The African Development Bank Group
Chief Economist Complex

Africa Economic Brief
Volume 2, Issue 7
11 May, 2011

Russia's Economic Engagement with Africa[1]

Contents:

Mthuli Ncube
m.ncube@afdb.org
+216 7110 2062

Charles Leyeka Lufumpa
c.lufumpa@afdb.org
+216 7110 2175

Desire Vencatachellum
d.vencatachellum@afdb.org
+216 7110 2076

1. Introduction

In the aftermath of the collapse of the Soviet Union in 1991, the Russian Federation, an ideological friend and ally of many African countries during the Cold War period, started to disengage from Africa and other developing countries, and to develop closer relations with the Western countries.

As Russia's economic strength started to reinvigorate in the late 1990s, the Russian foreign policy objective of reestablishing its geopolitical stature led to a renewal of its relations with Africa. This was driven not only by political ambitions but also by economic and commercial motivations. The African continent, enriched by vast natural resources and with burgeoning consumer markets, has become a very attractive destination for Russian investment. The post-2000 Russian economic stability, which resulted in strong economic growth (yearly average GDP growth rate of 6.9 percent), increasing demand for Russian exports (mostly oil and other natural resources) and higher foreign exchange reserves (world's third largest reserve).

This presented an opportunity for the Russian government and business elites to expand their influence beyond Russian and CIS borders and to enhance their political and commercial ties with African countries and other emerging markets.

This brief will examine Russia's economic reengagement with African countries by quantifying trade between the two regions, analyzing the investment flows of Russian companies into Africa, and assessing the potentials of Russia's energy expertise for Africa's resource-rich countries.

2. Russia–Africa Trade Relations

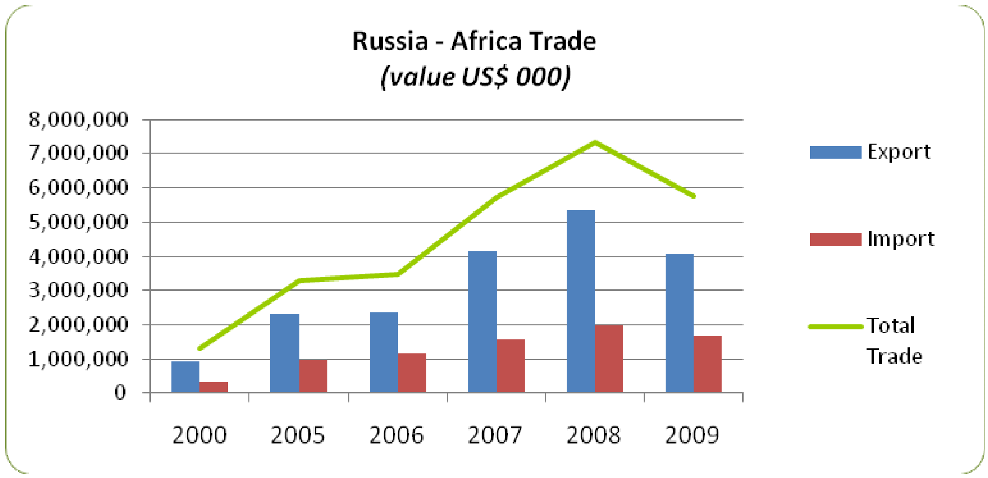
The importance of Russia as a trading partner to African countries is quite minimal when compared to other developed countries and emerging markets such as the European Union, the United States, China, India, and Brazil. Bilateral trade between Russia and Africa reached its peak of US$ 7.3 billion in 2008. Although this is close to a tenfold increase from the very low trade volume of US$ 740 million in 1994, it is not significant enough to guarantee Russian companies a bargaining edge when engaging with African countries. To improve its political and commercial ties with

[1]**Prepared by the following staff:** Habiba Ben Barka, Senior Planning Economist (SAEC), under the supervision of Kupukile Mlambo , Advisor & Lead Economist (ECON).

"Russian imports from Africa rose overall from US$ 350 million in 2000 to US$ 1.6 billion in 2009 while exports grew from US$ 947 million to US$ 4 billion over the same period."

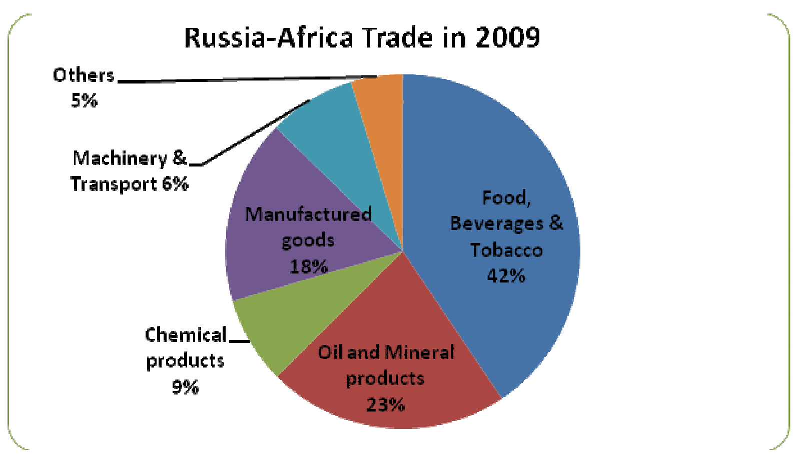
"Russia has maintained a trade surplus with Africa, which stood at US$ 597 million in 2000, rising to US$ 3.3 billion in 2008 and falling to US$ 2.3 billion in 2009."

Africa and facilitate market access to its firms, the Russian government embraced a new foreign policy toward Africa, undertook high official visits to some African countries, and advocated for conflict resolution, humanitarian assistance, and debt relief for Africa.



Source: *UN COMTRADE, AfDB*

Since 2000, Russia's trade with Africa started to rise but with imports of African products increasing at a slower pace than Russian exports to the Africa continent. Imports from Africa rose overall from US$ 350 million in 2000 to US$ 1.6 billion in 2009 while exports grew from US$ 947 million to US$ 4 billion over the same period. Both exports and imports grew steadily from 2000 to 2008, after which they slightly decreased because of the impacts of the world financial and economic crisis. Russia has maintained a trade surplus with Africa, which stood at US$ 597 million in 2000, rising to US$ 3.3 billion in 2008 and falling to US$ 2.3 billion in 2009.



Source: UN COMTRADE, AfDB

> *"Russia's renewed interest in Africa has been fueled by the crucial need to access foreign energy reserves as Russia runs the risk of exhausting its oil reserves should the current scale of national exploitation remain constant."*

> *"Russia's outward investment is dominated by large resource-based corporations that seek to gain greater access to the African market of fuel."*

Russian imports from Africa are also concentrated in a few countries, namely Algeria, Egypt, Morocco, Guinea, Côte d'Ivoire and South Africa – jointly these account for about 80 percent of Africa's exports to Russia. The exports from Africa are slightly more diverse and include ores, uranium, iron, and other concentrates of base metal, fruits and nuts, cocoa, tobacco, and inorganic chemical elements. Although the import of African products increased at a compounded annual growth rate (CAGR) of 19 percent between 2000 and 2009, Africa still accounts for only 1 percent of Russia's world trade.

This marginalized position of Africa vis-à-vis trade with Russia may reflect the country's long withdrawal from the continent following the end of the Cold War. It is unlikely to reverse because of Russia's growing interest to modernize its trade network by expanding its trade of machinery and equipment, and other technologies. At the current stage of its development and given the limited dynamics of its export base, Africa may not be in a position to meet Russia's trade interests.

Nevertheless, it is worth mentioning that Russia's renewed interests in Africa has been fueled by the crucial need to access foreign energy reserves as Russia runs the risk of exhausting its oil reserves should the current scale of national exploitation remain constant. Africa's rich untapped oil and natural gas reserves provide an opportunity for Russia's outbound exploration drive and strategic goal of remaining the world's largest exporter of oil (second to Saudi Arabia) and natural gas, and maintaining Europe's dependence on its export of natural gas.

In 2009 oil, fuel and gas accounted for 67.4 percent of total exports from Russia, and more than three-fourths of its oil and gas exports went to Europe. Oil and gas account for 30 percent of Russia's GDP, and constitute more than 40 percent of government revenues. While the recent high oil prices are projected to keep the current account in surplus (peaking at US$ 103.7 billion in 2008), falling Russian oil reserves may slow down the strong economic growth experienced over the past ten years (6.9 percent increase on average per year).

3. Growing Interest of Russian Investors

Africa's vast natural reserves make the continent an increasingly attractive investment destination for Russia's energy and other natural resource industries. On account of its strong economic growth, large external assets (US$ 480 billion in foreign exchange reserves), increasing outward direct investment stock (from US$ 3 billion in 1995 to US$ 249 billion in 2009), and politico-strategic ambitions, Russia represents a major potential investor in African countries. At the same time, Russia's outward investment is dominated by large resource-based corporations that seek to gain greater access to the African market of fuel, energy and metallurgy, and expand Russian investment flows to Africa, which peaked at US$ 20 billion in 2008. The table below illustrates some of the major Russian investment operations in African countries.

"Oil, gas and other natural resources sectors have been the major contributors to the Russian economic boom and increasingly, they dominate Russian outward investment."

Major Investments of Russian Companies in Africa

Russian Investor	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 km² deep water blocks)	US$900 million	2010
Rusal	Nigeria *ALSCON*	Aluminum refining	M&A (acquired majority stake in Aluminum 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 hydro-electricity	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

Sources: various media sources; Russian company websites.

As mentioned above, oil, gas and other natural resources sectors have been the major contributors to the Russian economic boom and increasingly, they dominate Russian outward investment. Therefore, it is not surprising to see large Russian multinationals such as Lukoil, Gazprom, Norilsk Nickel, Alrosa, Rusal and Severstal invest in oil, gas, diamond, aluminum, iron ore and other metal products in many African countries including Algeria, Angola, Botswana, Côte d'Ivoire, *"Africa's underexploited mineral reserves, which account for about 30 percent of global resources, will be strategic complementarities to Russia's depleting natural resource base, including zinc, diamond, gold, uranium, oil, copper, nickel, manganese, bauxite, and coal."*

Egypt, Gabon, Guinea, Namibia, Nigeria, and South Africa.

The motivation behind Russian business expansion in Africa is also driven by the depletion of the resources base in Russia (see table below). 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 leading Russian Africa's considerable natural resources. While Africa's share of global energy production is about 12 percent and increasing, its share of global commercial energy consumption is only 3 percent, which represents a significant supply for Russia's growing oil demand. The high costs of accessing Russia's reserves of diamonds, uranium, gold, copper, nickel and other metals and their reduced economic viability given the volatility of these products' world prices, have encouraged Russian firms to turn to Africa as an alternative source of supply, as the costs of exploration and production are much lower there. In fact, Africa's underexploited mineral reserves, which account for about 30 percent of global resources, will be strategic complementarities to Russia's depleting natural resource base, including zinc, diamond, gold, uranium, oil, copper, nickel, manganese, bauxite, and coal. Moreover countries such as Algeria, Angola, Botswana, DRC, Egypt, Gabon, Ghana, Guinea, Morocco, Sierra Leone, South Africa, Tanzania, and Zambia, which dominate the African mining industry, will potentially attract an increasing number of Russian business elites.

Depletion Timeline of Russia's Mineral Reserves

Year	Economically Viable Reserves	All Reserves
2011	Zinc	
2013	Chromium Ores; Diamonds; Quartz	Quartz
2015	Tin; Uranium; Gold; Oil	
2016	Copper; Nickel; Tungsten	
2018	Platinum; Graphite	
Beyond 2025	Coal; Phosphate; Potash; Bauxite; Iron Ores; Natural Gas; Vanadium; Fluorspar; Salt	Zinc; Chromium Ores; Diamond; Tin; Uranium; Gold; Oil; Copper; Nickel; Tungsten; Platinum; Graphite; Coal; Phosphate; Potash; Bauxite; Iron Ores; Natural Gas; Vanadium; Fluorspar; Salt

Source: Russian Federation; US Geological Survey (USGS)

4. Prospect for Russia's Reengagement with Africa

Russia's involvement in Africa is not new; it heightened during the Cold War period, largely driven by the Kremlin's search for geostrategic advantage. After the Cold War, leading up to the 1990s, Russian foreign policy resulted in withdrawal from

Oil

Share of world production

	1973	2009
Africa	10.1	12.4
Russia	15.0	16.7

Gas

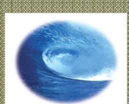
Share of world production

	1973	2009
Africa	0.8	6.5
Russia	19.7	24.8

Coal

Share of world production

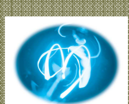
	1973	2009
Africa	3.0	14.6
Russia	22.8	6.3



Hydro

Share of world production

	1973	2009
Africa	2.2	3.0
Russia	9.4	7.3



Nuclear

Share of world production

	1973	2009
Africa	0.0	0.0
Russia	5.9	9.7

Source: International Energy Agency Statistics

Africa and other developing countries. As Russia begun to return to African countries in the early 2000s, its pursuit of Africa's high concentrations of strategic minerals and significant deposits of petroleum and uranium emerged as a key driver of its increasing commercial engagement with the continent. Russia's geopolitical goal to extend Europe's dependence on the import of its energy also inspired its quest for Africa's natural resources.

Although self-sufficient in fuels and power generation, Russia's energy-dependence (primary source of hard currency and revenues) and the plummeting reserves of oil and gas could negatively affect its recent economic growth and drive to become a world-leading energy producer. Under the Soviet system, Russian energy pricing and consumption policies called for subsidized prices far below world market prices and higher output volumes without conservation measures, which resulted in excessive consumption of energy, increased exports of natural gas and oil, and, more recently, in plummeting energy reserves. With the current proven oil reserves of 60 billion barrels, Russia will have to rely on new discoveries of oil in order to meet the growing global demand for energy. Similarly, Europe's increasing consumption of energy and dependence on oil and gas imports from Russia puts pressure on the Kremlin to seek alternative sources of energy.

Africa, with its rich endowment of crude oil reserves, natural gas deposits, and other minerals, is exerting a strong attraction for Russian energy companies. The African continent currently accounts for about 9.7 percent of the world proven oil reserves of 1.2 trillion barrels and its oil reserves are growing at an annual rate of 3.2 percent. With regard to natural gas, Africa's share of the global gas deposits of 181.46 trillion cubic meters is estimated at 7.8 percent. As Africa's comparative advantage in the scope and frequency of new discoveries is being courted by global energy consumption countries such as Russia, precautionary measures should be put in place to ensure that sustainable economic and social benefits accrue from natural resources exploitation.

Increasing Russian investments in Africa could have both positive and negative outcomes. On the one hand, while such investments might represent significant economic opportunities for resource-rich African countries, there is a risk that, coupled with limited domestic policies, they might generate negative social and environmental outcomes for Africa. On the other hand, Russia's well-established expertise in extracting energy resources and advanced nuclear know-how presents a value-added opportunity for Africa. It is worth noting that Russia is participating in tenders for the construction of the first nuclear power plants in Egypt and Nigeria, which have significant uranium reserves.

Also, Russia's own experience with the problems that plagued its energy sector during the 1990s and its ability and knowledge to restructure the sector for improved management and higher productivity, could provide a salutary lesson to be learned by African countries.

"To date, Russia has written off over US$ 20 billion of Africa debt, and, like other G8 members, has pledged to double its ODA to African countries…"

"To date, Russia has written off over US$ 20 billion of Africa debt, and, like other G8 members, has pledged to double its ODA to African countries…"

Furthermore, Russia's membership in the G8 and its development commitments, offer African countries additional economic opportunities through opening its market, writing off African debt, and advocating for more debt reduction, especially for resource-rich African countries. To date, Russia has written off over US$ 20 billion of Africa debt, and, like other G8 members, has pledged to double its ODA to African countries. In addition to negotiating debt reliefs, Russia could contribute to promoting African regional cooperation by making debt reliefs conditional upon African nations' demonstrated commitment to regional energy sector cooperation (i.e. policy harmonization, transborder projects, free trade agreements, and integrated pipeline and transmission networks on the continent).

Resource-based firms in both developed and emerging countries have been playing a central role in generating revenues for the national economies of oil- and resource-rich countries in Africa. However, those revenues do not always translate into long-term sustainable growth, nor do the revenues generated from natural resources production always contribute to human capital and social infrastructure development in African countries. Foreign investment companies should be called upon to create incentives or adopt measures to generate sustainable and shared benefits for resource-producing countries in Africa. For instance, Russian resource-based firms should negotiate exploration and extraction agreements with the provision that a percentage of the investment should be earmarked for socioeconomic development, i.e. a trust fund to be set up to support agro-business, education, health, and other forms of social welfare.

5. Conclusion

Every reengagement effort since 2000 has reinforced the Kremlin's relations with African governments and boosted economic and commercial partnerships between Russia and the continent. Although the current volume of trade between Russia and Africa is relatively low (considering the former Soviet Union's total trade volume with the world), the growing trend of commercial activities between the two regions has reasserted Moscow's geo-economic strategic ambitions. Moreover, Russian firms seeking greater access to African natural resource fields are playing a key role in renewing and expanding Russia's sphere of influence in Africa.

While Russia's search for alternative sources of energy provided the impulse for its new engagement with Africa, the Kremlin's goal of remaining the world's largest energy exporter propelled Russian corporations into the continent. Russia's pursuit of strategic natural resources will benefit African countries; not only from a revenue-generating point of view, but also because of the catalytic role the increased investments will have on socioeconomic growth and development.

Russia's expertise in energy exploration and production, and its membership in the G8 present an opportunity for African governments to work jointly with Russian companies and international organizations such as the African Development Bank in order to ensure a strong and constructive linkage between Russia's energy interests and sustained economic growth in the continent.