Atlantic Basin Initiative

Reshaping the South Atlantic: Can the BICs Bring it About?

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"The Atlantic is no more than a river between Africa and South America"
President Luiz Inacio Lula da Silva, 2006.

For much of the second half of the past century, the world was largely steered from the North Atlantic. The Anglo-American "special relationship," or *entente*, was the axis on which this rested until 1975 or so. It was gradually replaced by the G7 from that year onwards. The addition of France, Germany, Italy and Japan, plus Canada, meant that this exclusive partnership was no longer monopolized by English-speaking peoples (as Churchill would have put it), but over time the G7 developed into a critical, if informal, forum to address complex issues of macro-economic coordination among the world's most advanced economies. The G7, conceived by two brilliant finance ministers turned government leaders, Valery Giscard d'Estaing and Helmut Schmidt, served the world well for some twenty years.

Yet the so-called "Asian crisis" of 1997, originating in Thailand, but soon to envelop much of East and Southeast Asia, with reverberations throughout the world economy, brought the G7 into question. The group was confronted with a crisis "east of Suez" about whose dynamics its members knew little, and had little legitimacy to act upon. Moreover, many considered that the advice proffered by the Western-led international financial institutions s on how to solve the problem made it only worse, deepening the downward economic spiral in which several Asian countries found themselves.

One response to this challenge was the creation of the G20 at finance minister level in December 1999, a group led by the Canadian Foreign Minister Paul Martin. By bringing in many of the larger emerging economies into the "inner circle" of global economic coordination, at least a measure of first-hand knowledge about what was happening was deployed beyond the rarefied atmosphere of the North Atlantic. This would turn out to be only the opening shot in a major realignment in the making. Referred to as "the acronym that defined the decade without a name," BRICs, the term coined by Goldman Sachs in 2001 to encompass Brazil, Russia, India and China, soon became the coin of the realm. These four countries, known for their large land mass, large populations and growing economies, were projected to overtake the combined product of the six most industrialized economies by 2050, thus altering the conventional view of the extant international order. The 2008-2009 financial crisis, triggered in the United States and with devastating consequences for the eurozone, but which only marginally affected the BRIC countries, only ratified this notion. The liberal international order that emerged after the end of the

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Cold War under the hegemonic leadership of the United States found itself under increasing strains. Yet, the precise contours of the new order remain undefined.

It is a time of transition in world politics, and much will depend on some key choices to be made in years to come to set the course for the newly emerging international system. For some, there is little doubt this will be the "Asian century," by which they mean the century of China and of India. For others, it will be the Pacific century, something seemingly ratified by the growing prominence of the once obscure Asia-Pacific Economic Cooperation (APEC) forum. Robert D. Kaplan takes this one step further, arguing that it is the Indian Ocean where the future lies, and that Calcutta will be the next global city.[2]

Yet despite all the difficulties of the North Atlantic economies (though Canada remains in enviably good shape), the Atlantic area is still very much at the center of worldwide trade and investment flows. Perhaps what is needed is a radical rethinking of the relative weight of the until-now dominant North and the more low-profile South Atlantic.

The South Atlantic means South America and Sub-Saharan Africa

Latin America and Africa were until not too long ago part of what used to be known as the Third World, a term now replaced by "Global South." East, South- and Southeast Asia are now the fastest-growing areas in the world, and are at the very core of the forces reshaping the new global order. Yet Sub-Saharan Africa and South America, on the other hand, have traditionally been seen as marginal sub-continents, far removed from the Eurasian geopolitical center. They share a history of economic underdevelopment, of political instability, of legendary dictators, of social and economic inequality, and of inward-orientation. African countries achieved their independence more recently, and their state formation and institutional development is correspondingly weaker.[3]

There are more countries in Africa (54) than in Latin America (33), though the per capita income of the latter is considerably higher. Given that, by definition, an exercise such as rethinking what the Atlantic Basin is all about is geopolitical rather than cultural, it would also be useful to circumscribe the limits of the geographic area we are looking at. Conceptually, then, the ideal is to focus not so much on Africa as a whole or on the totality of Latin America and the Caribbean (LAC) but on specific sub-regions within each of these continents—i.e., Sub-Saharan Africa and South America.[4] The reasons for this are not difficult to justify. The Maghreb, i.e. Northern Africa, looks largely to the Mediterranean, and responds to a very different social and economic matrix than the rest of Africa. The case of South America is somewhat different, since its societies have a lot more in common with those of Central America and Mexico, than, say, Nigeria does with Egypt. That said, over the past decade or so, there has been a growing divergence between the South American region and its neighbors to the North. Both parts of the Latin-American/Caribbean (LAC) region have been pulled increasingly apart.

Mexico, and the Central American and Caribbean nations, by and large not endowed with enormous amounts of natural resources, have come to depend more and more on *maquiladoras* producing for the U.S. market, on tourism and on the drug trade. On all fronts, from migration flows to sports to cultural exchanges to organized crime, they are becoming more and more integrated into the U.S. (and, to a lesser extent, the Canadian) mode of production. Chinese competition on the manufacturing front (from

[2] Robert D. Kaplan, *Monsoon: The Indian Ocean and the Future of American Power*. New York: Random House, 2010.
[3] There are exceptions. The South African state has greater capacity than that of a number of Latin American countries.
[4] Though in this initial draft, the empirical section of this paper still relies on overall trade flows with LAC and Africa as a whole, we plan to disaggregate that in the revised version. [Have you done this now]

electronics to textiles) has been especially deleterious to industry in these parts of the Americas. As a rule, economic growth here has been lower and social problems more serious. El Salvador, Guatemala and El Salvador have the highest murder rates in the world.

South America, on the other hand, has gone in a very different direction. Richly endowed with natural resources, from abundant agricultural land to plentiful fresh water and ample mineral reserves, both oil and non-oil, it has made the most of the commodities boom of the past decade. It is South American countries like Argentina, Brazil, Chile and Peru that have made the most of the growing demand from the Asian giants, though other countries have not done too badly either. In 2009, at the height of the financial crisis, the country with the highest growth in the Americas was Bolivia, with 3.4%, and in 2010, Paraguay grew at an astounding 14.5%, a rate comparable to that of the Gulf States or Singapore. Trade and investment flows here point increasingly toward Asia. For Brazil and Chile, China is their # 1 trading partner, having long displaced the United States. Argentina and Peru should follow suit shortly. Venezuela is doing its best to diversify its oil exports, targeting Asian markets in general and China in particular. Migration flows from South American countries to the U.S. are minimal, and U.S. influence is ebbing.

Beyond the economic forces at play, a number of key political developments have given special impetus to the rise of South America as a stand-alone entity, with its own dynamics and personality, something it arguably never really had in a past riven by rivalries and differences. Mexico's joining of NAFTA in 1994 meant that the one Latin American country that could have balanced Brazil within the broader Latin American region, essentially "opted out" of the Latin American project. The War on Terror unleashed by Washington after 9/11 led to the United States becoming engaged elsewhere, paying little attention to what happened in the Western Hemisphere. And the unraveling of the Free Trade Area of the Americas (FTAA) project, scheduled to be in place by 2005, but that fell apart much earlier, put paid to the most ambitious undertaking to spread "deep globalization" in this part of the world.

The formal emergence of the *Unión de Naciones Sudamericanas* (UNASUR) in 2008, first led by Chilean president Michelle Bachelet, was in many ways the culmination of South America's rise as an international entity. It was quickly followed by the launch of the South American Defense Council, a signal that even the "hard" areas of international politics would not be exempt from this trend towards a more assertive regionalism, one fed by the collective diplomacy that has become such a hallmark of Latin American foreign policies in the post-Cold War era.

In the course of the past two decades, democracy has become the norm in South America. The past ten years, in turn, have seen a veritable economic boom, with countries paying down their foreign debt, expanding their hard currency reserves and otherwise being prepared to face external crises, as became manifest in 2008-2009. As Roberto Porzecanski has put it, for the first time in 200 years, a financial crisis in the North did not wreak havoc in the South.

From a very different starting point, Africa has also come a long way. Though by no means fully democratized, free and fair elections and democratic institutions are making headway in the continent, as is economic and social progress. Between 2000 and 2010 six of the ten fastest-growing economies world-wide were African (namely Angola, Nigeria, Ethiopia, Mozambique, Chad and Rwanda).[5] The growing demand for commodities from Asia is one the drivers of this boom, as it has been in South America. Another is the search for markets. With the North Atlantic economies seen as largely mature markets (in some cases, contracting ones), international business is looking for new opportunities. South America and

[5] Greg Mills and Geoffrey Herbst, *Africa's Third Liberation: The New Search for Prosperity and Jobs*. Johannesburg: Penguin Books, 2012, p.3.

Africa offer those aplenty, at least for those with sufficient stomach to take on what is known as the "Africa risk."

From marginal, low-growth, politically unstable regions, Africa and South America are thus morphing into something else: the world economy's new frontiers, with high growth rates, responsible economic management and more solid and predictable institutions. What has not changed, however, is that there is very little interaction between them. Despite these recent commonalities and some of their shared historical predicaments, Africans and Latin Americans largely ignore each other. Trade is minimal, as are FDI flows. To some extent, it could be argued that this is inevitable and springs directly from the fact that these are economies that compete, rather than complement each other. On the other hand, it means that many business opportunities go begging.

Chile's case is revealing. Though widely considered to have made the most of globalization with a largely trade-driven foreign policy targeted towards opening foreign markets, Chile has a mere two embassies in the 49 countries of Sub-Saharan Africa, and does very little trade with Africa, apart from buying oil from Nigeria. A significant food exporter (the largest exporter of fresh fruit in the Southern Hemisphere), professedly aiming to become one of the top ten food exporters in the world by 2020, there is much business that Chile could do in Africa, most prominently in the oil exporting nations and in the Portuguese-speaking ones. But it is not taking place.

The only attempt so far to develop a South Atlantic sphere of influence of sorts is not a very encouraging one. It harks back to the days of apartheid-era South Africa and its attempts to create a South Atlantic Treaty Organization (SATO), in a joint venture with the military regimes of the Southern Cone, attempts which never took off.

Brazil as the South Atlantic Hub

Still, there is one country that in the course of the past decade has made an attempt to bridge the South Atlantic, and that is Brazil. As one of the original members of the BRICS, Brazil is at the forefront of the world's emerging powers. And although Brazil has had traditionally an assertive and imaginative foreign policy, its "diplomatic offensive" achieved new heights under President Luiz Inacio Lula da Silva's (2003-2010). At a time when many governments have been closing missions and cutting back on foreign affairs budgets, Brazil, grasping that diplomacy has become more, not less, significant in the age of globalization, did the opposite. During Lula's presidency, Brazil opened some 35 new embassies all around the world, of which it has 136 by now.

In Latin America, Brazil has played a key role. It has been the driving force behind UNASUR, has taken the lead in stabilizing Haiti through MINUSTAH, the first UN peace-keeping mission formed by a majority of Latin American troops and headed by a Brazilian general, and continues to be the leading member of MERCOSUR, the Common Market of the South that has just been joined by Venezuela. Brazil is willing to work with Washington, but not if that entails sacrificing principles such as democratic rule, as shown in the Honduran crisis in 2009-2010.

But perhaps the most remarkable feature of Brazilian diplomacy during the past decade has been its willingness to put Africa ("global capitalism's last frontier")[6] front and center. In his eight years in office, President Lula undertook twelve visits to Africa to 21 countries. His foreign minister, Celso Amorim,

[6] To use the expression of Jose Flavio Sombra Saraiva in his incisive chapter, "A Africa e a politica externa na era Lula: Relancamento da politica atlantica brasileira', in Adriano de Freixo, Luiz Pedone, Thiago Moreira Rodrigues e Vagner Camilo Alves (eds.), *A politica externa brasileira na era Lula: Un balance*. Rio de Janeiro: Apicuri, 2011, p.180.

made 67 such visits, to 34 African countries. Of the total number of embassies opened by Brazil in these years, more than half—twenty—were opened in Africa, ratcheting up the total to 37, more than the United Kingdom has. African countries, on the other hand, fully grasped the significance of Brazil's new role. Some 17 African embassies were opened in Brasilia in this period, making for the largest number of African missions in any capital in the Southern Hemisphere. Some 47 African kings, presidents and prime ministers visited Brazil in these years.[7]

What makes this Brazilian "charm offensive" in Africa noteworthy is not just these numbers, and Brasilia's willingness to put its money where its mouth is, but also how far its strays from the regional norm. Despite the relative geographical contiguity, for most Latin American countries Africa might as well not exist.

We shall examine below the growing presence of China and India in Africa (and in LAC). And although there are similarities in the activities of the three BICs countries in that continent, Brazil's motivation and driving force for assigning to Africa a priority few others do, seem somewhat different.

The links between Brazil and Africa have long-standing historical roots, going back to the days of slavery and the slave trade. From the 16th to the 19th century, it is estimated that some 3.5 million Africans were transported to Brazil, largely to work in the sugar plantations in Bahia. Although estimates vary, according to the latest census, half the population of Brazil (some 190 million) is made up of Afro-descendants. This makes Brazil the country with the second largest black population in the world after Nigeria. Beyond demography and ethnicity, there are also historical and political links. The ties between Portugal's African colonies (particularly Angola) and Brazil are also of long standing. Angolan representatives took part in Brazil's struggle for independence. At one point the possibility was mooted of Angola joining as another province of an independent Brazil.. Fascinatingly, the strongest opposition to such an initiative came not from Portugal but from Britain. Her Majesty's Government required that this be explicitly ruled out, as a condition for recognizing an independent Brazil. One can only speculate as to what such a trans-Atlantic Brazil might have meant for the South Atlantic.

By putting Africa front and center in its foreign policy initiatives, Brazil is not simply adding one more region to Itamaraty's already crowded diplomatic calendar.[8] It is also making a statement. By singling out the least developed continent as an arena for such a display of diplomatic and public policy initiatives, it is saying that in the new century diplomacy is not just about geopolitics and trade, but also about solidarity and cooperation with those who need it the most.

This is also reflected in the type of cooperation that Brazil is providing to African countries. As a rule, Brazil does not provide cash grants. Rather, it works with African countries in enhancing capacity in areas like agriculture, health and education. Is also refuses to impose the type of conditionality dictated by Western donors, which raises so many objections in Africa. Far from simply attempting to "buy its way into Africa," Brazil has developed and designed a *sui generis* approach to work with Africa "as a trustworthy partner, and not just another donor." Whether this will succeed or not is another matter, but this is the rationale behind it.

[7] For these figures see the excellent report *Bridging the Atlantic: Brazil and Africa.* Washington: The World Bank, 2012.

[8] On Brazilain foreign policy, see Tullo Vigevani and Gabriel Cepaluni, *Brazilian Foreign Policy in Changing Times: The Quest for Autonomy from Sarney to Lula*. New York: Lexington Books, 2009; Sean W. Burges, *Brazilian Foreign Policy after the Cold War*. Gainesville: University Press of Florida, 2009; and Riordan Roett, *The New Brazil*. Washington DC: Brookings, 2010.

The Brazilian approach to this partnership with Africa embodies what the new South-South diplomacy is all about. Brazil is a big country with a well-financed Foreign Ministry, yet it does not have the sort of resources to deploy abroad that the United States or even China has. What Brazil does have is a number of commonalities with Africa in terms of its development challenges, from similar soils, to dealing with pandemics such as AIDS.[9] By enhancing local capacity, training African workers and technicians, and drawing on Brazilian public policy experiences, Brazil positions itself not just as another foreign power trying to extract oil, gold and copper from the black continent, but as something else. Again, this is part and parcel of Brazil's effort to rely on its "diplomatic GDP" to disprove those who say that "there are only two BRICs in the wall," by which they mean China and India, due to their sheer population size.

China and India in South America and Sub-Saharan Africa

Much as Brazil is the "hub" of the South Atlantic, two of the key "spokes" that have made their presence felt in this part of the world over the past decade are China and India. In fact, it could well be argued that a key driver of the economic boom that we have witnessed both in Africa and in Latin America in this period has been the demand for commodities arising from the two Asian giants. In the following sections, we undertake a preliminary, comparative analysis of what increased trade with China and India has meant for particularly South America and Sub-Saharan Africa, and how this exponential growth has altered the two sub-continents' relations with the world economy and the international system more generally.[10]

For South America, traditionally dependent on trade with the United States, and for Sub-Saharan Africa, historically focused on Europe, this has entailed a major shift in how they interact with and view the rest of the world.[11] On the face of it, such a growing demand for raw materials and commodities from these two areas can only be beneficial. Who can be against more trade, higher prices for the natural resources of these still developing countries, and the consequent increase in exports and hard currency inflows that all of this entails? Yet, there is a downside to this, to which we shall get to in a moment. But for now, let us examine *seriatim* what has happened with China and India in these two sub-continents.

China and India's Trade with South America

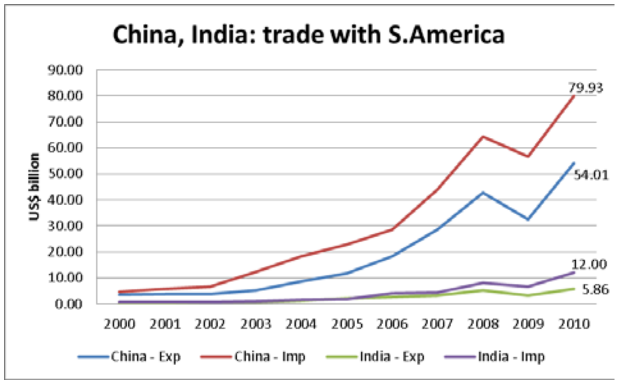
China and India's trade with South America (S.Am.) has increased dramatically from 2000 to 2010. China and India's exports to the region went from $ 4.14 billion (2000) to almost $ 60 billion (2010), while imports grew at a much greater pace, rising from $ 5.47 billion in 2000 to close to $ 92 billion in 2010.

Graph 1

[9] For more on Brazil's foreign policy related to South-South cooperation, see P. Dauvergne & Deborah BL Farias, "The Rise of Brazil as a Global Development Power," *Third World Quarterly,* Volume 33, Issue 5, 2012, pp. 903-917.

[10] The literature on Sino-LAC relations is extensive. See, among other sources, R. Evan Ellis, *China in Latin America: The Whats & Wherefores*. Boulder, Colorado: Lynne Rienner, 2009; Kevin P. Gallagher and Roberto Porzecanski, *The Dragon in the Room*: *China and the Future of Latin American Industrialization.* Stanford: Stanford University Press, 2010; and Ralf J. Leiteritz, "China y América Latina: el matrimonio perfecto?", *Colombia Internacional* 75 (enero a junio de 2012), pp. 49-81.

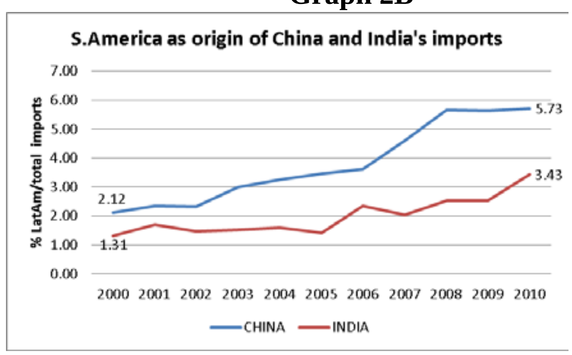
[11] See Andrew F. Cooper and Jorge Heine (eds.), *Which Way Latin America? Hemispheric Politics Meets Globalization*. Tokyo: United Nations University Press, 2009.



Yet, the region still represents relatively little for both China and India. As Graphs 2A and 2B indicate, in 2010 South America was the destination for 3.87% of total Chinese exports and for 2.66% of Indian exports; in turn, the region was the source of 5.73% of China's and 3.43% of India's total imports. The most visible difference between China and India's trade relations with South America concerns the *volume* of trade. In 2010 India's exports to the area reached $ 5.84 billion – the equivalent of only 10.8% of China's exports to the region for the same year.

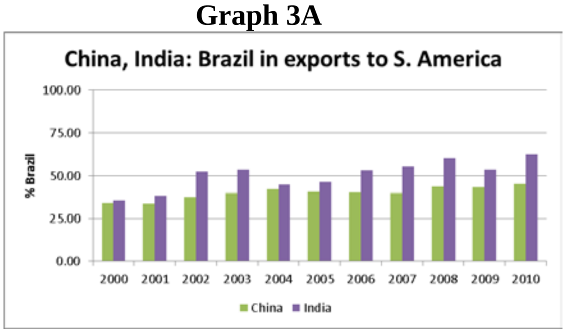
Graph 2A

Graph 2B

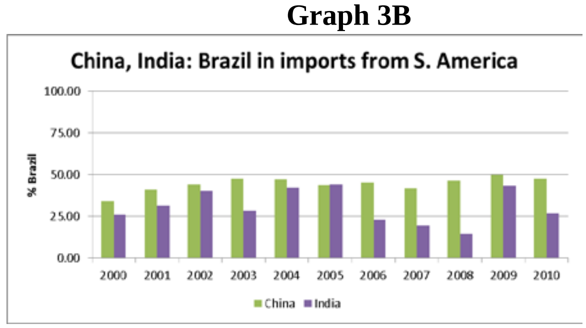


Brazil has consistently and significantly been the biggest buyer of Chinese and Indian products in South America. In 2000 Brazil absorbed 34% of combined Chinese and Indian exports to the region, and by 2010 this number had reached almost 50%. Following the same tendency of concentration, the South American giant went from purchasing 33% (2000) to 46% (2010) of all imports by South American countries from these two Asian countries (see Graphs 3A and 3B).

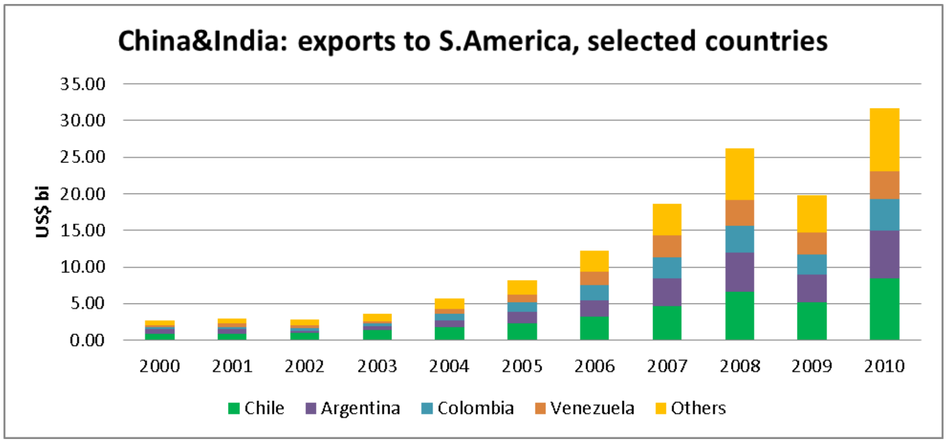
Graph 3A



Graph 3B



Graph 4



The increased interaction of China and India with South American countries cannot be understated. Beginning with Brazil – which represents about half of South American GDP – the impact of this increased trade is significant. While the United States was historically the main source of Brazilian imports, its significance has declined from almost 25% in 2000 to barely over 15% in 2010.[12] In turn, China went from 2.2% to 14.15%, securing a very close second place. More dramatically, while in 2000 U.S. exports to Brazil were 11 times that of China's, in 2010 they were less than 1% higher.

China has risen to the top positions of almost all South American countries' major supplier list. In 2010 it displaced the U.S. to become #1 in Chile. It also surpassed the U.S. in Argentina, where it became #2 (second only to Brazil). China also ranked #2 as a source of imports for Peru (closely behind the U.S.); Venezuela; and Colombia, to name a few.

As for India, it also has improved its position as a supplier to South American countries, although it does not even come close to China's numbers. The most significant case seems to be between India and Brazil as it went from less than half of a percent participation in 2000 to 2.3% in 2010. Although relatively low, this still managed to get India into Brazil's top 10 list of suppliers.

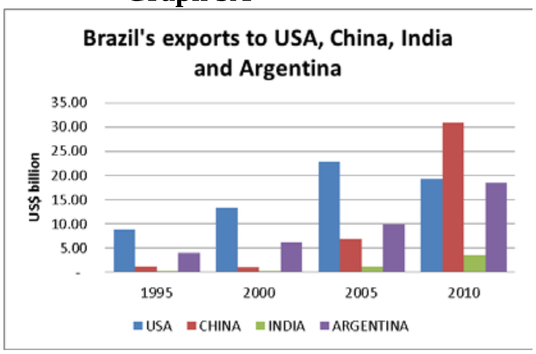
Shifting to China and India as buyers of South American goods, the first point to be made is that India's numbers have oscillated substantially. During 2000-2010, the top spot of South American exporter to India was occupied four times by Brazil, three times by Argentina, twice by Chile and twice by Venezuela. Brazil has shown the most consistent growth in exports to India: from $ 0.18 billion (2000) to $ 3.22 billion (2010). Venezuela has been also come to the fore: in 2008 and 2010 India's oil imports from the region came mostly from this country, accounting for almost 37% (2010) of the total purchased by India from South America.

China's imports from the region show more consistency: Brazil and Chile have been China's main sources of imports from South America from 2000 to 2010. These two countries accounted for 70% of all exports by South America to China in 2010 (up from 62% in 2000). But while Brazil's share grew from 34% (2000) to 47% (2010), Chile's fell from 28% (2000) to 22.4% (2010). China's imports from Brazil grew from $ 1.6 billion (2000) to $ 38.1 billion (2010) – a whopping increase of 23.5 times. This enormous surge of Chinese purchases, combined with the economic crisis in the United States, placed

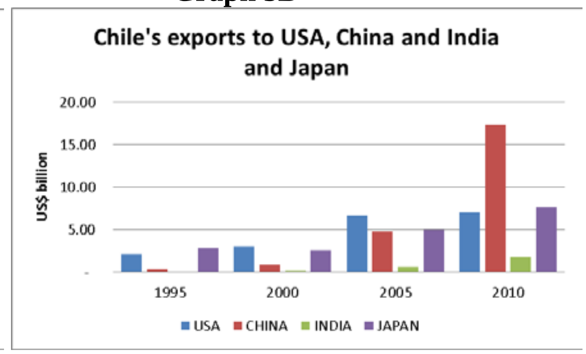
[12] Note: the data here is based on what was reported by each importing country (ex: Brazil's imports from China); because of exchange rate variation there are discrepancies with the exact numbers from exporting countries (ex: China's exports to Brazil). However, this is not expected to change the end result significantly.

China as the #1 destination for Brazilian exports in 2010 (position maintained in 2011) (see Graph 5A). The same happened in Chile, and China is now the main destination of its products, displacing its traditional destinations, the United States and Japan (see Graph 5B).

Graph 5A



Graph 5B



South American exports to China and India are mostly commodities and quite stable in terms of their composition. China's main interest has been in metal ores, soy beans, copper (and copper products) and oil; India's is in oil, copper ore, soy bean oil and cane sugar.

In the case of China's purchases from its main regional partners, Brazil and Chile, there has been an increased concentration of the 3 main products in total amount bought (more in Chile than in Brazil). The three main products imported by China from these two partners alone represented 57.4% of everything bought by China from the region (see Table 1). China's imports of iron ore from Brazil – the most important single product - increased over 38 times; those of soy beans from Brazil 17.5 times, and copper products from Chile almost 15 times.

Table 1

COUNTRY	CHINA IMPORTS FROM SOUTH AMERICA: MAIN COUNTRIES & PRODUCTS						3 MAIN PRODUCTS	
	2000			2010				
	PRODUCT	US$	% TOTAL	PRODUCT	US$	% TOTAL	2000	2010
Brazil	Soy beans	465,816,402	28.7	Iron ore	16,721,756,076	43.9	61.8%	76.4%
	Iron ore	437,634,869	27.0	Soy beans	8,148,317,653	21.4		
	Chemical woodpulp	98,541,803	6.1	Petroleum (crude)	4,231,065,030	11.1		
Chile	Copper products	757,968,095	56.6	Copper products	11,000,961,942	61.3	91.8%	93.7%
	Metal ores (99.6% copper ore)	310,713,859	23.2	Metal ores (copper ore: $3.9 bi; iron ore: $0.9 bi)	5,068,824,720	28.3		
	Chemical woodpulp	159,520,906	11.9	Chemical woodpulp	726,908,440	4.1		

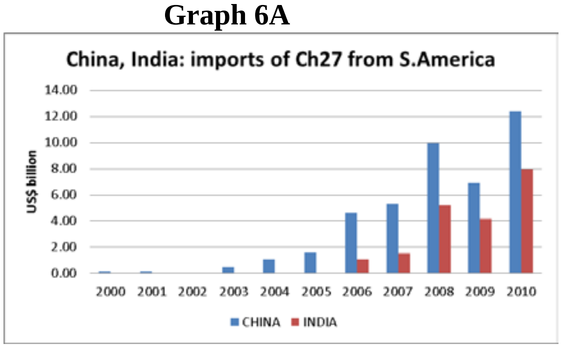
India's trading pattern even more concentrated than that of China's: Venezuelan crude oil represents 99.7% of all items purchased from that country; copper ore accounted for 86.3% of all Chilean exports to India; and soy bean oil accounted for 84% of all Argentine exports to India (Table 2). Trade with Brazil was more diversified, but the three main products – crude oil, cane sugar and metal ores – still accounted for almost three-fourths of all Indian imports from Brazil.

Table 2

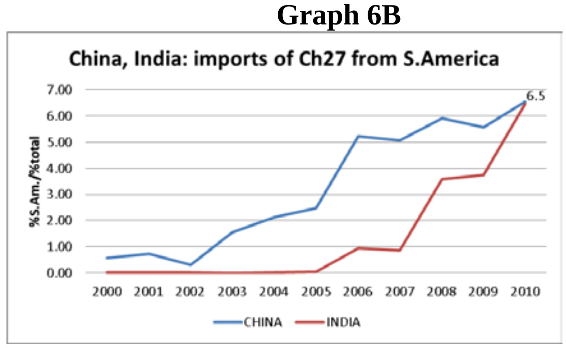
India's imports from S.America - Top 5 products, 2010			
PRODUCT	US$ billion	COUNTRY	% S.Am.
Oil, crude	4.98	Venezuela	41.48
Copper ore	1.35	Chile	11.25
Oil, crude	1.30	Brazil	10.83
Soy bean oil	0.88	Argentina	7.33
Cane sugar	0.75	Brazil	6.25
Others	2.74	-	22.86
TOTAL	12.00	-	100.00

South American countries have become a growing source of energy[13] for China and India, particularly since the mid-2000s. Between 2000 and 2010, China's energy imports from the region rose from $ 0.1 billion to $ 12.4 billion. Even factoring in the rise in oil prices, South America went from being the origin of 0.6% of China's oil imports in 2000 to 6.5% in 2010. An even more dramatic shift occurred with India: while the region had a practically negligible participation in India's oil purchases from 2000 until 2005 – between 0.0005% and 0.015% – in 2006 it rose to 0.93% and by 2010 the weight of South America as an energy source for India also reached 6.5% (Graph 6A and 6B).

Graph 6A



Graph 6B



Because India's trade volume with South America is much smaller than China's, oil from South America has a much greater weight for the former, representing almost 60% of all Indian imports in 2010 from the region (Graph 7A). So even if China purchases more oil from South America in absolute terms than India, oil is not the focus for China as it is for India.

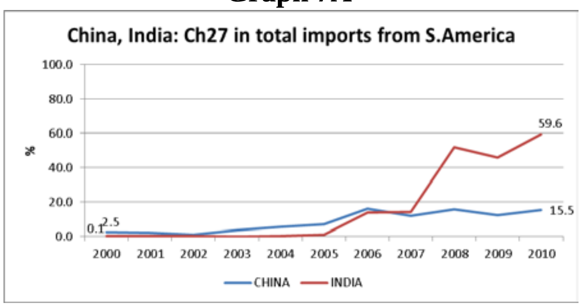
The main source of oil for both has historically been Venezuela, with Brazil coming in second place. It is important to note, however, that even this increase in Chinese and Indian interest in Venezuelan oil does not come close to U.S. oil imports from Venezuela: according to the Energy Information Administration (EIA), while China bought 6% of all oil exported by Venezuela in 2010 and India 5.6%, the U.S. bought 43% of it.

13 In the Harmonized System of trade statistics, energy from fossil fuels is categorized under Chapter 27: "Mineral Fuels, Mineral Oils and Products of their Distillation; Bituminous Substances; Mineral Waxes"

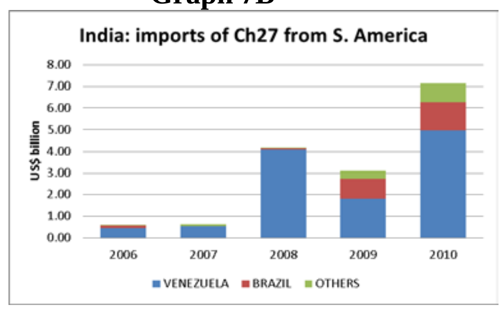
China is increasingly interested in Brazil as a source of oil, within a broader context of diversification of supplies. In 2011 Brazil surpassed Venezuela as China's main source of oil in the region, and China has been entering Brazil's oil sector by acquiring non-controlling stakes in foreign – mostly European – oil companies with existing operations.[14]

Two points are relevant regarding Indian oil imports. First, they have varied quite a bit, even as Venezuela and Brazil were consistently the most important LAC sources – oscillating between 81% and 98% of all South American oil bought during the period 2006-2010 (Graph 7B). Second, Brazil is an oil exporter and importer. While it exports medium-heavy "sweet" oil (i.e. petroleum with low sulphur level), it imports "light" low-sulphur oil as well as refined (non-crude) oil. With India, Brazil exports crude oil and imports diesel, as Brazil's current refining capacity is insufficient. According to Petrobrás, this will change by 2017, when its new refineries are fully operational. Until then it is likely that Indian diesel will remain a significant portion of Brazil's imports from this country.

Graph 7A



Graph 7B



With regard to investment in South America, India has a much more modest profile than China's. While the former has invested approximately $12 billion in the region (essentially from private companies), China Development Bank and the Export-Import Bank of China alone are estimated to have extended over $75 billion in credits to Latin American governments – with some $ 46 billion of these in loan commitments that are commodity-backed. The Chinese credit of $37 billion to the region in 2010 was more than the total of credits given by the World Bank, the Inter-American Development Bank and United States Export-Import Bank combined. Also, Indian FDI is much more concentrated on "high end" sectors, such as IT products & services, and pharmaceuticals; China's FDI targets mostly investments in natural resources (e.g. mining, oil). According to ECLAC**,** 90% of China's confirmed investment in Latin America targeted the extraction of natural resources.[15]

As these numbers illustrate, trade between the Asian giants and South America has grown exponentially, to the benefit of all parties. Yet, even a cursory analysis of the composition of this trade shows that it reflects a First World-Third World pattern, with China and India playing First World, and South America that of Third World, i.e. selling raw materials and buying manufactured goods.[16] The fact that the region, on average, enjoys a much higher per capita income than either China or India, makes this type of trading and investment link paradoxical, if not problematic. But before attempting to address this issue, let us turn to Africa. Does the type of economic relationships that China and India have with Africa – particularly Sub-Saharan Africa (SSA) – differ substantially from the one that is apparent in South America, or are they broadly similar?

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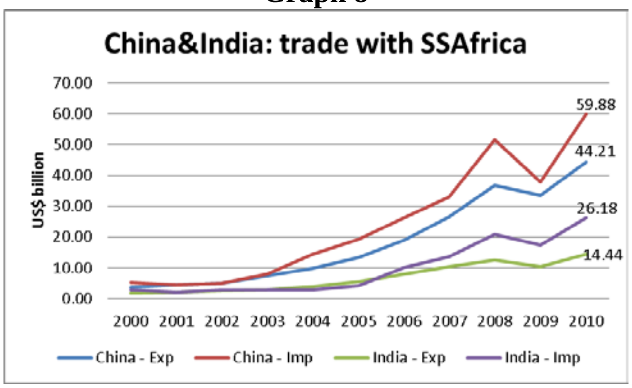
[14] http://www.latinbusinesschronicle.com/app/article.aspx?id=5401
[15] ECLAC, *Foreign direct Investment in Latin America and the Caribbean 2010*.
[16] See Nicola Phillips, "Coping with China," in Cooper and Heine, *op.cit*, pp. 100-121.

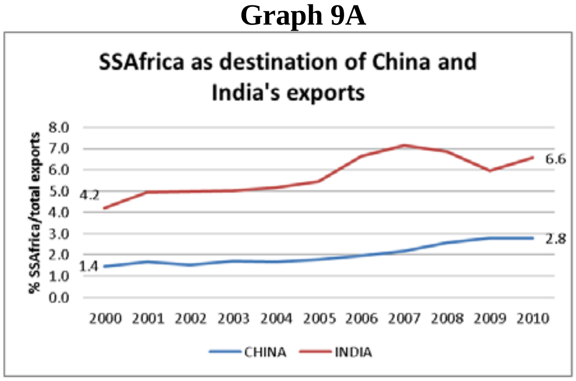
China and India's Trade with Sub-Saharan Africa

China and India have expanded their trade with Sub-Saharan Africa (SSA) tenfold between 2000 and 2010 (Graph 8). This has led to a greater weight of Africa for their trade balance, although one that is still smaller than that that of South America (see Graph 2). In 2010 China imported almost $80 billion from and exported some $54 billion to South America. With regard to China and Sub-Saharan Africa, the comparable figures are almost $ 60 billion and $44 billion – a pattern that remained in 2011. The inverse happened for India, as its trade with South America is still well below that with SSA. Trade with this sub-region has grown in both countries, but it is more significant for India than for China (Graph 9A and 9B; for South America see graphs 1A and 1B). India also has had a growing trade deficit with SSA since the mid-2000s; by 2010, its imports from the region were almost double its exports.

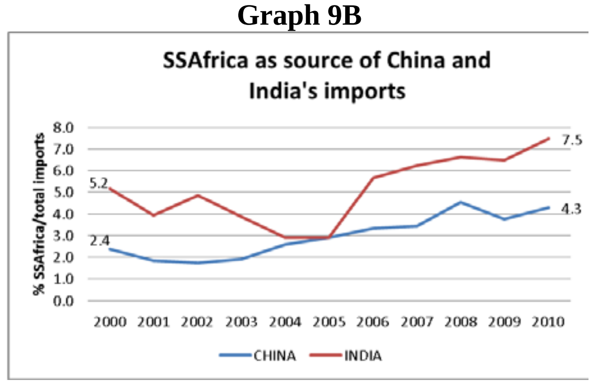
Graph 8



Graph 9A



Graph 9B



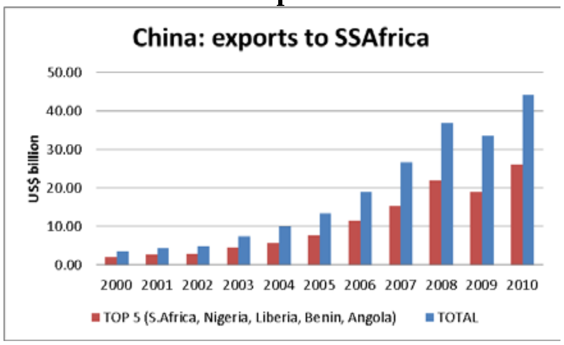
Sub-Saharan Africa is made up of 48 independent states,[17] each with its own foreign trade profile. This partially explains some of the variation in trading partners that China and India each have. While both are strongly engaged with South Africa, the continent's strongest and most diversified economy, and the biggest buyer of Chinese and Indian products, these countries have different sets of partners.

South Africa and Nigeria – the subcontinent's top two economies – are the biggest African buyers of Chinese products. While their purchases of Chinese goods have increased steadily, their share of total African imports from China has decreased from 43.4% (2000) to 39.6% (2010). Once Liberia, Benin and

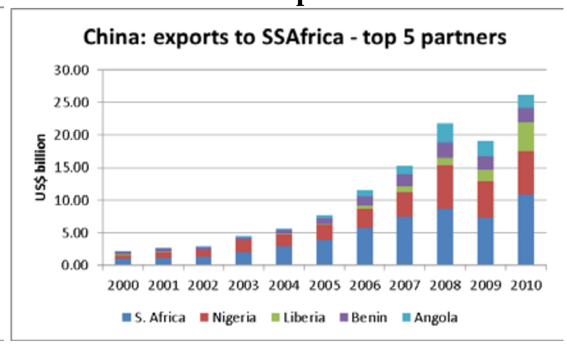
[17] Following the World Bank's definition, Sub-Saharan Africa comprises all African countries except for: Algeria, Egypt, Libya, Morocco, Tunisia and Western Sahara.

Angola are added, the participation of the top five partners in total Chinese exports to Africa becomes very stable, varying between 56% and 60% (Graphs 10A and 10B). As in the case of South America, (cheap) manufactured goods account for the bulk of Chinese exports to these countries.

Graph 10A

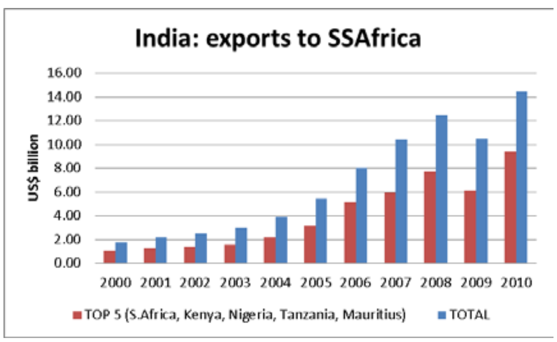


Graph 10B

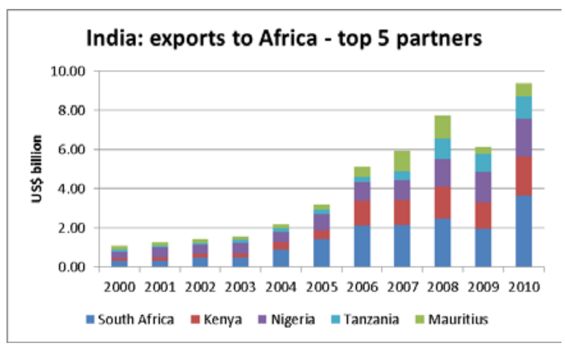


All top five destinations of Indian products in Africa during 2000-2010 were former British colonies: South Africa, Kenya, Nigeria, Tanzania and Mauritius (Graphs 11A and 11B). Their combined weight has changed from 50.2% (2000) to 60% (2010). Indian exports to the region are mostly organic chemicals, pharmaceutical products, diesel, cotton yarn and vehicles.

Graph 11A

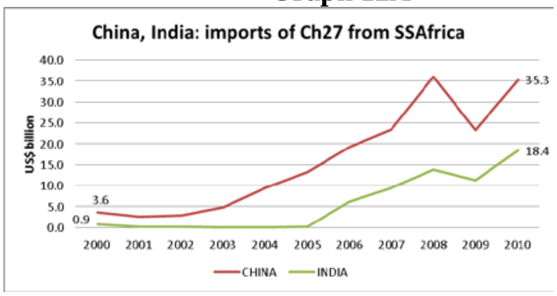


Graph 11B

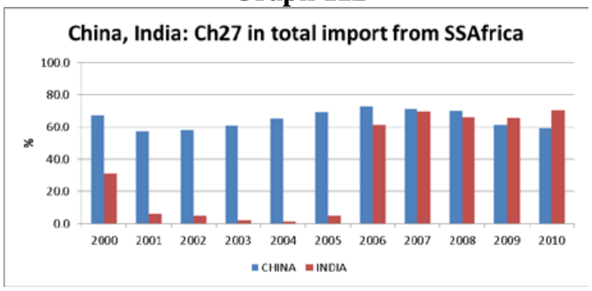


Chinese and Indian imports from Sub-Saharan Africa are largely crude oil and raw materials, indicating the growing importance of the sub-region as an energy source of them. The combined purchases of African energy products (Chapter 27 of the Harmonized System) from China and India grew from $4.5 billion (2000) to $53.7 billion by the end of the decade (Graph 12A). While India suddenly "woke up" to African oil between 2005-2006, China began a bit earlier (2003-2004). In 2010 18.7% of all energy imported by China and 16.6% by India came from SSA. Since 2007, energy products have represented between 60-70% of all of what was purchased from the region by the two Asian giants (Graph 12B).

Graph 12A

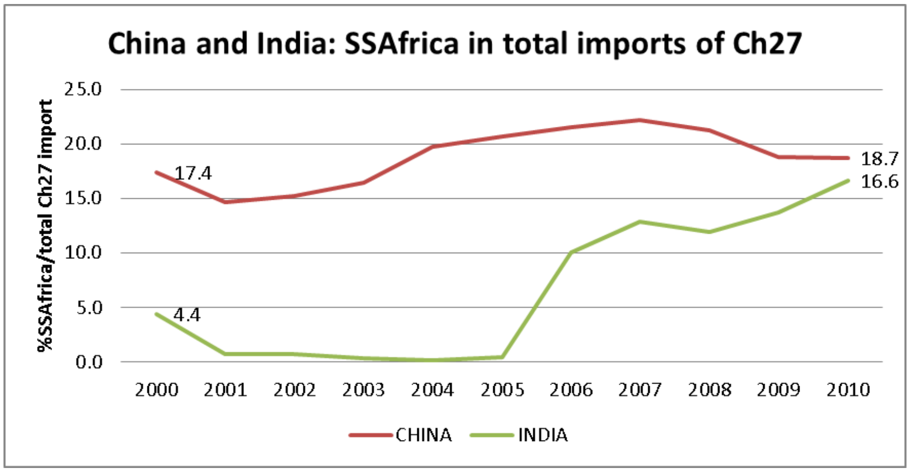


Graph 12B



Despite the considerable increase in absolute value, the relative weight of African countries as a source of energy products for China remained quite stable – around 20% – between 2004 and 2010 (Graph 13A). But while Africa had a practically negligible participation in India's total energy purchases from 2001 to 2005 (an average of 0.5%), between 2006 and 2010 it jumped to a much higher level; by 2010 it was the source of one-sixth of India's total energy purchases (Graph 13B).

Graph 13



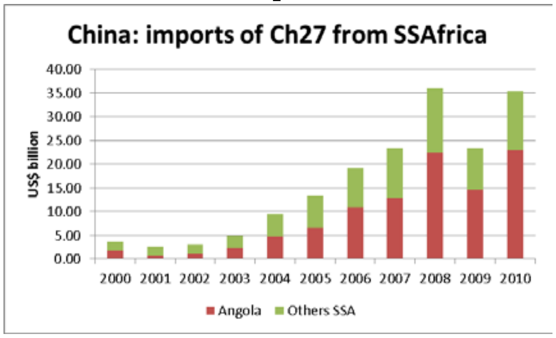
China and India have also diversified their respective sources of African energy. In 2000, China imported energy from 9 African countries, and India from 6. By the end of the decade, 15 countries supplied China and 12 sold to India. China's main sources during 2000-2010 were Angola, Sudan, Congo (Brazzaville), Nigeria South Africa and Equatorial Guinea with an increasing concentration over the period, with these countries responsible for 97% all Chinese oil purchases in SSA. Angola alone has grown steadily in absolute and relative numbers, supplying an average of 63% of Sub-Saharan African oil destined for China (Graphs 14A and 14B), making China the biggest importer of Angolan oil.[18] In fact, since 2005 Angola has been the number two source of Chinese oil after Saudi Arabia. In 2010 Saudia Arabia accounted for 18.9% of China's imported oil and Angola accounted for 16.8%. Sudan has been a stable second source of Chinese Sub-Saharan African oil since 2007, accounting on average for 18.5% of China's imported oil. In 2010 China was by far the biggest importer of Sudanese oil,[19] placing Sudan in

[18] Angola did not report to UNCOMTRADE its exports for 2010, so a proxy analysis was done by looking at the countries that reported imports from Angola; given variances in exchange rates, a direct comparison between reporters is not precise.

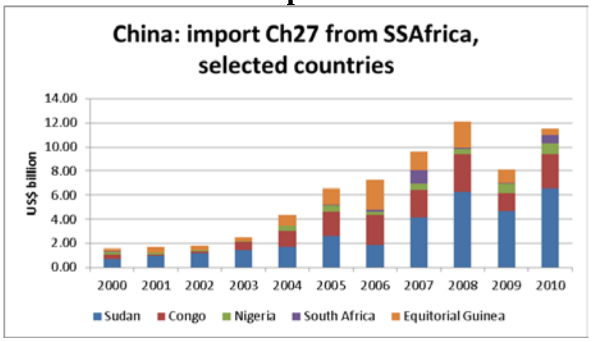
[19] As in the case of Angola, Sudan did not report to UNCOMTRADE its exports for 2010, so a proxy analysis was done by looking at the countries that reported imports from Sudan; given variances in exchange rates, a direct comparison between reporters is not precise.

the top ten sources of Chinese oil since 2000, averaging 5% in total since 2006. In 2010 it represented 4.8% of total Chinese oil imports, ranking #6.

Graph 14A

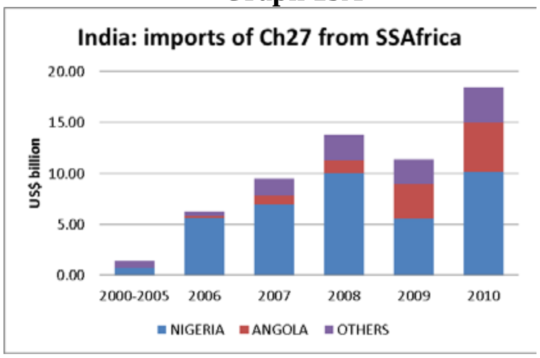


Graph 14B

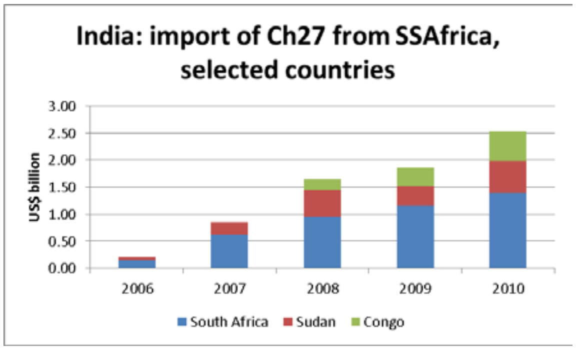


India's main sources of oil in Sub-Saharan Africa have been Nigeria and Angola, which combined were the source of over four-fifths of all oil bought from the sub-region between 2006 and 2010, followed by South Africa, Sudan and Congo (Graphs 15A and 15B). During this period Nigeria was India's number one partner, although its relative importance has been in decline, falling from a 90.4% share in 2006 to 55% in 2010. Nonetheless, in 2010 India was Nigerian oil's #2 destination, as the Asian country purchased 11% of all Nigerian energy sold, with the U.S. as #1 (37.5%), and China ranking only #19, purchasing less than 1% of all Nigerian oil that year. Because of this high volume from Nigeria to India, this oil-rich country was the second most important source of oil for India (responsible for 11% of Indian oil imports), with Saudi Arabia taking the lead (18.3%). And Indian purchases of Angola's oil have increased significantly in absolute and relative terms: from $ 0.18 billion in 2006 to $ 4.8 in 2010; increasing their participation as the source of India's oil imports from SSA from 2.9% in 2006 to 26.2% in 2010. By 2010 India was the third biggest importer of Angolan oil (buying almost 10% of this country's oil) and accounting for 5.4% of all oil purchased from India that year.

Graph 15A

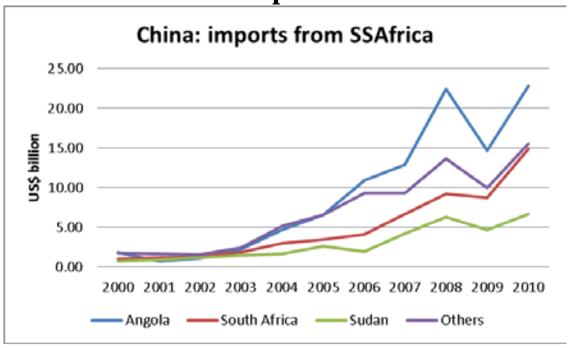


Graph 15B

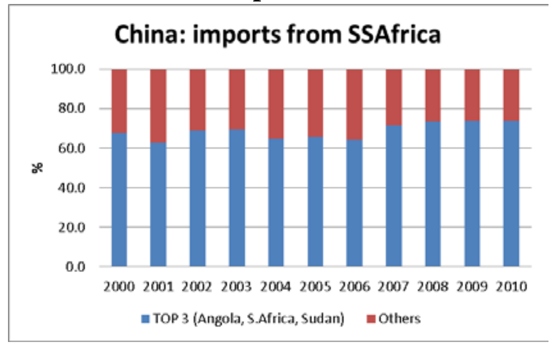


Angola, South Africa and Sudan accounted for between ⅔ and ¾ of all products imported from Sub-Saharan Africa by China throughout the 2000/2010 period. In 2010, Angola accounted for almost 40% of all African purchases, followed by South Africa's 25% and Sudan's 11% (Graphs 16A and 16B).

Graph 16A



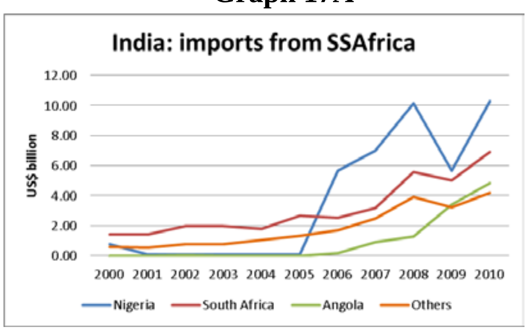
Graph 16B



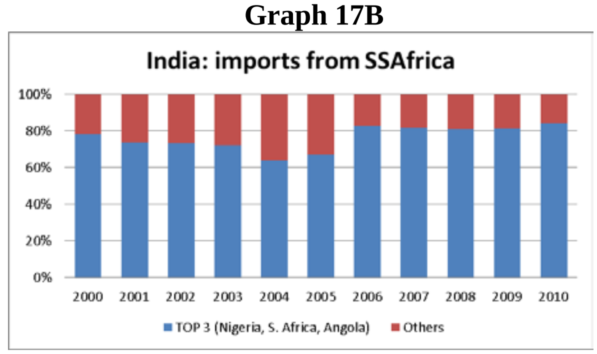
Out of China's top 5 Sub-Saharan Africa import partners for 2010 – Angola, South Africa, Sudan plus Congo and Zambia – it is little surprise that only South Africa exported a (somewhat) diversified list of products. Nonetheless, it was quite concentrated in metal ores, business services[20] and precious metals, with the top three products representing around 70% of all goods imported in 2000 and 2005 and almost 80% in 2010. This same year China was the #1 importer of South African products (11.4%); followed by the U.S. (9.9%), and with India at #6 (4.2%). All other countries were extremely concentrated around a single product: Angola and Sudan's exports to China consist almost 100% of oil (and around 90% for Congo), with Zambia exporting over 90% of only one product: copper.

As for India, once all imports of SSA products are included, the top 3 partners were Nigeria, South Africa and Angola, which have accounted for about 82% of goods purchased by this Asian country from the sub-region since 2006. While Indian imports from South Africa grew in the overall period, its relative weight decreased in light of the enormous leap in purchases from Nigeria and Angola by the second half of the decade (graphs 17A and 17B).

Graph 17A



Graph 17B



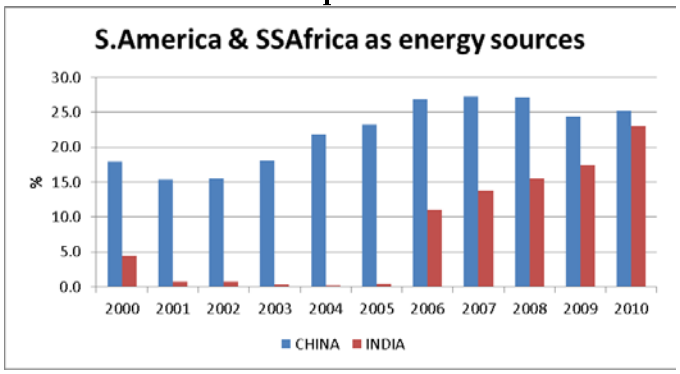
Similarly to China, India's most important partners exported (essentially) only a primary commodity such as oil or metals. While Nigeria and Angola sold close to 100% in oil, Indian purchases from South Africa have historically been centered on gold, with energy playing a minor but growing role, here the main product being coal (not oil). In 2010, India was South Africa's # 6 export market (4.2%).

In the end, most Chinese and Indian foreign energy supplies are still coming from outside of South America and Sub-Saharan Africa: traditional Middle Eastern countries and the closer Asian energy-exporting nations. However, the combined weight of the "new" regions has grown for both China and

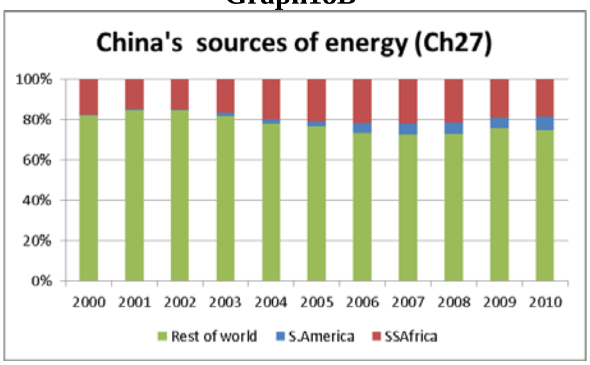
[20] The category "Business Services, unspecified," as indicated by its own name, makes it difficult to allow for a thorough understanding of what these actually were (its HS classification is 999999).

(particularly) for India since the mid-2000s, with them accounting for roughly 1/4 of all energy imported by China and India in 2010 (Graph 18A, 18B and 18C).

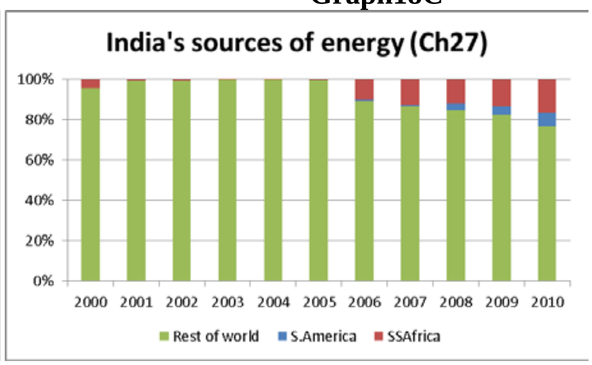
Graph18A



Graph18B

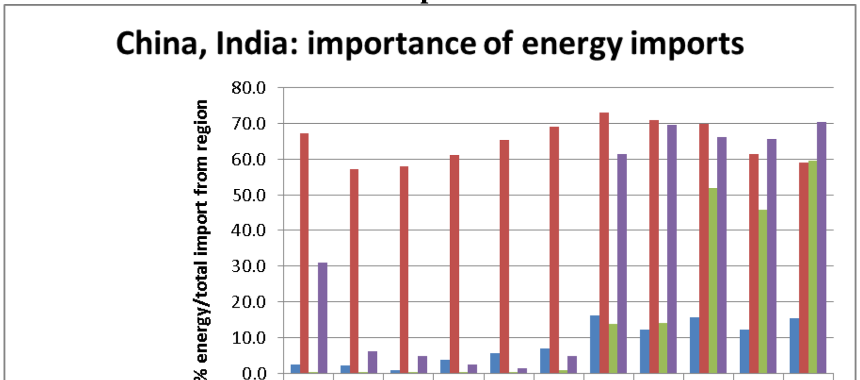


Graph18C



Yet, there are differences between China's and India's reliance on South America and Sub-Sahara African countries for their energy needs. The first point to make is that energy does not constitute the focus of China's purchases in South America. Even if its weight has risen from 2.5% (2000) to 15.5% (2010), it still means that about 85% of what China bought from this region was not related to energy (i.e., largely commodities, such as metals and soy beans). Indian imports, on the other hand, have become more focused on energy: between 2008 and 2010, around half of all goods purchased from the region consisted of energy products. As for imports from SSA, energy represents an average of two-thirds of all Indian imports between 2006 and 2010. Another conclusion from the numbers is that China's purchases of energy from SSA between 2000 and 2010 reveal a quite interesting scenario: while it has bought increasingly more energy from the region in absolute terms (graph 14A), the relative increase of non-energy products has been higher since the mid-2000s. While in 2006 almost three-fourths of everything China bought from African countries was related to energy, by 2010 this accounted for slightly less than 60%. In other words, China's import of African primary commodities is growing faster than its energy imports (Graph 19).

Graph 19



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
China: %energy/total S.Am.	2.5	2.2	0.8	3.7	5.6	6.9	16.2	12.1	15.5	12.2	15.5
China: %energy/total SSAf	67.3	57.1	57.9	61.2	65.3	69.2	73.1	70.9	69.8	61.4	59.0
India: %energy/total S.Am.	0.1	0.1	0.1	0.0	0.3	0.9	13.8	14.2	51.9	45.9	59.6
India: %energy/total SSAf	31.1	6.0	4.7	2.3	1.3	4.7	61.5	69.5	66.1	65.7	70.4

Despite frequent concerns expressed about China and India's trade relations with Africa, a recent report found no evidence indicating that the "new players" were hindering the region's industrialisation, debt sustainability or governance.[21] And while Chinese aid to Sub-Sahara African countries is connected to interest in natural resources, other reasons also come into play for decision-making (i.e. politics, ideology, trade) – as does most Western aid to the region.[22] The broader context is that China's trade with Sub-Saharan Africa countries has been growing within a decade-long process of increased presence on the continent: by 2002, it displaced Great Britain as the third most important trading partner; four years later, it was #2, surpassing France; and in 2009 it took the first place from the United States. The surge of Chinese and (to a lesser degree) Indian trade with South American and Sub-Sahara African countries was also influenced by the 2008-2009 financial crisis, one result of which were falling U.S. and European imports not only from thse two regions, but from China and India as well. This gave an increased push – particularly to China – to direct it manufactured goods elsewhere. This was compounded by the fact that China's and India's imports from these regions consist mostly of primary commodities. In other words, while the "traditional" buyers bought less of commodities and manufactured goods (from everyone), the "newcomers" interacted with South America and Sub-Saharan Africa, by essentially buying commodities and selling their own manufactured goods and shifting their trade balance pattern. Probably the greatest concern for the countries in the sub-regions is that the flux of cheap manufactured goods from China – helped by an undervalued *renminbi* – doesn't affect permanently the industries of so many developing countries. Still, the long-term effect of Chinese and Indian presence in each South American and Sub-Saharan country should not be assessed as homogeneous unit given that its individual impacts will differ based on market structure (particularly dependency on commodity exports) and institutional consolidation[23].

[21] OECD, *African Economic Outlook*, 2010.
[22] For more on Chinese aid to Africa, see: Brautigam, Deborah (2010), *The Dragon's Gift: the Real Story of China in Africa*, Oxford University Press, New York, NY.
[23] Sindzingre A., "The Rise of China in Sub-Saharan Africa: its Ambiguous Economic Impacts," presented at the 4th Congress of the Asia and Pacific Network/4ème Congrès du Réseau Asie et Pacifique, Paris, 14-16 September 2011. Also; Alice Sindzingre and Lee Robinson, "China's Ambiguous Impacts on Commodity-Dependent Countries: the Example of Sub-Saharan Africa (with a Focus on Zambia)," Economix Working Paper 2012-39, Université de Paris Ouest Nanterre La Défense, mimeo.

Contrary to what one might have thought, given the differences in levels of social and economic development, the patterns of trade and investment that we see in Africa by China and India share some broad similarities with the ones we find in South America. A strong emphasis on the search for commodities and natural resources, with energy (and particularly oil) being very much at the forefront, and on selling manufactured products and industrial inputs instead. India, given the lower amount of resources it can mobilize, underscores a bit more the capacity-building dimension of its links with Africa, much as Brazil does. But, by and large, it is access to SSA's natural resources that acts as the main *leitmotiv* behind India's growing presence in Africa.[24]

Conclusion

The paradox is only too apparent. On the one hand, the two continents in the South Atlantic Basin have had a remarkable first decade in the new century. They have grown at high rates, witnessed considerable progress in democratization (though a lot more on the South American side than on the African one), and stabilized their economies so as to withstand international crises like that of 2008-2009. On the other hand, it could well be argued that this remarkable performance has taken place at a certain cost. It has not been the result of internally-driven, self-consciously made policy choices, but simply the product of the commodities boom of the "naughties," driven by China and India. The danger of this is that, particularly in mining and in oil, these are non-renewable resources that at some point run out. What happens then?

Moreover, the argument has been made that not only do the links with Asia promote mostly, if not exclusively, the primary sector of the SSA and South American economies. They could, in fact, contribute to the "deindustrialization" of these continents. With premium prices being paid for minerals and food products, all the incentives are to invest in those activities for export, and import cheap Chinese and Indian finished products in turn. This is not the way forward for self-sustaining, long term development.

One way out of this predicament is for African and South American industries to access the Asian value chains that contribute so much to global manufacturing output these days. Another is to start "looking sideways," as it were, and to explore the manner in which the sub-regions could work together to complement their economies, across the Atlantic and in so doing, laying the foundations for a newly invigorated and resurgent South Atlantic Basin. The lead role that Brazil has taken in kick-starting this ambitious but potentially highly rewarding process is perhaps an indicator that this is by no means an unrealistic project.

[24] On India's presence in Africa, see Ian Taylor "India's rise in Africa," *International Affairs* 88:4 (July 2012), pp. 779-798. See also Fantu Cheru and Cyril Obi, (eds.), *The rise of China and India in Africa*. London: Zed Books, 2010; and Garth Le Pere and Garth Shelton, *China, Africa and South Africa*. Midrand, South Africa; Institute for Global Dialogue, 2007. On the significance of China's presence in Africa for LAC, see Chris Alden, "China y Africa: un espejo distante para América Latina," in *Colombia Internacional* 75 (enero a junio de 2012), pp.19-47.