. Although slavery was abolished in 1888, its impact is still felt today and people of African descent are politically and economically marginalized in Brazilian society. This has only recently begun to change under the influence of the 'Black Movement'. But there are still very few diplomats of African descent and few Brazilian experts on African history and culture.

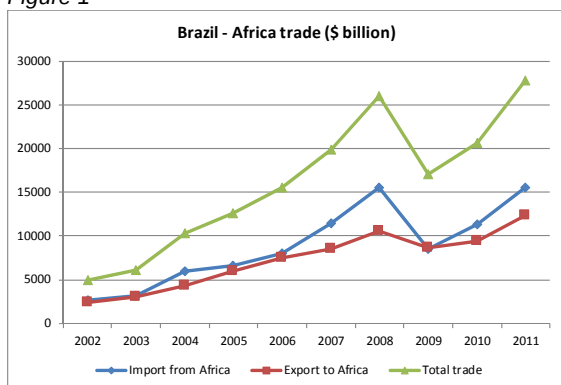
Trade

The global financial crisis in 2008 severely affected Brazil-Africa trade, which had been increasing since 2002, when former president Lula made Africa a Brazilian priority (see Figure 1). However, it recovered quickly and reached its highest level to date of US\$ 27.6 bn in 2011. In the last few years, Brazil has imported more from Africa than it has exported, so the overall trade balance is slightly in favour of Africa. Between 2002 and 2011, exports to Africa grew by 20%, while imports from Africa increased by 21%.

Trade links are focused on a few countries. Nigeria (54%), Algeria (20%) and Morocco (8%) ac-

count for 80% of all imports from Africa, while Egypt, South Africa and Algeria are the top destinations for Brazilian products. At first glance, the Brazil-Africa trade relationship is very similar to that of other BRIC countries, particularly China and India, with Brazilian imports from Africa being dominated by oil and other natural resources. However, unlike China and India, which are increasingly dependent on oil imports to meet their rising energy needs, Brazil is a resource-rich country and a major exporter of natural resources. So what explanation is there for Brazil's interest in Africa's natural resources? The reason is partly historical. Before Brazil discovered huge oil fields off its southeast coast in 2007, it depended on foreign oil imports, especially from Africa, but as it is now more self-sufficient, it is expected that oil imports from Africa will decrease considerably. Nevertheless, oil imports will not disappear completely as the Brazilian oil company Petrobras has acquired stakes in oil fields in seven African countries as part of its internationalization strategy.

Figure 1



Source: <http://www.tralac.org/files/2012/06/Brazil-Africa-update-tralac20120627final.pdf>

Brazilian exports to Africa are more diversified than those of the other BRIC countries, although they mainly consist of agricultural products, manufactured goods and machinery. Regarding the composition of agricultural exports, sugar, grain, meat, vegetables and animal fats account for 44% of bilateral exports to Africa. Brazilian companies are increasingly viewing Africa as a promising growth market for their processed goods and are keen to cater for Africa's growing middle classes who can now afford to buy more luxury food items. The trade balance is likely to shift in favour of Brazil because of its lower demand for African oil, while the demand for its agricultural and manufactured goods is expected to grow, especially in the biofuel sector.

The Brazilian government has designed a few instruments to strengthen its trading activities with Africa. Recently, a credit line to Africa provided by the *Banco Nacional de Desenvolvimento Economico e Social* (BNDES) was increased from US\$

200 m in 2003 to US\$ 1.75 bn in 2011, while the *Programa integracao com a Africa*, which was set up to improve Brazil's economic relations with Africa, was also boosted. Under this programme, Angola received US\$ 527 m in 2008 and US\$ 649 m in 2009, to promote Brazilian exports to Angola.

Investments

Brazilian investments in Africa have been growing steadily since 2000 and amounted to more than US\$10 bn in 2009 (although this is still only a small proportion of Brazil's FDI of US\$ 157 bn). Brazilian investments in Africa are likely to increase even more in the coming years. Since 2003, Brazil has invested primarily in natural resources, construction and agriculture, mainly in Nigeria, South Africa, Angola and Mozambique. At the heart of these investments are a few major global companies, such as Odebrecht, Petrobras and Vale, which are considered major players in their respective fields and have a strong interest in securing a position in Africa's rising market. Petrobras has invested heavily in oil-exploration projects in Nigeria, Angola, Libya, Namibia and Tanzania, and is active in some 28 countries in total. Vale, the world's second largest mining company, is primarily active in Angola, DRC, Gabon, Ghana, Guinea, Liberia and Mozambique. It has already invested about US\$ 2.5 bn in Africa and is planning to invest a further US\$ 20 bn over the next five years. In the construction sector, Odebrecht stands out as a giant involved in numerous large-scale infrastructure projects in many countries. The company has had a presence in Angola since 1984 and currently employs 26,000 Angolans. Africa accounted for US\$ 2.42 bn of Odebrecht's revenues in 2009. Brazilian companies have contacts in a large number of African countries: there are farming ventures in Sudan; a direct flight goes from Addis Ababa to São Paulo every day; and a fibre-optic cable connects north-eastern Brazil and West Africa.



Biofuel is expected to become more important in Brazil-Africa trade relations. Since the first oil crisis in 1973, Brazil has gradually shifted from fossil to biofuel and is now the world's second-largest world producer after the US, and the big-

gest exporter. About 75% of Brazil's cars run on a mixture of biofuel and gasoline. It is in Brazil's interest to assist African countries to develop a viable biofuel sector, as it will increase demand for Brazilian biofuel technology, machinery and products. For instance, Mozambique signed two accords with Brazil in November 2009 for a US\$ 6 bn investment in biofuel exploration. Sudan opened its first ethanol manufacturing plant with Brazilian machinery in 2009 and agreements have also been signed with DRC, Uganda, Senegal, Angola and Nigeria. Embrapa, Brazil's government-led agricultural research corporation, opened an office in Ghana in 2008 to assist the government there develop its ethanol industry.

So far, 41 research centres have been set up, not only to promote biofuel but also to help reduce the use of fertilizers and pesticides, and improve crop resistance. Brazil has a lot to offer in terms of agricultural technology and skills transfer. Embrapa is cooperating with Tunisia in managing eucalyptus in the extraction of energy, with Angola for soybean for biofuel, and with Mali in the production of cotton.



Brazil is also showcasing its expertise by organizing fairs, such as Brazil Agri Solutions that was held in Dakar in June 2009 and was attended by 25 Brazilian companies and 16 African countries. It demonstrated in particular Brazil's expertise in agriculture, biofuels and processed products. And in May 2010, Brazil invited ministers and senior officials from more than 30 African countries to a dialogue on 'Food Security, Combating Hunger and Rural Development'. Such events typically result in the signing of contracts with African governments to provide assistance with developing their biofuel industry. In addition, the Brazilian authorities offer credit lines and create favourable conditions for companies to invest in Africa.

Brazil: A new development paradigm?

Brazil's high economic growth rates and success in reducing poverty and hunger have attracted a great deal of attention. Poverty levels in Brazil declined from 17% to 8% between 1981 and 2005 and income inequality, as measured by the Gini

Index, decreased in the same period but still remains one of the highest in the world. Many countries in Africa see Brazil as a role model. In September 2012, the MDG advisor to the Nigerian president said that Nigeria was interested in adopting the Brazilian model for poverty alleviation.

Brazil's financial assistance to Africa has been inspired by its own domestic experiences and it actively promotes the 'export' of its anti-hunger and anti-poverty strategies. A well-known social programme is *Fome zero*, a cash-transfer programme that provides food aid to Brazil's poorest families in exchange for child vaccinations and school attendance. For instance, the domestic programme entitled *Mais alimentos* turned into *Mais alimentos Africa*, and was launched in Ghana and Zimbabwe with loans of US\$ 95 and US\$ 98 respectively.



Critics question the applicability of the Brazilian developmental model beyond social transfer programmes. They point to the high social and environmental costs associated with Brazil's economic growth path and call its agricultural cooperation 'ethanol diplomacy', which is thought to disregard human rights, promote land grabbing and favour displacement and deforestation.

Aid

Brazilian development cooperation is not new. Brazil has been involved in 'South-South Cooperation' for at least 40 years now. Although reliable data on aid are scarce, as Brazil does not use the ODA definition of OECD/DAC, it is clear that the amount increased significantly in the past few years. For instance, it is estimated that Brazil's aid budget for Africa doubled between 2009 and 2010 and accounts for about 55% of the total aid disbursed by the Brazilian Cooperation Agency (BCA), with projects in 38 countries. Lusophone countries in Africa receive 74% of Brazil's total aid budget, with Mozambique being the largest single beneficiary. According to 2010 estimates, Brazil distributed more than US\$ 1 bn, which is similar to India but less than China, at US\$ 1 bn and US\$ 2 bn respectively.

Brazilian aid takes different forms: technical cooperation (about US\$ 125 m between 2005 and 2009), scholarships (about US\$ 138 m in the same period), peace keeping and humanitarian

missions (US\$ 79 m) and contributions to international organizations like the World Food Programme (US\$ 1,082 m). Brazil also contributes to debt cancellation programmes. Concessional export credits and other types of loan facilities to developing countries are also sometimes included in the development cooperation budget.

Brazilian aid focuses on a few specific sectors, such as agriculture, health and social services. Between 2003 and 2010, agriculture received 22% of Brazil's total technical cooperation. Agricultural research plays a prominent role through Embrapa and other Brazilian institutions. Development cooperation tackles health problems in which Brazil has special expertise, such as anti-malarial drugs and antiviral treatments. Brazil donated US\$ 21 m for the construction of the first African ARV production facility in Mozambique, where more than 10% of the population is suffering from HIV/AIDS.

Brazilian aid is different to that provided by the more traditional Northern donors. According to its proponents, it is a model of altruism and effectiveness. Brazil does not act as a donor but as a partner and its development assistance is demand-driven and does not only help countries on request. Nor does it make use of a large apparatus of aid workers and consultants with predefined notions of how countries should develop. It is more predicated on the transfer of knowledge, technologies and skills, and focuses on domains where it has extensive experience and a positive track record, such as health, HIV/AIDS, agriculture and social programmes. Brazil also shares climatic, cultural and institutional conditions with African countries, which allows a good understanding of their context and this can ensure that aid is adapted to African needs. Brazil is also increasingly making use of triangular programmes whereby traditional donors (such as Japan) offer funding, while Brazil adds expertise and technical know-how for the benefit of African countries. Such partnerships are a way of legitimizing Brazil as 'new donor'. BCA is currently participating in 88 such initiatives.

The positive image of Brazilian aid is questioned by scholars and activists in- and outside Brazil, who argue that Brazilian aid is technocratic and research-oriented, especially in the agriculture sector. Its scope is diffuse, transparency and accountability are not upheld and monitoring and evaluation are often lacking, which raises questions about quality and impact. BCA was entrusted with a coordinating task but has failed to carry this out properly due to a lack of autonomy and to capacity issues. Other critical points are the absence of overall vision, and limited involvement of civil society.

Brazilian aid is seen as an instrument of foreign policy that is being used to consolidate bilateral

relations, ensure its position in the new world order, exert influence and lobby for a seat on the UN Security Council. In this light, Brazilian FDI, trade policies and cooperation coalesce as agents of Brazilian expansionism, and are part of an overarching strategy of furthering the country's economic and political agenda.



Brazil and the other BRIC countries

So how does Brazil's engagement with Africa differ from the other BRIC countries? Brazil is creating more linkages with local African economies, hiring more local staff and is more involved in the transfer of skills and technology. This path creates loyalty in Africa. Brazil is not only there to extract resources but also to develop sustained South-South partnerships and a geopolitical dialogue, and establish new markets for its (mainly agriculture-based) industries. Engaging with Africa can thus be seen as a way of diversifying Brazil's export markets in food and agricultural machinery. However, Brazil is still only third amongst the BRIC countries in its amount of trade with Africa (US\$ 27 bn) behind China (US\$ 160 bn) and India (US\$ 42 bn).

The Moatize coal mine deal (see Introduction) was struck once the Brazilian government had cancelled 95% of Mozambique's debt to Brazil. More than 20 Brazilian firms are now involved in the project, which will turn Mozambique into the second largest coal producer in Africa and will create 3000 jobs. Brazil was a lead funder in Angola's reconstruction efforts and is benefiting from the country's recent growth. For example, Petrobras now has preferential access to Angola's large offshore deposits. Brazil's economic diplomacy may be seen to lack the financial power of China's but its efforts are being rewarded all the same.

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