Russia – Africa trade at a glance

Economic and trade policy overview
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Russia's transition since the collapse of the Soviet Union has seen the country transform from an isolated, centrally-planned economy to a more globally integrated market-based economy. With a population of over 138 million people and a per capita Gross Domestic Product (GDP – PPP) of US$ 15,900, Russia is the ninth most populous country and has several ethnic groups albeit dominated mainly by the Russian ethnic group (CIA, 2011).

Since the country's 1998 financial crisis, the economy has grown at an average of seven percent annually, which has led to a doubling of real disposable incomes and the emergence of a middle class. This growth was mainly due to a devalued rouble, implementation of key economic reforms, tight fiscal policy, and favourable commodities prices. The 2008- 2009 financial crisis did not spare Russia, however, as oil prices plummeted and the foreign credits that Russian banks and firms relied on dwindled (US Bureau of Public Affairs, 2011).

After a series of economic measures to respond to the crisis, including the use of Russia's international reserves and a rescue plan for struggling banks and companies, economic decline was curtailed in mid-2009 and the economy began to grow again in the first quarter of 2010. The global rebound and a rise in oil prices also bolstered the Russian economy's modest recovery. The growth was, however, hampered by a reduction in agricultural output as a result of severe drought and fires, a reduction that in turn impacted on and slowed growth in other sectors such as manufacturing and retail trade. It is expected that prevailing high oil prices (2011) will continue to bolster Russian growth and help reduce the budget deficit, although inflation and increased government spending may get in the way. In the long-run, a shrinking workforce, a high level of corruption, difficulty in accessing capital for smaller, non-energy companies, and poor infrastructure in need of large investments remain a threat to Russia's economic performance (CIA, 2011).

In terms of trade policy, Russia has undergone significant change in the post-Soviet Union era. In the days of the Soviet Union, trade was bi-faceted with internal trade (trade among the former Soviet states) on the one hand and trade with the West (external) on the other. According to Tarr (2009), the trade adjustment pattern and political economy of the trade policy that developed in the post-Soviet period were very different between the two regions. In the immediate post-Soviet era, Russia was confronted with the fact that there were enormous disparities between prices in Russia and world market prices. Domestic prices of commodities and raw materials were dramatically lower, and as a result some form of protection was required during the transition to a globally integrated economy. Furthermore, Russia's manufactured products were not of sufficient quality to be exported to Western markets.

Tarr (2009) notes that the Russian government took the position to apply three main export restraint mechanisms (export quotas, export taxes and foreign exchange surrender requirements) as opposed to import protection. Use of the tariff was not significant due largely to the undervalued rouble which made importing economically unviable to the extent that government would subsidise imports. According to the World Bank, in 1992, subsidies accounted for about 17.5 percent of GDP (US$18 billion). Machinery and equipment received 49 percent of the import subsidies and food products received 35 percent of the subsidies, with subsidies varying by sector from a low of 61 percent for food imports to a high of 90 percent on food processing equipment.

With negotiations for accession to the WTO currently underway, Russia has been reforming and harmonising its trade legislation to conform to WTO rules over the past 15 years, which has made it more transparent and predictable for the outside world. Membership of the WTO is imminent and expected to be finalised by the end of the year (2011).

Russia initiatives in Africa

Russia's engagement in Africa dates back to the time when most of the African countries achieved their independence about 5 decades ago. However, ties were severed in the 1990s due the financial crunch that the new Russian state experienced among other factors, but now the Russian Federation aspires to reengage Africa. This renewed interest has been demonstrated by the recent visits by several African leaders to Russia and by Russian leaders to the continent. Visitors to Africa have included President Dmitry Medvedev, who highlighted "a new dynamism" in "Russia-Africa traditional friendly relations" during his visit in 2009. This visit produced several bilateral agreements with African states. Other visits have included Russian First Deputy Prime Minister Sergey Ivanov's trip to South Africa and Foreign Minister Sergey Lavrov's 2008 visit to Senegal for the Organisation of the Islamic Conference (OIC) summit and also his meetings with heads of foreign affairs agencies of African countries in Moscow and New York. Ministers of foreign affairs from South Africa and Kenya, leaders of the foreign affairs agencies of Cameroon, Gabon, Madagascar and other officials from a number of African states attended the Moscow visits (Natufe, 2011).

Saltanov (2008) notes that Russia's foreign policy approach on Africa is to work on strengthening the traditionally friendly relations with the states of the African continent by developing bilateral and plurilateral cooperation arrangements with African countries. Priority attention has been paid to intensifying the Russian-African dialogue and developing common positions on key aspects of the international agenda, including the issues of promoting strategic stability, strengthening the central UN role, and countering new challenges and threats, primarily terrorism and extremism. This cooperation with Africa is confirmed in the July 12, 2008 revised version of the Russian Federation Foreign Policy Concept, approved by the President of Russia. Among Russia's principal partners are Angola, Guinea, Namibia, Nigeria, Ethiopia and South Africa. Prospects for the advancement of cooperation with DR Congo, Gabon, Zimbabwe, Cameroon, Cote d'Ivoire, Kenya, Madagascar, Mali and other countries are also envisaged.

With respect to investment, Russia has become one of the leading foreign direct investors among emerging markets in the last decade. The Russian expansion abroad started in the Commonwealth of Independent States (CIS) and has moved forward to industrialised countries as well as Africa. Oil, gas and other natural resource sectors which have been the major contributors to the Russian economic boom are at the forefront of Russian outward investment. However, despite resource-based industries continuing to dominate outward investment, Russian financial, telecom and retail trade companies are also venturing abroad. According to Nestmann and Orlova, (2008) expanding abroad provides Russian companies with access to new technologies, know-how and resources. In addition, higher revenues and lower funding costs achieved by investing abroad support the build-up of the capital stock and infrastructure investment within Russia.

Focusing on African investments, although still lagging behind its other emerging and developed country counterparts, Russian investments in Africa peaked to US$ 20 billion in 2008 (AFDB, 2011). The new foreign investment policy employed by Russia is to ensure the success of "Russian businesses" on this continent. The growing demand for securing energy resources amongst global players investing in Africa puts Russia at a competitive advantage, being the only oil and gas exporter in this group as it seeks partnerships that go beyond extracting resources but also ensuring technology development and transfer (Natufe, 2011).

However, according to AfDB (2011), the depletion of the resource base in Russia, partly explains the motivation behind Russian business expansion. "The absence of new discoveries and technological advancement, which are weakening Russia's domestic energy, together with the lack of easy access to the remaining underground mineral deposits in Russia," are some of the factors attracting Russia to Africa's considerable natural resources. Russian companies with operations in Africa include Alrosa, Gazprom, Lukoil, Rusal, Renova, Gammakhim, Technopromexport, and VEB and VTB banks, which are engaged in large-scale investment projects on the continent. Below is a summary of Russia's major investors in Africa.

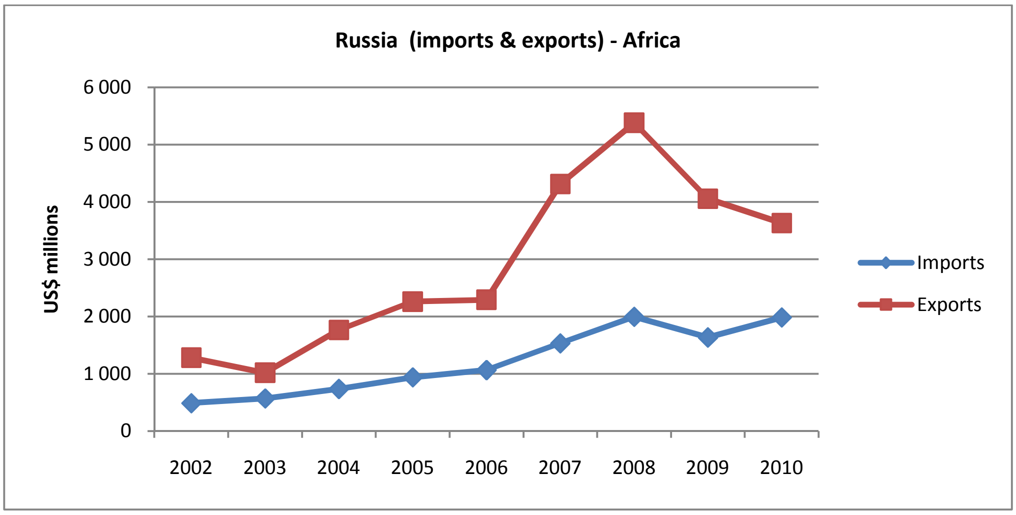
Major Investments of Russian Companies in Africa

Company/ Investor name	Host Country/ *Company*	Industry	Type of Investment	Value	Year
Norilsk Nickel	South Africa *Gold Fields*	Gold mining and processing	M&A (acquired 30% of Gold Fields)	US$1.16 billion	2004
Norilsk Nickel	Botswana *Tati Nickel*	Nickel mining and processing	M&A (acquisition of Canada Lion Ore Mining gave it 85% stake in Tati Nickel	US$2.5 billion	2007
Sintez	South Africa, Namibia, Angola	Oil, gas, diamonds and copper exploration	'Greenfield' Investment	US$10- 50 million	2006
Lukoil	Côte d'Ivoire, Ghana	Oil exploration	M&A (acquired interest in 10,500 km^2 deep water blocks)	US$900 million	2010
Rusal	Nigeria *ALSCON*	Aluminium refining	M&A (acquired majority stake in Aluminium Smelter Company - ALSCON of Nigeria)	US$250 million	
Severstal	Liberia	Iron ore	M&A (acquired control of iron ore deposit in Putu Range area of Liberia	US$40 million	2008
Gazprom	Algeria *Sonatrach*	Natural gas exploration	Joint exploration and development projects by debt write-off agreement and arms deal	US$4.7 billion and US$7.5 billion	2006
Alrosa	Angola, Namibia, DRC	Diamond mining, and hydroelectricity	Greenfield Investment	US$300-400 million	1992
Rosatom	Egypt	Nuclear power	Ongoing negotiations to build Egypt's first nuclear power plant	US$1.8 billion	2010

Source: Adopted from AfDB (2011)

Russian trading relations with Africa

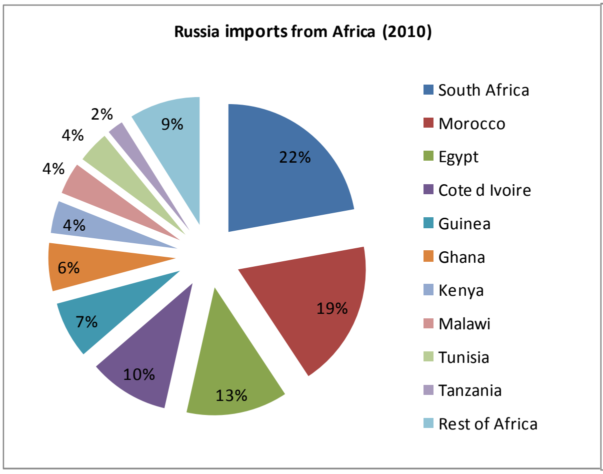
Figure 1, below shows the trade patterns between Russia and Africa from 2002 to 2010 – the latest available trade data year. The picture depicted in Figure 1 clearly highlights the increased interest or cooperation between this economic giant and the African continent.

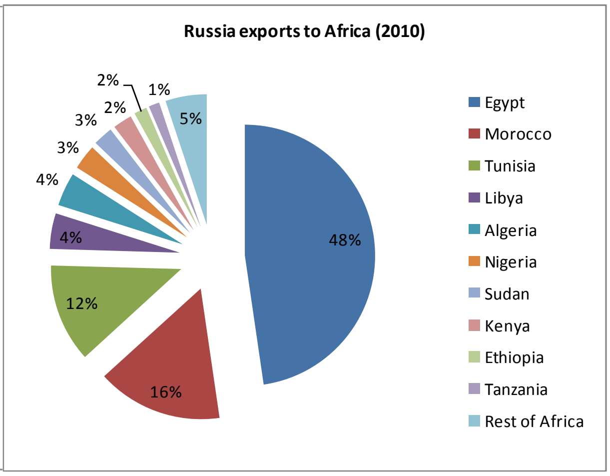


Source: World Trade Atlas

An analysis of the trade flows reveals the following:

- Between 2002 and 2010 the compounded growth of Russia's total trade (imports + exports) with Africa increased by 16% with imports and exports increasing by 19% and 14% respectively. The global financial crisis had an impact on Russia's trade with Africa where during the 2008/2009 period, the value of total trade between Russia and Africa decreased by 23% from approximately US$ 7.4 billion in 2008 to approximately US$ 5.7 billion at the end of 2009. Exports to Africa were affected the most, declining by 25% while imports from Africa declined by a relatively smaller 18% over the same period. In value terms, imports declined by approximately US$ 359 million while exports declined by approximately US$ 1.3 billion during this period.
- However, we have witnessed some recovery in 2010 where the rate of decline in total trade eased to an estimated -1% annual growth to almost reach the 2009 levels of US$ 5.7 billion. The rate of decline was slowed by a recovery in imports which experienced positive growth in comparison to exports where we witnessed a further decline (see graph above).
- The bulk of Russia's current trade with Africa is concentrated with a few countries for both imports and exports. The chart below depicts Russia's respective African trading partners for both imports and exports in 2010 together with the market share of each country.
- Among the major trading partners, trade is concentrated among just a few countries. For imports, South Africa (22%); Morocco (19%) and Egypt (13%) account for about 54% of total trade, while in terms of exports Egypt (48%), Morocco (16%); and Tunisia (12%) account for about 76% share.





Source: World Trade Atlas

- The top 10 products Russia imported from Africa in 2010 accounted for 83% of Russia's total imports from Africa over this period. There is a greater concentration of trade in a few mainly agricultural products as reflected by Russia's composition of imports, in which the top three products accounted for 54% of total of imports from Africa. These were: Edible Fruit & Nuts (29%), Cocoa (16%); and Tobacco (9%).
- In terms of exports, the top 10 products Russia exported to Africa during the same period represented about 92% of total Russian exports to Africa. The products traded are relatively diversified and to a certain extent processed products comprised of: Cereals (31%); Mineral Fuel, Oil, etc (22%), Wood (12%); Iron & Steel (11%); Fertilisers (6%); and Machinery (3%). Together, these products accounted for over 80% of total exports. Table 1 below highlights the product composition of Russian trade with Africa.

Top 10 imports					Top 10 exports				
HS	Description	2002	2010	%share (2010)	HS	Description	2002	2010	%share (2010)
	All products	488.98	1,985.38			All products	1,281.91	3,632.22	
08	Edible Fruit And Nuts	105.98	569.38	29	10	Cereals	288.26	1,120.38	31
18	Cocoa	154.99	313.41	16	27	Mineral Fuel, Oil Etc	120.29	781.19	22
24	Tobacco	67.16	178.58	9	44	Wood	113.34	433.50	12
28	Inorganic Chem; Rare Earth Mt	60.16	162.99	8	72	Iron And Steel	366.65	410.99	11
07	Vegetables	7.74	95.64	5	31	Fertilizers	15.50	203.85	6
62	Woven Apparel	0.63	78.88	4	84	Machinery	26.52	95.26	3
09	Spices, Coffee And Tea	14.27	74.99	4	25	Salt; Sulfur; Earth, Stone	49.86	91.17	3
26	Ores, Slag, Ash	1.94	69.22	3	87	Vehicles, Not Railway	27.97	77.67	2
23	Food Waste; Animal Feed	13.52	56.23	3	48	Paper, Paperboard	37.00	74.29	2
64	Footwear	0.04	45.47	2	15	Fats And Oils	3.47	63.09	2
	Other	62.54	340.59	17		Other	233.05	280.83	8

Source: World Trade Atlas

Sources:

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