

## **South-South Cooperation as Development Strategy: Africa and Latin America**

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### **Abstract**

The so-called "South-South cooperation" (or SSC) could be key to strengthen integration among developing countries, their integration into the world economy and interregional ties. The main objective of this research is to analyse the SSC among countries in Latin America and the Caribbean (LAC) and Africa and to explore its potential. The idea behind this aim is that SSC can help reinforce and improve the overall integration among developing countries, which, in turn, would enhance the 'quality' of their growth, making it more equitable and inclusive. In the first section of this paper we introduce the main objectives of our work. The following two sections include a brief summary of the theoretical framework of SSC and the analysis of the interdependence and potentialities, by studying interregional trade flows and foreign direct

investment (FDI). It is clear that large trade or investment flows do not necessarily reflect a high level of cooperation. However, we believe that these flows can serve as one of the bases for developing, and implementing public policies to build cooperation platforms, between and among these countries. This analysis shows that, although there is yet no significant relationship between these two regions, both trade and FDI flows have grown since the beginning of the new century. But although we found some potentialities (for trade and investment) in non-conventional sectors, economic relations are mainly based in natural advantages of both regions, that is the same pattern of relations with countries from the North (developed). Finally, we sum up our results and share some considerations and future lines of work.

## **1. Introducción**

Recent changes in the international economic, productive and political orders have imposed on developing countries various challenges and opportunities. Among others, these include large capital, goods and services inflows to and outflows from these countries, as well as the growing importance of transnational corporations in global (or regional) value chains. After the 2008 international economic and financial crisis, emerging and developing countries proved to be the main engine of global economic growth, partly displacing the more industrialized economies. This scenario opens up opportunities for new ways of interaction such as the so-called "South-South cooperation" (SSC), which could be key to strengthen integration among developing countries, their integration into the world economy and interregional ties. And this might be the reason why such kind of cooperation has attracted great attention, both from policy makers and academia. In other words, developing countries seem to be looking for alternative integration strategies to the traditional, and already widely explored, North-South ties.

In this paper, as we discuss in the next section, we understand the concept of SSC in broad terms, including collaboration among developing countries in the political, economic, social, cultural, environmental and technical domains. The focus of academic literature on intra-regional links between Africa and Latin America has been less explored.

In this context, the objective of this research is to analyze the SSC between countries in Latin America and Africa, and to explore its potential. This is important because these regions present coincidences regarding a wide range of issues, especially in their development challenges (i.e. production structure, geographic dispersion, etc.). The idea behind this aim is that South-South integration can help reinforce and improve the overall integration among developing countries, which, in turn, would enhance the quality of growth, making it more equitable and inclusive.

In this regard, these regions' involvement in the international development context can be linked to three kinds of strategies. First, it is possible to analyze the joint defense of common interests at the multilateral level to achieve a better negotiating position (e.g. in areas such as rounds of the World Trade Organization, WTO). Second, this link is also manifested by strengthening technical cooperation in those areas where each region/country has an expertise (e.g. agricultural technical cooperation, mining and natural resources in general). And a third strategy focuses on interregional production complementation schemes that enable countries to insert in activities with more value added within global and/or regional value chains (e.g. through increased production and trade specialization or upgrading).

Regarding the first strategy, the developing world has made significant progress at improving its negotiating position in various fields. This has been most evident in the last two rounds of WTO negotiations WTO (Uruguay and Doha), where several developing countries managed to build diverse coalitions to hold have a common position on issues such as trade in agricultural goods, intellectual property and certain services. Regarding the second, South-South also cooperation often emphasizes technology transfer between or among countries. One of the most important forms of cooperation between Africa and Latin America has been due to scientific and technological reasons (mostly in relation to the agricultural and livestock sector). This was done either through memoranda of understanding or formal agreements. And finally, there has also been some kind of, although more incipient, economic and trade

cooperation, reflected in a series of free trade and foreign direct investment (FDI) agreements.

In this paper, we focus on the third strategy of SSC, i.e. countries' insertion in global value chains to generate greater added value in both developing regions. To do this, we first update the analysis of our previous work (Molinari, Strauss, De Angelis, 2014) on the prospects of economic cooperation between Latin America and Africa examining the interregional trade flows and FDI. While it is clear that large trade or investment flows do not necessarily reflect a high level of cooperation, we believe that this type of analysis can serve as one of the bases for developing and implementing public policies to build cooperation platforms among these countries. In the case, for example, of technological cooperation, it is essential not only to involve various stakeholders in each production platform but also to gather countries' national interests in international fora to those of the rest of the world.

After this introduction we discuss the concept of SSC. In the third section we will discuss the economic interdependence and potentialities regarding trade and investment flows. Finally, we close this working progress with some conclusions.

## **2. South-South cooperation: a brief background about the concept**

Over the last few years, cooperation between developing countries, so-called "South- South cooperation" (or SSC), has taken great importance as a key tool to strengthen integration among developing countries, their integration into the world economy and interregional ties. SSC has been addressed both in the implementation of national policies and by academia.

The concept of SSC is very new. There are various definitions of the concept, most of them related to development strategies adopted by developing countries, along with an effort to create different areas for bilateral and multilateral regional dialogue. Generally, SSC refers to cooperation among developing countries, which are very heterogeneous but possess similar vulnerabilities and face similar challenges. As was stated by Lechini (2006) and Sagasti and Prada (2011), SSC is mainly linked to the possibility of acting as a group against the "North" in order to increase the bargaining power in the defense of the interests of the South" group. This implies a greater voice in multilateral arena and a greater autonomy of decision. Somehow, the

existence of an "other" (developed countries) is a kind of unifying force. There are also definitions restricted to horizontal technical cooperation and definitions that refer to multidimensional links between peripheral countries. Lechini and Morasso (2015) differentiate between south-south relations and SSC. The former represent links between public and private actors, with state or transnational basis, from Latin America, Asia and Africa, which may lead to conflicting interactions in front of divergent interests. SSC refers to relations among governments with convergent positions, such as those linked to development goals or to increase the group size in order to have an impact on global issues. The authors also state that SSC expresses shared and plural interests where Southern governments seek to strengthen economic interdependence, promote processes of trade and political integration, address global strategic order issues, and promote stability within international system. Meanwhile in the action field, SCC is mainly reflected in developing countries positions on global and regional institutions, development and trade projects and programs, and investment agreements.

United Nations Office for South-South Cooperation (UNSSC), defines SSC as "(...) a broad framework for collaboration among countries of the South in the **political, economic, social, cultural, environmental and technical domains** (...) it can take place on a **bilateral, regional, subregional or interregional** basis [to] share **knowledge, skills, expertise and resources** to meet their development goals through concerted efforts. Recent developments in South-South cooperation have taken the form of increased volume of South-South **trade**, South-South flows of **foreign direct investment**, movements towards regional **integration, technology** transfers, sharing of **solutions** and **experts**, and other forms of exchanges" [words in bold were introduced by authors].

Caicedo and Barrera Castro (2010) stated that SSC "(...) includes (...) a **common agenda** between countries with similar development features, which face similar (but not identical) **challenges and needs**. Likewise, **south-south dialogue** is recognized as an important tool to solve common problems on key and complex issues this countries face while protecting their **national interest**" [words in bold were introduced by authors, authors translation into English].

The first history of the idea of a "South" group corresponds to the second postwar related to the so-called "awakening of the People of Africa and Asia" in the Bandung Conference for economic and cultural cooperation among African and Asian countries. In the 60's, institutional

growth occurs with the foundation of the Non-Aligned Movement, the G77, the Organization of Solidarity with the People of Asia, Africa and Latin America. In the 70's, the presence of the "South" primarily as a negotiation group with the "North" is reinforced, although there was no strong progress in this regard. Nor progress was made during the debt crisis in the 80's, which could have been a good opportunity to coordinate actions against creditors. Neoliberal policies implemented more severely in the 90s interrupted the progress of multilateral action in the South. Although the chaotic results of these reforms placed the framework of South-South cooperation again, as a way to defend the interests of countries less developed (Lechini, 2006; Lechini and Morasso, 2015).

Currently, there is an important background of national, bilateral and multilateral agencies, organisations, fora and regional agreements that support the negotiation and execution of cooperation between countries. Since 1974, the United Nations Office for South-South Cooperation (UNOSSC) aims at increasing technical cooperation among developing countries. Also, there are multilateral experiences such as the Paris Declaration (2005) and the Accra Agenda for Action (AAA, 2008). At the regional level there are some important fora, such as the Africa-South America Summit (ASA), BRICS summits, IBSA Dialogue Trilateral Forum, and the Community of Portuguese Language Speaking Countries (CPLP). In addition, the existing institutions can be key elements to establish an inter-regional dialogue. In this sense, African Union, SADC, SACU, and COMESA, among others, stand out in Africa. In Latin America, some strategies of international relationships after the rejection of the FTAA gave rise to cooperation schemes which goes beyond trade purposes, such as The Union of South American Nations (UNASUR, in its spanish initials), Community of Latin American and Caribbean States (CELAC, in its spanish initials) and Bolivarian Alliance for the Americas (ALBA, in its spanish initials), among others. Along with this, United States strengthened its bilateral strategy of signing WTO-plus agreements with several countries of the region. More recently, mega-regionalism initiatives stand out, such as Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP). Agreements between regions (inter-regional, inter-subregional or bilateral) on cooperation in general, scientific and technological cooperation, and trade and investment are also highlighted. Also, all these agreements provide a basis for strengthening relations among developing countries.

The academic literature has predominantly explored intra-regional links between Latin America and Asia (Oviedo, 2005; Sevares, 2007; Kwak, 2013), or those between Africa and Asia

(Sanfilippo, 2010; Mutambara, 2013; Pigato and Tang, 2015). But it has not focused too much on the relationship between Latin America (LA) and Africa (Brun, 2009; SELA, 2011). This is because those two regions have generally focused their South-South cooperation strategies either within their own regions or with Asian countries (Lechini, 2009 and 2014; Ayllon and Surasky, 2010, Ojeda, 2010). Despite this, the similarities among development challenges faced by Latin America and Africa (production structure, geographic dispersion, among others) are a potential for the study of SSC between both regions.

Molinari et al. (2014) states that one of the most important milestones of African-LAC cooperation was Africa-South America Summit (ASA), which took place in 2006, 2009 and 2013. The main ASA agreements are framed on various sectors, such as farming and rural development, water resources, trade and investment, infrastructure, energy and solid minerals, tourism, information and communication technologies (ICTs) and science and technology; and IBSA Dialogue Trilateral Forum among India, Brazil and South Africa.

Also several countries in Africa and Latin America have signed Bilateral Investment Agreements (BITs), such as Argentina-Egypt, Argentina-Tunisia, Argentina-Senegal, Argentina-Morocco, and Argentina-South Africa. Currently, Brazil have signed Cooperation and Investment Facilitation Agreements with Mozambique and Angola.

In a nutshell, cooperation among developing countries includes several dimensions such as political, economic, social, cultural, and scientific aspects, among others (Lechini, 2006). Latin America and Africa have some cooperation experience, especially in the field of technology transfer related to the agricultural sector and several spaces for dialogue. All of these constitutes key elements for continuing developing SSC (Delgado Caicedo and Barrera Castro, 2010; Betancourt and Schulz 2009).

### **3. Economic interdependence and potential between Africa y Latin America**

#### **3.1. Goods trade**

As we mentioned in a previous article (see Molinari et al., 2014), the relationship between Latin America and Africa has not been deeply studied, may be due to the (as will be shown in this section) relatively little commercial importance between these them. In this sense, long-term series evidence that trade between Africa and Latin America (hereafter LAC) has historically been among the ones with lowest relevance. Indeed, albeit rising in recent years (especially in

the new century), Africa's total trade weight in LAC has remained around 2%,<sup>1</sup> while the reverse went from 3% (in the first years of the new century) up to 6% (in 2011, but falling sharply in the following years). In parallel, and despite a slight rebound in the first decade of the 21st century, both regions show a declining relevance in total international trade.<sup>2</sup>

The main destinations for Latin American exports have been intra-region, followed by North America, Asia and Europe, in 'food, tobacco and drinks' and 'machinery, equipment and tools'.<sup>3</sup> Meanwhile, the main buyers of Africa's goods are in Europe, Asia, Africa and North America, especially in 'metals and articles thereof' and 'food, tobacco and beverages'. Total trade between the two regions has grown strongly, particularly since 2003 (see Figures 3 and 4). While in general exports tend to be more frequent to neighbour countries, mainly due to lower transaction (cultural proximity, language, etc.) and transport costs (e.g. Europe and Asia direct over half of their exports to their own region). However, Africa and LAC have a less concentrated trade to their own regions, showing great weight of sales to North American, European and Asian markets.

Inter-regional trade is highly concentrated in a small number of countries. Only ten bilateral trade flows account for nearly two-thirds of total trade between the two regions, and Brazil participates in six of these nine exchanges (bilateral flows). Other major players in LAC are Argentina and Chile, while in Africa highlight Nigeria, Morocco (especially for Brazil), Algeria, South Africa and Egypt (for Brazil and Argentina) and Angola (for Brazil and Chile). The trade balance for the period 2003-2012 was in deficit for Latin America, mainly due to Brazilian trade deficit with the African continent.

### **Commercial potential between Africa and Latin America**

The "commercial potential" between two countries can be measured as the difference between their current (bilateral) trade and the overall trade in the exporting country.<sup>4</sup> It is worth noting that this measure may include products that are not directly comparable (e.g. of different

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<sup>1</sup> Comtrade data for the period 2000-2013.

<sup>2</sup> According to the WTO long-term data, in 1948 both regions jointly explained almost 19% of goods' world exports de mercancías (11% LAC and 7% Africa), while in 2012 this fell below 8% (4.2% LAC and 3.5% Africa). The regions that earned most share in world trade were Asia and the Middle East, growing from 14% and 2% to 32% and 8%, respectively.

<sup>3</sup> We use here the Standard International Trade Classification (SITC, UN) in order to unify the trade and investment sectoral databases.

<sup>4</sup> In particular, the commercial potential is measured as the difference between the minimum of the country's exports and its partner's imports, discounting the actual bilateral trade.

qualities) or affected by various trade barriers (non-tariff restrictions, distance, etc.).<sup>5</sup> Also, this formula<sup>6</sup> uses imports and exports as proxies for each country's potential supply and demand (respectively), and hence does not take into account the supply constraints that such country may face in the production and export of a certain good. Hence, as Trade Map's methodological document recognizes, this is only a useful tool as a starting point. In particular, commercial potential is measured as the difference between the lowest value between exports and imports of their partner, and the current bilateral trade.

According to this measure, in addition to fuel and some machinery, Africa also has the capacity to export to Latin America (small) freight vehicles, copper, cotton. About 95% of these potential trade have South Africa as producer and exporter, followed by Morocco.<sup>7</sup> The automotive industry has an important role in the South African production structure,<sup>8</sup> after mining and financial services. In the case of freight vehicles, exports are less concentrated.<sup>9</sup>

**Table 1. African potential exports to Latin America (average 2000-2014, millions USD)**

HS96	Description	Potencial Indicative Trade
271000	Petroleum Oils, Oils Obtained from Bituminous Minerals, Preparations Thereof	16,205
270900	Petroleum Oils and Oils Obtained from Bituminous Minerals (Crude)	11,811
271121	Natural Gas	4,223
870323	Other Vehicles, Spark-ignition Engine Of a cylinder capacity exceeding 1,500cc but not exceeding 3,000cc	2,487
270112	Bituminous Coal	2,357
271111	Natural Gas (Liquefied)	1,989
271112	Propane (Liquefied)	1,838
740311	Refined copper: Cathodes and sections of cathodes	1,485
260300	Copper Ores and Concentrates	996
520100	Cotton (Not Carded or Combed)	934
271119	Other Petroleum Gases, Gaseous Hydrocarbons (Liquefied)	914
842139	Other Filtering or Purifying Machinery and Apparatus for Gases	893

<sup>5</sup> Our future research agenda aims to overcome the first weaknesses by measuring horizontal (varieties of the same quality) and vertical (different qualities) IIT with each of the Latin America partners' competitors. According to Fontagné and Freudenberg (2005), this has to be calculated bilaterally and with the highest possible disaggregation to avoid aggregation and geographical biases. In the second case, such agenda will be to include an indicator that weighs the existence of trade barriers between partners.

<sup>6</sup> *TradeMap* indicator recalculated through Comtrade (WITS) data.

<sup>7</sup> The main current destinations (Figure A1) in people transportation vehicles are the US, Japan, Australia, and some African and EU countries.

<sup>8</sup> South Africa was ranked number 23 the Organisation Internationale des Constructeurs d'Automobiles (OICA) ranking of the top 40 automotive producers.

<sup>9</sup> Mainly sold to EU countries and within the region (see Figure A1).

870421	Motor vehicles for the transport of goods GVW not exceeding 5 metric tons	820
270119	Coal (Other than Anthracite, Bituminous Coal)	787
854430	Ignition Wiring Sets & Other Wiring Sets, for Vehicles, Aircraft or Ship	765

Source: Own calculations based upon WITS database.

On the other hand, the commercial potential of LAC to Africa, evidences opportunities in automobiles and parts,<sup>10</sup> tractors, telephony equipment, medicines, drilling rigs, maize and gold. It is worth noting that drilling, floating or submersible rigs are occasional exports, mainly due to oil extraction projects (Table 2).<sup>11</sup>

**Table 2. Latin American potential exports to Africa (average 2000-2014, millions USD)**

HS96	Description	Potencial Indicative Trade
271000	Petroleum Oils, Oils Obtained from Bituminous Minerals, Preparations Thereof	35,757
270900	Petroleum Oils and Oils Obtained from Bituminous Minerals (Crude)	15,913
870323	Other Vehicles, Spark-ignition Engine Of a cylinder capacity exceeding 1,500cc but not exceeding 3,000cc	10,058
870322	Other Vehicles, Spark-ignition Engine Of a cylinder capacity exceeding 1,000cc but not exceeding 1,500cc	6,309
852520	Transmission Apparatus Incorporating Reception Apparatus	5,517
870899	Other parts and accessories	5,485
300490	Other Medicaments (Put up in Packings for Retail Sale)	5,381
870421	Motor vehicles for the transport of goods GVW not exceeding 5 metric tons	5,067
710812	Gold in Other Unwrought Forms	4,432
890520	Floating or submersible drilling or production platforms	4,249
710813	Gold in Other Semi-manufactured Forms	4,218
870120	Road tractors for semi-trailers	3,722
100590	Maize (Not Seed)	3,389
870332	Other Vehicles, Compression-ignition Engine (diesel) of a cylinder capacity exceeding 1,500cc but not exceeding 2,500cc	3,342
851780	Other telephony appliances	2,995

Source: Own calculations based upon WITS database.

<sup>10</sup> In the automotive sector, only two LAC countries (Brazil and Mexico) are, according to OICA's 2015 ranking, among the ten largest world automobiles producers. Nine countries produce vehicles in Latin America, and between 2014 and 2015 production fell by 21% (especially after falls in units in Brazil, Argentina and Ecuador, while Mexico's rose by 6%). Africa has five motor vehicles producers (South Africa, Morocco, Egypt, Algeria and Sudan) and in 2015 the African production of motor vehicles increased by 16% (especially thanks to increased production of Algeria, which exceeded 1,500%, Morocco and South Africa).

<sup>11</sup> Countries which originated the largest amounts of these exports are Bahamas, Panama, Brazil and Trinidad and Tobago. The largest destination countries reported are Ivory Coast, Republic of Congo, Venezuela and Saudi Arabia.

### 3.2. Trade in services

The recent years' sharp growth of the trade in services dictates the need to include this sector in the analysis, although these data have not yet reached the same level of detail as trade in goods. Hence, this section seeks to approximate the exchange of services scenario, at least in a preliminary way.

Traditionally, the most important regions for both exports and imports, trade in services in LAC and Africa have been the US and Europe, and more recently (and increasingly), China and South Korea. Latin America and the Caribbean has a lower global participation, especially as a services' exporter (Table 3).

**Table 3. Share in total world service trade by region (% of world trade flow)**

Region	Exports			Imports		
	2000	2014	Average	2000	2014	Average
Caribbean	0.9	0.4	0.5	0.4	0.2	0.3
Central America	1.3	1.0	1.3	1.5	1.1	1.1
Central Asia	0.1	0.2	0.1	0.2	0.3	0.3
Eastern Africa	0.3	0.4	0.3	0.3	0.5	0.4
Eastern Asia	11.9	11.7	11.4	14.3	15.2	13.8
Eastern Europe	3.0	4.3	4.8	2.9	5.1	4.4
Middle Africa	0.1	0.0	0.1	0.4	0.0	0.6
Northern Africa	1.1	0.7	0.8	0.8	0.8	1.0
Northern America (w/out Mexico)	22.2	16.9	15.0	17.8	13.5	14.1
Northern Europe	14.5	16.1	16.8	13.8	13.0	13.6
Oceania	1.8	1.5	1.0	1.8	1.8	1.8
South America	1.8	1.7	1.5	3.0	3.2	3.1
South-East Asia	4.5	6.2	3.8	6.0	7.0	6.2
Southern Africa	0.4	0.4	0.3	0.4	0.4	0.5
Southern Asia	1.4	3.7	3.1	1.4	2.3	2.4

<b>Southern Europe</b>	9.7	7.3	9.6	7.6	5.1	6.9
<b>Western Africa</b>	0.3	0.1	0.2	0.4	0.7	0.7
<b>Western Asia</b>	3.7	4.1	3.6	4.8	7.3	6.6
<b>Western Europe</b>	19.7	22.2	24.7	20.2	21.4	20.9
<b>Other</b>	1.5	1.2	1.2	2.0	1.0	1.2
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0

Source: Own calculations based upon UNCTAD data.

As mentioned above, bilateral exchange services data are scarce.<sup>12</sup> Latin American exports to Africa are only reported by Argentina, Brazil, Chile and Mexico to South Africa. Taking data reported in the available years (for both regions: 2005, 2008 and 2009) shows a value in 2009 nearly two and a half times that for 2005 (US\$1,860 million compared to US\$791 million, respectively).<sup>13</sup>

The General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO) defines four modes of services' exchanges: cross-border trade,<sup>14</sup> consumption abroad,<sup>15</sup> commercial presence<sup>16</sup> and people presence at destination.<sup>17</sup>

Within the databases on trade in services available, it is possible to find the following indicators to proxy for these different modes: trade data services (UNCTAD), number of students abroad (UIS-UNESCO), foreign direct investment (FDI) -which reflects the presence of multinational

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<sup>12</sup> Bilateral trade services data are imports from The World Bank's Trade in Services Database, compiled from various sources (OECD, Eurostat, United Nations and IMF), through mirroring data. Coverage for South-South trade is particularly low, and also data quality is low due to the survey's complexities. For methodological details, see Francois and Pindyuk (2013).

<sup>13</sup> It is worth noting that 2009 has been an atypical year for trade flows due to the international financial crisis impact.

<sup>14</sup> Provided from the territory of one WTO member (e.g., consulting, market research, distance learning, remote medical advice via postal or telecommunications).

<sup>15</sup> Residents' mobility from one country to another to provide a service (e.g., tourism, study or receiving medical care).

<sup>16</sup> When the service provider has no commercial presence in the territory of another member (e.g., establishment of branches, subsidiaries and offices abroad).

<sup>17</sup> When a person from a WTO member provides a service in another member (e.g., a foreigner provides services as an independent -consultant, medical-, or a foreign company employee -consulting services, hospital, company construction-).

companies (MNCs, UNCTAD and Financial Times)-, and migration flows (Abel and Sander, 2014).

### 3.2.1. Trade in services across borders

Tables 4 and 5 show exports and imports of both regions to the world by service category. While such trade has grown in absolute terms, little can be said in terms of the services' trade potential due to the low breakdown classification and missing data. In other words, the potential in trade in services is very difficult to study because of data absence and low disaggregation.

**Table 4. Exports (imports) of services from Africa (LAC, million USD)\***

Service category	African exports			LAC imports		
	2000	2013	Average	2000	2013	Average
<b>Total services</b>	33,260	96,000	68,807	74,090	234,130	130,791
<b>Transport</b>	7,910	27,180	17,274	26,350	68,870	43,381
<b>Travel</b>	14,470	38,930	31,111	20,670	57,060	32,071
<b>Other services</b>	10,820	29,890	20,398	27,060	108,200	55,341
<b>Communications</b>	1,550	4,670	3,137	-	-	-
<b>Construction</b>	300	1,820	1,286	-	-	-
<b>Insurance</b>	850	1,160	926	-	-	-
<b>Financial services</b>	950	2,360	1,581	-	-	-
<b>Computer and information</b>	120	1,300	620	-	-	-
<b>Royalties and licence fees</b>	210	310	316	-	-	-
<b>Other business services</b>	5,050	11,570	8,019	-	-	-
<b>Personal, cultural and recreational services</b>	80	450	290	-	-	-
<b>Government services n.i.e.</b>	1,700	6,250	4,223	3,090	9,140	5,739
<b>Memo item: Commercial services</b>	31,560	89,750	64,584	70,990	224,980	125,051
<b>Memo item: Other commercial services</b>	9,120	23,630	16,176	23,970	99,050	49,599

Source: Own calculations based upon UNCTAD. \*Many countries, especially in Africa, do not report data on trade in services, especially for disaggregating other services. These data correspond to the EBOPS5 classification (the last version -EBOPS6-, has data with a shorter period).

**Table 5. Total exports (imports) of services from Latin America (Africa, million USD)\***

Service category	LAC exports			African imports		
	2000	2013	Average	2000	2013	Average
<b>Total services</b>	61,760	167,820	105,621	41,670	170,750	107,006
<b>Transport</b>	11,090	30,640	20,326	14,700	65,380	39,631
<b>Travel</b>	31,640	65,310	46,611	8,280	26,100	18,527
<b>Other services</b>	19,030	71,870	38,681	18,500	79,270	48,779
<b>Communications</b>	3,220	3,730	3,407	-	-	-
<b>Construction</b>	320	160	167	-	-	-
<b>Insurance</b>	2,790	4,780	3,135	-	-	-
<b>Financial services</b>	980	5,230	2,405	-	-	-
<b>Computer and information</b>	450	5,690	2,354	-	-	-
<b>Royalties and licence fees</b>	480	3,420	996	-	-	-
<b>Other business services</b>	8,380	43,560	22,519	-	-	-
<b>Personal, cultural and recreational services</b>	530	1,390	844	-	-	-
<b>Government services n.i.e.</b>	1,900	3,900	2,854	2,740	10,940	7,836
<b>Memo item: Commercial services</b>	59,860	163,920	102,768	38,920	159,810	99,171
<b>Memo item: Other commercial services</b>	17,130	67,970	35,829	15,760	68,330	40,945

Source: Own calculations based upon UNCTAD. \*Many countries, especially in Africa, do not report data on trade in services, especially for disaggregating other services. These data correspond to the EBOPS5 classification (the last version -EBOPS6-, has data with a shorter period).

### 3.2.2. Consumption abroad

Figures 4 and 5 show an incipient (albeit increasing) exchange of tertiary students between Africa and Latin America, which in relative terms is much lower in LAC than in Africa, where the share of total students doubled in the past ten years or so.<sup>18</sup> Angola, Cape Verde and South

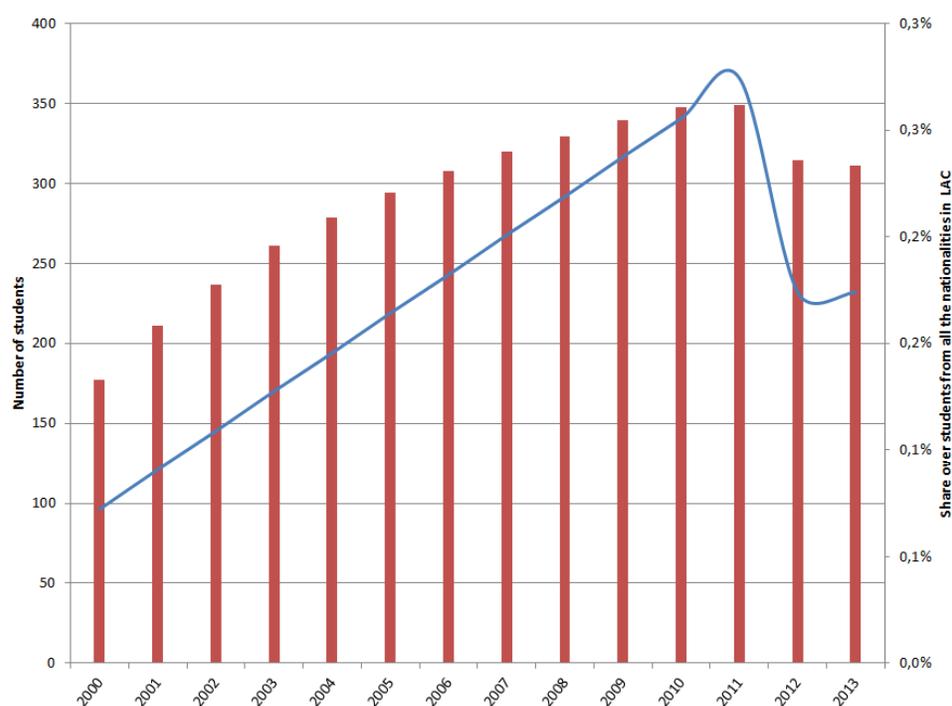
<sup>18</sup> According to 2013 data, last available data (UNESCO developed the *International Standard Classification of Education -ISCED-*, see more details in <http://www.uis.unesco.org/Education/Pages/international-standard-classification-of-education.aspx#sthash.w1rruh5a.dpuf>).

Africa have been the main African source countries, from in LAC, Brazil, Cuba and Colombia (see Figures A1 and A2).

**Figure 4. African tertiary students in Latin America and the Caribbean**

Source: Own calculations based upon UIS-UNESCO.

**Figure 5. Latin American tertiary students in Sub-Saharan Africa**



Source: Own calculations based upon UIS-UNESCO.

### 3.2.3. Commercial presence

Table 6 shows that, at least according to the *World Investment Report* ranking, the establishment of multinational companies (MNC) is mainly driven the exploitation of the vast natural resources supply in these two regions. In the case of South Africa, also highlight MNC in the telecommunications, retail, chemical, pharmaceutical and healthcare sectors. Mexico also has a cement (Cemex) and telecommunications (America Movil) MNC, while Brazil counts with mining (Vale) and aeronautical (EMBRAER) companies.

**Table 6. LAC and Africa non-financial multinationals in top 100 companies of developing countries (million USD, 2014)**

Ranking (foreign assets)	Company	Country of origin	Industry	Foreign assets	Total assets	% over total assets (top 100)	% over foreign assets (top 100)
5	Vale SA	Brazil	Mining, quarrying and petroleum	55,448	116,598	3.2%	2.0%
8	América Móvil SAB de CV	Mexico	Telecommunications	41,627	86,795	2.4%	1.5%
11	Cemex S.A.B. de C.V.	Mexico	Stone, Clay, Glass, and Concrete Products	29,763	34,964	1.7%	0.6%

36	Steinhoff International Holdings Ltd	South Africa	Retail Trade	16,608	19,085	1.0%	0.3%
40	MTN Group Ltd	South Africa	Telecommunications	15,800	21,947	0.9%	0.4%
45	Gerdau SA	Brazil	Metals and metal products	14,523	23,756	0.8%	0.4%
46	Fomento Economico Mexicano SAB	Mexico	Food & beverages	13,512	25,540	0.8%	0.4%
49	Petroleo Brasileiro SA	Brazil	Mining, quarrying and petroleum	13,021	298,969	0.8%	5.0%
55	Sasol Limited	South Africa	Chemicals and Allied Products	11,141	26,437	0.6%	0.4%
58	Sonatrach	Algeria	Mining, quarrying and petroleum	10,383	103,830	0.6%	1.7%
59	Petróleos de Venezuela SA	Bolivarian Republic of Venezuela	Mining, quarrying and petroleum	10,342	226,760	0.6%	3.8%
68	Naspers Ltd	South Africa	Telecommunications	9,563	12,920	0.6%	0.2%
71	JBS SA	Brazil	Agriculture, forestry, & fishing	9,170	30,917	0.5%	0.5%
74	Grupo Bimbo SAB de CV	Mexico	Food & beverages	9,003	12,069	0.5%	0.2%
78	Ternium SA	Argentina	Metals and metal products	8,055	9,690	0.5%	0.2%
84	Gold Fields Ltd	South Africa	Mining, quarrying and petroleum	6,844	6,858	0.4%	0.1%
87	Aspen Pharmacare Holdings Limited	South Africa	Pharmaceuticals	6,487	7,787	0.4%	0.1%
91	Mediclinic International PLC	South Africa	Health care services	5,733	6,514	0.3%	0.1%
96	Embraer - Empresa Bras De Aeronautica SA	Brazil	Aircraft	5,526	10,421	0.3%	0.2%

Source: Own calculations based upon *World Investment Report* (UNCTAD).

As we expressed previously (see Molinari et al., 2014), Africa has been attracting diverse investment projects, with an increasing role of those sectors not tied to commodities (linked to the falling key commodities' prices), mainly services (ICT and finance sector). LAC shows a

similar trend, where FDI flows have shifted from being commodities-centered to the services sector (ICT and business services), and also in auto components.

The FT investment projects database data evidences that during the period 2003-2014 there were announcements for ten African projects in LAC in software and ICT, nine in business services, and seven in financial services. The largest project in Brazil was in telecommunications, where Angola Telecoms (through Angola Cables) planned to build a submarine cable in the South Atlantic uniting Africa and LAC. Investments in Argentina have all been in the service sector, mainly by South Africa's Standard Bank (six out of nine projects). The remaining projects are to provide support services in agro-chemicals and (two, by SRK Consulting) to the mining sector. Investments in Chile (seven projects) and Mexico (six) are diverse, mainly announced by Comcraft Group Kenya (and one in Costa Rica). Comcraft Group is responsible for all projects in Kenya through its subsidiary (UST Global) and were in the service sector, mainly to provide technical support to call centers, following increase efficiency strategies (as they provide services to customers in the US, Mexico and other LAC countries). Mexican universities and the information technology developments also make it appealing for MNC to locate in that country.

Moreover, many of the FDI services investment projects in South Africa were linked to support investments in the mining sector (e.g. Basil Read in Peru -through TWP- and SRK Consulting in Mexico, Brazil and Argentina). Hence, FDI projects in LAC reflect a mix of activities to support FDI in mining with other market research projects (such as Ad Dinamo projects). South African investments also reflect their expertise in financial services and business (e.g. Datatec firms, Standard Bank and Ad Dynamo). Finally, two Moroccan projects in LAC are from a chemical company (Office Cherifien des Phosphate) in the sales and marketing sector in Argentina and Brazil.

And as of FDI LAC in Africa, tourism projects were linked to financial services (nine), business services (five) and software and ICT, hotels and tourism and communications (four, three and one projects, respectively).

#### **3.2.4. Migration flows**

As of student exchanges, migration between LAC and Africa are still quite negligible, and, although the number more than doubled (from Africa to LAC), numbers have not changed much since 1960 in relative terms (Tables 7 and 8).

**Table 7. Stock of African migrants\***

Indicator / year	1960	1970	1980	1990	2000
to LAC (thousands)	15.5	18.3	28.1	37.7	38.8
to the world (millions)	8.1	10.7	13.6	16.1	19.6
% over total of migrants	0.19	0.17	0.21	0.23	0.20

Source: *United Nations Population Division's Global Migration Database* (census information). \*The year specified corresponds to the nearest census information.

**Table 8. Stock of LAC migrants\***

Indicator / year	1960	1970	1980	1990	2000
to Africa (thousands)	143.4	16.6	33.2	31.4	44.5
to the world (millions)	3.8	5.6	9.8	15.5	25.5
% over total of migrants	3.7	0.3	0.3	0.2	0.2

Source: *United Nations Population Division's Global Migration Database* (census information). \*The year specified corresponds to the nearest census information.

Data on migration flows between regions can also be represented in plots of circular migration used by Abel and Sanders (2014),<sup>19</sup> estimated upon the number of people changing their place of residence during periods of five years. That is, for each country, they estimate the minimum number of required migration to equalize the differences in levels (assuming it is more likely that people will not move), and replicate the same procedure simultaneously for 196 countries. This leads to specific flows by place of birth, resulting in a comparable set of global migration flows, adjusted for migrants stock checks (births and deaths) during the period, hence resembling net migration flows estimates published by the United Nations.<sup>20</sup>

Migration data among regions for the available period (1990-2010) are presented below. In Figure 6, the origins and destinations are represented by different colored segments of a circle, where each region has a colour and flows are shown with the their origin's colour, while the

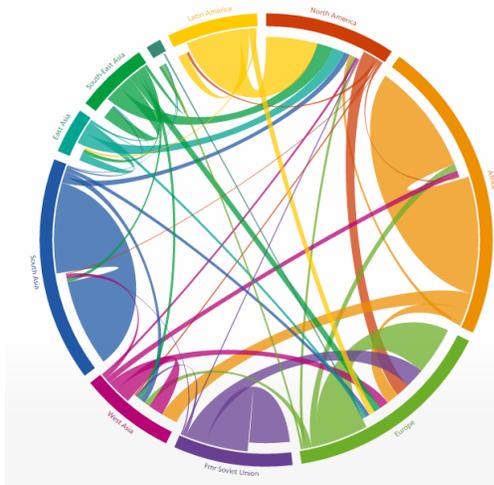
<sup>19</sup> Since these data are incomplete, they estimate migration flows linking changes in the data migration balance over time using statistical missing data methods, obtaining five years migratory flows required to meet the differences in total migrants (e.g., if the number of foreign-born in the US increases between two time periods, they calculate the minimum migration flows between the US and other countries in the world that are required to meet such rise).

<sup>20</sup> Based upon these bilateral migration flows estimates among 196 countries, they show circular migration plots at regional and national levels, using three alternative software packages: circuses, R, and d3.js. (JavaScript library), arguing that these plots significantly improve the ability to graphically evaluate complex patterns and trends in migration flows.

width of the lines represents the migrants' volume. Another way to recognize flows' origin and destination (especially when it comes to intra-regional ones) is to measure the space between the lines and the base indicating the region: a smaller gap indicates origin and greater indicates destination. According to these data, there have not been relevant migratory flows (at least in relative terms) between Africa and LAC over the period studied. The main African migratory flows have gone within the continent, to Europe and, to a lesser extent, Western Asia, North America and Oceania. Instead, the main LAC migratory destinations have been North America, Europe and the region itself.

**Figure 6. World migration flows (accumulated every five years, million of migrants)**

a) 1990-1995



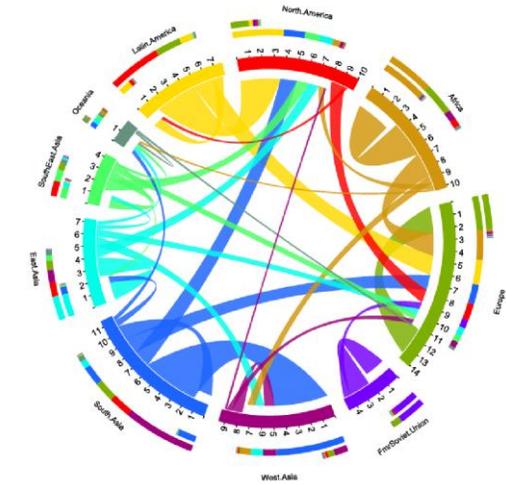
b) 1995-2000



c) 2000-2005



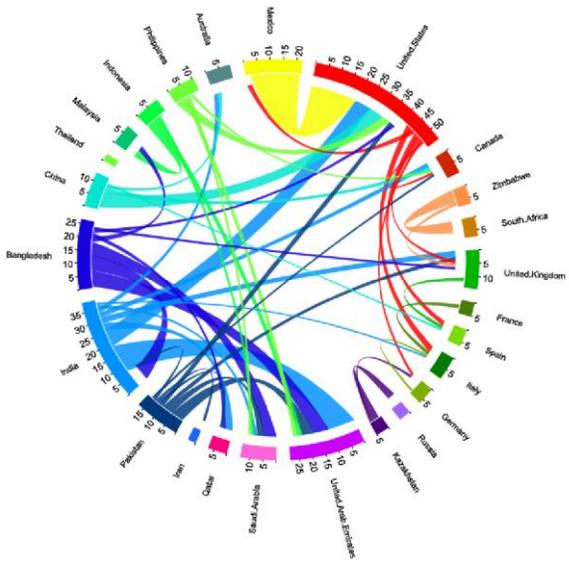
d) 2005-2010



Source: Abel and Sander (2014, available at: Sander, Abel and Bauer, THE GLOBAL FLOW OF PEOPLE, <http://www.global-migration.info/>).

Also, and except for the major Mexican migration to the US, and from Zimbabwe to South Africa, most LAC and African countries are not among the top worldwide (Figure 7).

**Figure 7. Migrant flows among the main 25 destination countries (accumulated 2005-2010, hundred of thousands migrants)**



Source: Abel and Sander (2014, available at: Sander, Abel and Bauer, THE GLOBAL FLOW OF PEOPLE, <http://www.global-migration.info/>).

Finally, African migration is strongly directed towards neighbouring countries and Europe, (e.g. Moroccan flows to the old continent, given its geographical proximity). LAC intra-regional migration flows are less important than in Africa: strong volumes migrate from Mexico, Central America and the Caribbean to the US, while South American countries show higher migration flows to Europe (Figure A1).

**3.3. Investments**

The investment flows volume between the two regions is also weak. As we mentioned earlier (see Molinari et al., 2014), according to investment announcements data and UNCTAD,<sup>21</sup> African entrepreneurs invest primarily within their own region and then in Western Europe (mainly for South African FDI). Similarly, the most significant destination for LAC FDI is the region itself, followed by North America, Western Europe and Asia Pacific.

The importance of LAC as an African investor is, in absolute terms, rather negligible. Between 2003 and 2014 it accounts for less than 1% of greenfield investment projects and 1.2% of total capital expenditures related to such investments. Moreover, LAC is the least important region

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<sup>21</sup> Financial Times fDi Database.

as foreign investor in Africa, accounting for less than 10% of the greenfield announced Middle East projects in Africa (cumulative 2003-2014). Meanwhile, Africa is even more insignificant as an investor for LAC, accounting for less than 0.5% of total greenfield projects and total investment spending.

However, bilateral data does not seem to clearly indicate that Africa is a weaker investor than LAC, since this region only has a slightly larger number of projects in Africa than vice versa (e.g., in 2010 and 2011, Africa announced more greenfield projects in LAC). Something similar can be said for the capital expenditures related to projects, although the gap between regions is often larger because Africa investments in the LAC services sector is not capital intensive.

Sectoral composition is one of the main differences in bilateral investment flows, since LAC investments in Africa are more capital intensive than vice versa, predominantly in the primary sector (44%). Meanwhile, African greenfield FDI projects in LAC are more diverse and contain a higher proportion of investment in services, while only a quarter of African FDI projects in LAC were in the primary sector between 2003 and 2014.

As of the potential of this relationship, it is worth noting that investment between these two regions is quite new. In particular, LAC investments in Africa are linked to complementarities in firms' specific assets. However, having similar factor endowments, land and minerals, should create opportunities for companies with sufficient resources (such as working capital, financial resources and skilled labour). On the other hand, African FDI (from countries other than South Africa) in LAC has diversified sectorally, increasing both the number of projects and destinations, and services projects grew. All FDI in minerals is linked to South African firms investing primarily in Brazil.

#### **4. Some final remarks**

The discussion about what foster development is still in the center of the debate. In this work in progress we are studying the, relatively unexplored, economic relations between Africa and Latin America to identify if there are some potentialities for a cooperation agenda with countries with similar development problems but few economic relations. In order to do that, here we continue working in identifying the actual and potential areas for development cooperation through the analysis of trade (goods and services) and investment flows between

these two regions . Although development cooperation goes beyond trade and investment relations, we consider that this analysis is a first and necessary step to know where is nowadays the relation since countries with high interdependence tend to cooperate more frequently among each other than countries with negligible economic relations.

Although there are many other items to study in this bilateral relation, the previous study of trade and investment flows suggest a dynamic but weak and concentrated economic relation. Those few actors are mainly Brazil and South Africa and the few sectors are those close to natural advantages of each countries, food in the case of LAC and oil and minerals in the case of Africa. However, it looks like there could be potentialities in the positive trend in bilateral trade and the very new and growing investment relation, mainly explained by multinational firms related to natural advantages but also explaining a different kind of investment flows (such as services linked to their main activity).

From the cooperation perspective, though incipient, there is a base for future projects of cooperative initiatives. In other words, though the volume of trade and investment are not enough to know the actual development cooperation status, a strong trade and investment relation could serve as a base to build wider and broader cooperation as an strategy for inclusive development. There the key role of this first study, to shed light on this relatively unexplored relation.

The data showed that the specialization of both regions does not separate from static comparative advantages (i.e. low value added and technology content goods), even the main investment flows are related to that specialization pattern. In that sense, we understand that deepening relations with non traditional (and developing) partners could lead a different kind of productive specialization for countries “from the south”, for example an intraindustrial trade patterns, or an specialization more based upon industrial manufactures. Trade between Argentina or Brazil and the rest of LAC, just to mention a case, has a higher content of industrial manufactures that trade between this countries and United States or European Union, which is closer to their traditional specialization (according comparative advantages). So data suggest that the bilateral relation (LAC-Africa) is not fostering a distancing from static comparative advantages and approaching to a productive specialization based on high value added and sophisticated productions. So a key role of economic policy is not only to instrument a

development cooperation strategy but also change the productive pattern based on complementarities.

Some potentialities arise from the explored relation, the cross complementarities in both regions in sector such as agricultural activities (including chemical products), mining, automotive industry and financial services. A future research could analyse the impact of those projects in terms of development.

Regarding FDI as an objective of a SSC strategy, although absorption capacities in the productive structure, technological and industrial infrastructure and national industrial policies are key to generate spillovers in the host country (Porta y Bugna, 2011), the strategies of the investing firms are mostly based on global objectives, a component very difficult to modify. As we could see from the study, FDI flows correspond to few big firms. Also, though trade database (Comtrade) does not provide data at a firm level, it is wide known that primary sector is very concentrated in few actors for scale reasons. So, even when there seems to be some potentialities in this cross complementarities, development cooperation need to consider the role of this few actors with own strategies. This is another line for future research.

Finally, technical cooperation is one of the areas where the link between regions is stronger. Future research could explore the importance of technical cooperation regarding as a complementary strategy for development.

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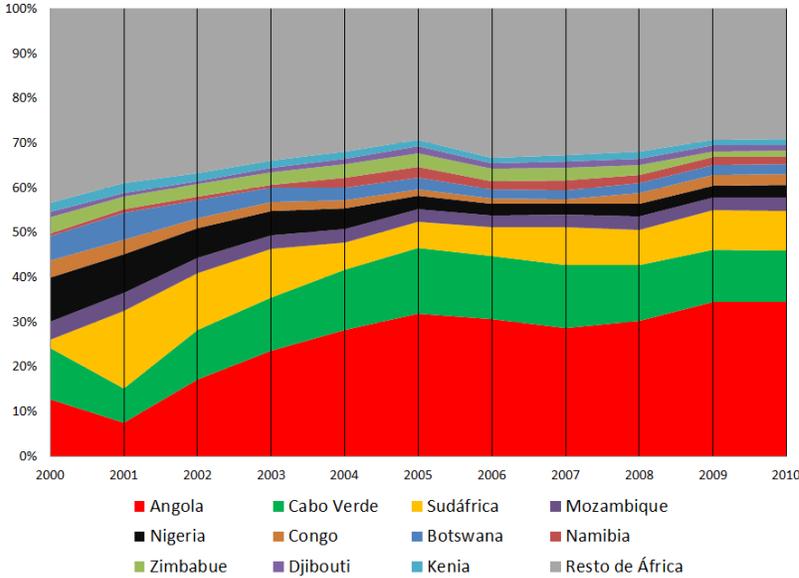
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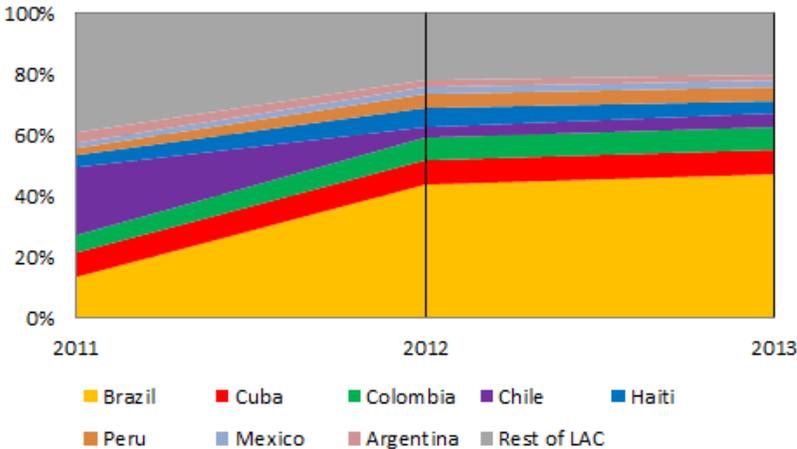
**Annex**

**Figure A1. African tertiary students in LAC**



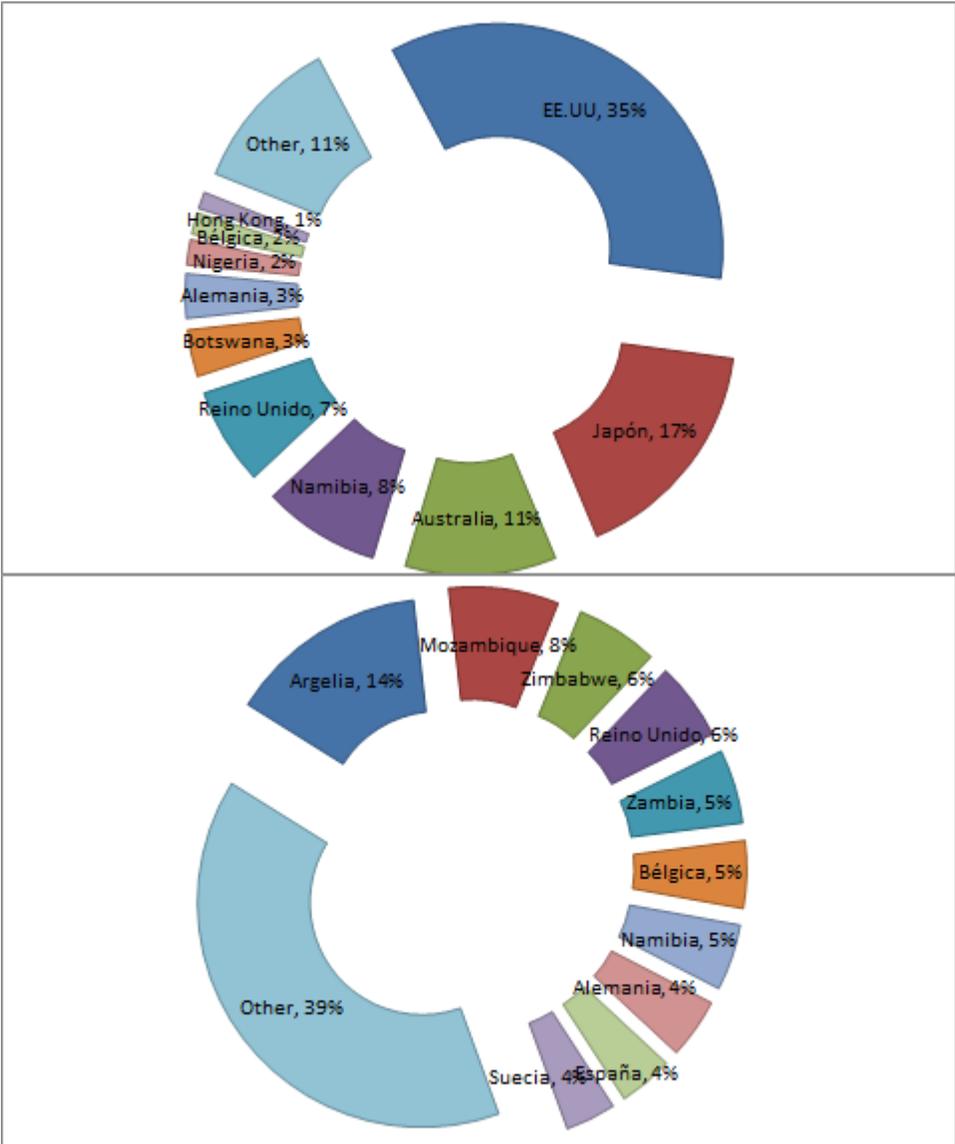
Source: Own calculations based upon UIS-UNESCO.

**Figure A2. LAC tertiary students in Sub-Saharan Africa**



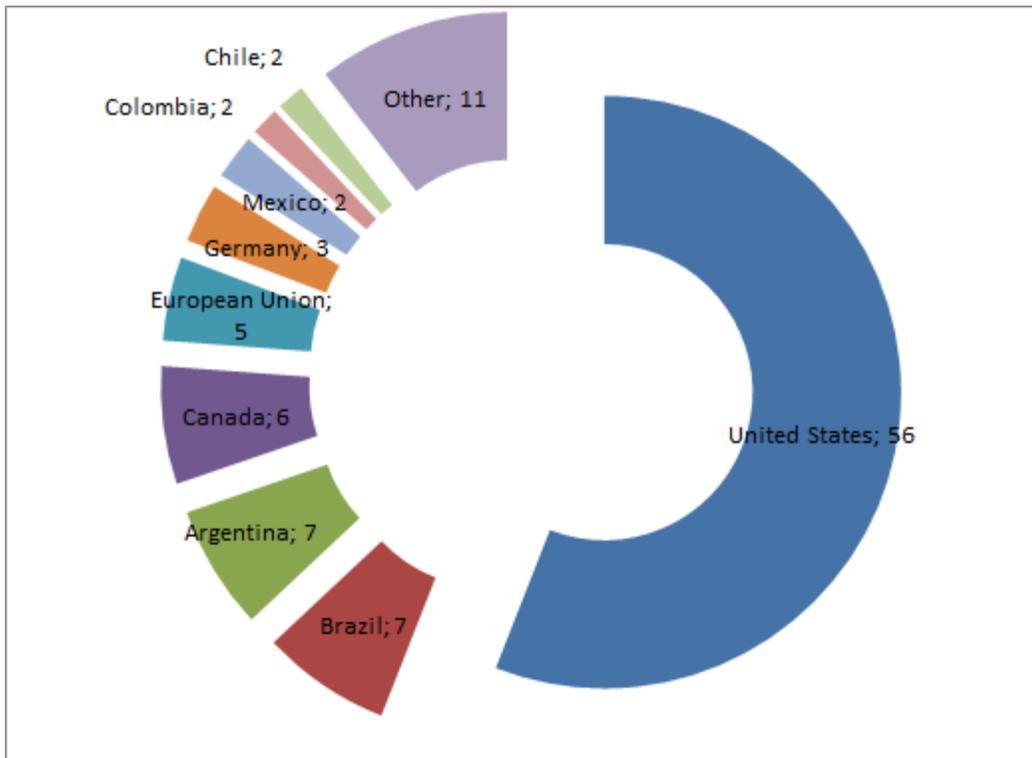
Source: Own calculations based upon UIS-UNESCO.

Figure A3. Main world buyers of African exports in products 870323 and 870421 (respectively, accumulated 2000-2014, %)



Source: Own calculations based upon WITS.

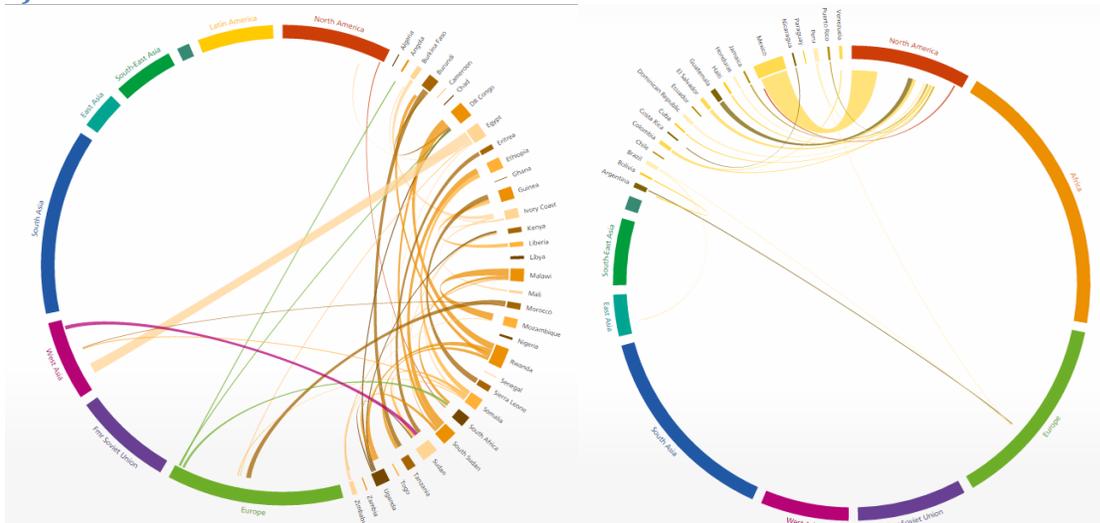
Figure A4. Main world buyers of LAC exports in chapter 87 (accumulated 2000-2014, %)



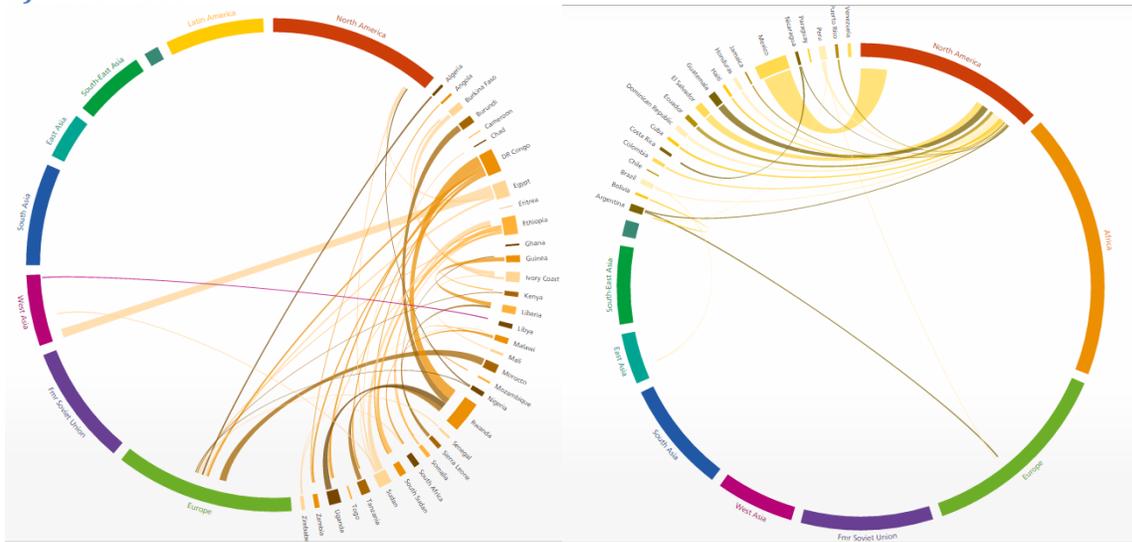
Source: Own calculations based upon WITS.

Figure A5. Main destinations of African and LAC migrants (respectively, accumulated every five years, 1990-2010)

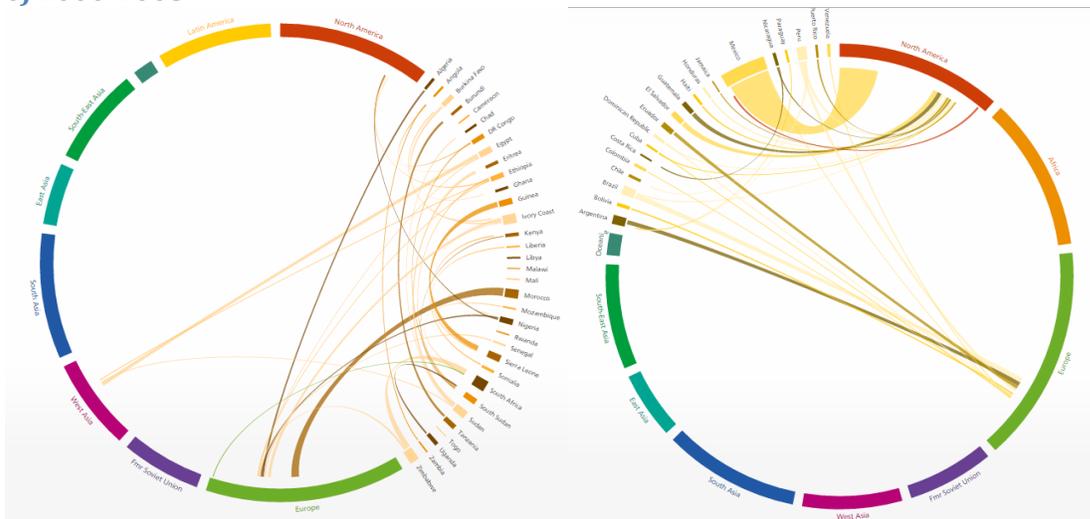
a) 1990-1995



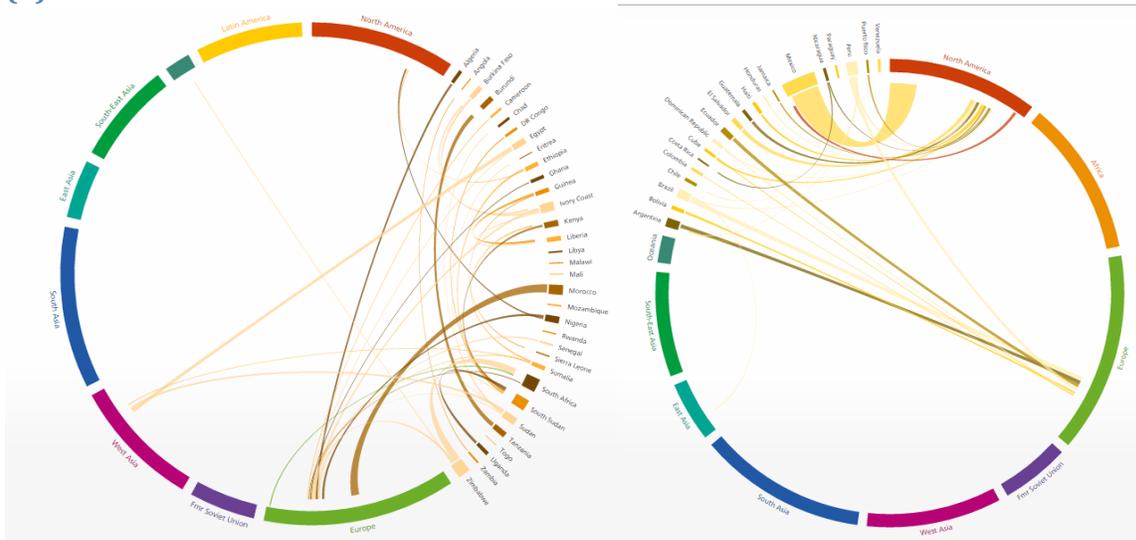
**b) 1995-2000**



**c) 2000-2005**



(d) 2005-2010



Source: Abel and Sander (2014, available at: Sander, Abel and Bauer, THE GLOBAL FLOW OF PEOPLE, <http://www.global-migration.info/>).