

Africa's Cooperation with New and Emerging Development Partners: Options for Africa's Development

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Office of the Special Adviser on Africa

Acknowledgments

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The report was enriched by the discussions at the Expert Group Meeting on Africa's Cooperation with New and Emerging Development Partners, held in Addis Ababa, Ethiopia, in February 2009 (please see Annex II for further details), with the participation of: Abdalla Hamdok, Emmanuel Nnadozie (United Nations Economic Commission for Africa); Festus Fajana, Merah Nadir (African Union Commission); Bankole Adeoye (NEPAD Secretariat); Chioma Onukogu, Gabriel Victorien Mougani (African Development Bank); Andrew Mld (Organisation for Economic Co-operation and Development); Uwe Wissenbach (European Commission); Jing Gu, Ricardo Gottschalk (Institute of Development Studies); Cosmas Gitta (United Nations Development Programme); and Alemayehu Geda (Addis Ababa University).

Foreword

The global development landscape is rapidly changing with the acceleration of South-South cooperation. This is particularly relevant for African countries who have witnessed a significant increase in trade, foreign direct investment, aid and other development assistance from emerging and new development partners such as Brazil, China, India, South Korea and Turkey. In recent years, these emerging development partners have greatly expanded their cooperation with Africa within the context of various initiatives, leading to a new type of strategic partnership.

The increasing engagement in Africa of emerging development partners is broadening the options for growth in the continent and presents real and significant opportunities for the development of African countries, including particularly, for implementation of the New Partnership for Africa's Development (NEPAD) and the attainment of the Millennium Development Goals. Furthermore, in the light of the prevailing global economic and financial crisis, this new cooperation becomes even more significant. Despite the crisis, many of the emerging development partners show relatively sound growth prospects.

The theme of Africa's cooperation with new and emerging development partners is part of the Office of the Special Adviser on Africa's work programme in the context of its broader mandate to assist in Member States' debates on new, emerging issues regarding Africa's development, particularly, in connection with the implementation of NEPAD. In this context, the Office aimed to formulate specific policy recommendations on how to effectively harness the development potential of the emerging development partners' intensifying economic and business relationships with African countries. To this effect, UN-OSAA initiated a study on "Africa's Cooperation with New and Emerging Development Partners: Options for Africa's Development". The key findings and recommendations of the study were validated by the expert group meeting which was co-organized with the African Union Commission and UNECA in Addis Ababa in February 2009. The present publication includes the study and the summary of the expert group meeting.

The study and the discussions at the expert group meeting highlighted the fact that Africa's cooperation with new and emerging development partners has created both opportunities and risks for Africa. Within the new geo-economic context, the main challenge for African countries is how to benefit from the new opportunities, while minimizing the potential negative impacts. Above all, it is important to ensure that cooperation with new partners leads to economic diversification and industrial development in Africa, as well as supporting the continent's integration into the global economy. To maximize their bargaining power, the study recommends that African governments carefully manage their interactions with the emerging partners and develop a strategic focus so that they benefit from this interaction. In particular, African governments should work together to develop a regional strategy towards this new cooperation. At the same time, the international community, in particular the African Development Bank, the United Nations and OCED/DAC can support

the efforts of African countries through monitoring and capacity building. By basing this cooperation on common objectives which are consistent with national and regional development strategies, the cooperation can lead to 'win-win' outcomes for all stakeholders.

A handwritten signature in black ink, appearing to read 'Cheick Sidi Diarra', with a horizontal line underneath.

Cheick Sidi Diarra
Under-Secretary-General and
Special Adviser on Africa

TABLE OF CONTENTS

LIST OF ABBREVIATIONS

SUMMARY

1. THE ENTRY OF EMERGING ECONOMIES: NEW OPPORTUNITIES

2. TRADE, AID AND FDI: KEY VECTORS OF CHANGE

3. TRADE, FDI AND AID IN AFRICA: THE GROWING PRESENCE OF EMERGING ECONOMIES

3.1. The Emerging Economies and Africa: The Trade Vector

3.2. The Emerging Economies and Africa: The Investment Vector

3.3. The Emerging Economies and Africa: The Aid Vector

3.4. The Integration of Trade, FDI and Aid Vectors: Are the Emerging Economies Distinctive?

4. MAKING THE MOST OF OPPORTUNITIES: HOW CAN AFRICA TAKE ADVANTAGE OF THE RISE OF THE EMERGING ECONOMIES?

4.1. The Developmental Impact of the Emerging Economies on Africa in Summary

4.2. Setting the Strategic Agenda

4.3. The Commodities Boom and the Terms of Trade Reversal

4.4. Infrastructure and Human Resources

4.5. The Development Agenda

5. DEVELOPING A POLICY RESPONSE: IMPLICATIONS FOR KEY ACTORS

5.1. Who Might Develop this Strategic Agenda and How Might this Happen?

5.2. Emerging Economies, the Paris Declaration and the Accra Agenda for Action

5.3. Recommendations

ANNEX I: COUNTRY PROFILES

- A1. Brazil
- A2. China
- A3. India
- A4. Malaysia
- A5. The Russian Federation
- A6. South Korea
- A7. Turkey

ANNEX II: EXPERT GROUP MEETING on “Africa's Cooperation with New and Emerging Development Partners: Options for Africa’s Development”

TABLES

Table 1	Africa’s Trade with Newly Emerging Economies, 1995-2006
Table 2	Technological Intensity of Africa’s Exports to the World and to the Emerging Economies, 2006
Table 3	Percent Share of African Countries in Selected Country’s Total Imports from Africa, 2007
Table 4	Emerging Economy FDI Flows into Africa
Table 5	Country and Sectoral Focus on Emerging Economies FDI in Africa, 2000-2006
Table 6	Indian, Brazilian and Turkish Aid to Africa
Table 7	Africa’s Share of Global Production and Reserves
Table 8	Freight and Insurance as a Percentage of Production Costs, 1997
Table 9	The Emerging Economies and Africa
Table A1.1	Percentage Share of Brazil’s Top Five African Export and Import Partners, 2007
Table A1.2	Percentage Share of Brazil’s Top Five Exports to Africa, 1995-2006
Table A1.3	Percentage Share of Brazil’s Top Five Imports from Africa, 1995-2006
Table A1.4	Brazil’s Development Assistance to Africa
Table A2.1	Percentage Share of China’s Top Five African Export and Import Partners, 2007
Table A2.2	Percentage Share of China’s Top Five Exports to Africa, 1995-2006
Table A2.3	Percentage Share of China’s Top Five Imports from Africa, 1995-2006
Table A2.4	China’s Average Tariff Rate and No. of Tariff Lines for World and SSA, 2000-2007
Table A2.5	China’s FDI flows to Africa, 1991-2003
Table A2.6	Distribution of China’s Outward FDI Stock in Africa, 1990 and 2005

Table A2.7	Major Projects in Africa with assistance from China's EX-IM Bank and China Africa Development Fund
Table A3.1	Percentage Share of India's Top Five African Export and Import Partners, 2007
Table A3.2	Percentage Share of India's Top Five Exports to Africa, 1995-2006
Table A3.3	Percentage Share of India's Top Five Imports from Africa, 1995-2006
Table A3.4	Lines of Credit Extended through the Export Import Bank of India to African Countries in Recent Years
Table A3.5	African Projects Undertaken with Indian Assistance
Table A4.1	Percentage Share of Malaysia's Top Five African Export and Import Partners, 2007
Table A4.2	Percentage Share of Malaysia's Top Five Exports to Africa, 1995-2006
Table A4.3	Percentage Share of Malaysia's Top Five Imports from Africa, 1995-2006
Table A4.4	Distribution of Malaysian Outward FDI Stock in Africa by Country, 2004
Table A4.5	Africa's Share in Malaysia Outward FDI Flows, 1991-2006
Table A5.1	Percentage Share of Russia's Top Five African Export and Import Partners, 2007
Table A5.2	Percentage Share of Russia's Top Five Exports to Africa, 1995-2006
Table A5.3	Percentage Share of Russia's Top Five Imports from Africa, 1995-2006
Table A5.4	Russian MNC Activity by Sectors in Africa, 2003-2006
Table A5.5	Russian ODA to Africa, 1996-2008
Table A6.1	Percentage Share of Korea's Top Five African Export and Import Partners, 2007
Table A6.2	Percentage Share of Korea's Top Five Exports to Africa, 1995-2006
Table A6.3	Percentage Share of Korea's Top Five Imports from Africa, 1995-2006
Table A6.4	Korean FDI in Africa by Sector, 2006
Table A6.5	Korean ODA to Africa
Table A7.1	Percentage Share of Turkey's Top Five African Export and Import Partners, 2007
Table A7.2	Percentage Share of Turkey's Top Five Exports to Africa, 1995-2006
Table A7.3	Percentage Share of Turkey's Top Five Imports from Africa, 1995-2006
Table A7.4	Turkish ODA to regions
Table A7.5	Turkish ODA to Africa

FIGURES

Figure 1	Africa's Share of Global Exports, Incoming FDI and as a Recipient of Aid Disbursements
Figure 2	The Importance of Emerging Economies to Africa's Trade
Figure 3	Oil and Gas in Africa's Exports to Emerging Economies
Figure 4	Importance of Africa in the Trade of Emerging Economies
Figure 5	Monthly Index of Commodity Prices, 1992-2009
Figure 6	Percentage of Sectors with Negative Price Trends, 1988/9-2000/2001 by Country Groupings

Figure A1.1	Brazils trade with Africa, 1990-2007
Figure A2.1	China's trade with Africa , 1990-2007
Figure A3.1	India's trade with Africa, 1990-2007
Figure A4.1	Malaysia's trade with Africa, 1990-2007
Figure A5.1	Russia's trade with Africa, 1990-2007
Figure A6.1	Korea's trade with Africa, 1990-2007
Figure A7.1	Turkey's trade with Africa, 1990-2007

BOXES

Box 1	Indian and Chinese Aid to Africa
Box 2	The Strategic Integration of Aid, Trade and FDI: China and the DRC, 2007-2008
Box A1	Brazil – Opportunities for Africa
Box A2	China – Opportunities for Africa
Box A3	India – Opportunities for Africa
Box A4	Malaysia – Opportunities for Africa
Box A5	The Russian Federation – Opportunities for Africa
Box A6	South Korea – Opportunities for Africa
Box A7	Turkey – Opportunities for Africa

LIST OF ABBREVIATIONS

ABC	Agência Brasileira de Cooperação
AERC	African Economic Research Consortium
AfDB	African Development Bank
AFRITAC	Africa Regional Technical Assistance Centres
AGOA	African Growth and Opportunity Act
APF	Africa Partnership Forum
ARV	Anti-retroviral
AU	African Union
BRIC	Brazil, Russia, India, and China
COMESA	Common Market for Eastern and Southern Africa
CVRD	Companhia Vale do Rio Doce
DAC	Development Assistance Committee
DCC	Development Cooperation Countries
ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
EU	European Union
EXIM Bank	Export-Import Bank of China
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Cooperation
HIPC	Highly Indebted Poor Countries
IBSA	India, Brazil and South Africa
IMF	International Monetary Fund
KIAD	Korea Initiative for African Development
MARDI	Malaysian Agriculture Research Institute
MDGs	Millennium Development Goals
MNC	Multinational Corporation
MTCP	Malaysian Technical Cooperation Programme
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
ONGC	Oil and Natural Gas Corporation
OSAA	Office of the Special Adviser on Africa
PTA	Preferential Trade Area
SACU	Southern African Customs Union
SADC	Southern African Development Community
SCC	Strategic Cooperation Countries
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
TEAM	Techno-Economic Approach for Africa-India Movement
TIKA	Turkish International Cooperation and Development Agency
TUSKON	Confederation of Businessmen and Industrialists of Turkey
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UN-ECOSOC	United Nations Economic and Social Council
UNHCR	United Nations High Commissioner for Refugees
WFP	World Food Programme
WHO	World Health Organization
WTO	World Trade Organization

SUMMARY

Emerging economies are making a rapid entry into Africa. The speed and significance of this entry means that they provide many opportunities for African economies; but, at the same time, their growing presence poses risks to Africa's future growth.

The presence of emerging economies in Africa may promote both complementary win-win, and competitive win-lose outcomes. At the same time, some of the impacts of interaction may be direct and visible, reflected in bilateral relationships, whilst others may be indirect and less visible (for example, competition in third-country markets, or competition for scarce global resources).

The primary vectors of interaction between Africa and the emerging economies are aid, trade and foreign direct investment (FDI). In recent decades, northern economies have increasingly separated-out interactions in these three vectors – aid has been untied, and clearly distinguished from investment, and aid and investment have only loosely been associated with trade. The analysis of the links between Africa and seven key emerging economies - Brazil, China, India, Korea, Malaysia, Russia and Turkey - in this report suggest a different evolving experience. More often, there has been close strategic integration between these three vectors in the operations of these emerging economies in Africa.

The distinctive features of each of these emerging economy actors in Africa are described in the main report and in further detail in the Annexes. The direct and indirect impacts on, and challenges for a range of African stakeholders are outlined. It is clear from this that whilst some emerging economies have a strategy for Africa, Africa does not have a strategy towards the emerging economies.

In the interests of promoting this emerging strategy, and in ensuring the optimal outcome of deepening links between these emerging economies and African countries, a number of policy issues are outlined, with recommendations for key development actors. These recommendations are as follows:

African governments should:

- Monitor trade, aid and FDI interactions with emerging countries ;
- Analyse strategic objectives of emerging economies, and opportunities and threats arising from their entry,
- Develop strategic focus to maximise benefits – in the words of the Paris Declaration and the Accra Agenda for Action, to exercise “ownership” over these growing interactions ;

- Interact with other African governments, African Union (AU), African Development Bank (AfDB) and regional groupings to maximise bargaining power and avoid wars of incentives;

Within their specific mandates, the AU, the AfDB, NEPAD and African Regional Organisations such as COMESA, ECOWAS and SADC should:

- ❖ Provide support for individual African governments in the monitoring of trade, aid and FDI interactions with emerging countries;
 - ❖ Coordinate strategic analysis where action is appropriate at continental or regional level;
 - ❖ Facilitate coordinated bargaining where this is appropriate to include the interests not just of commodity exporting economies, but also non-exporting economies.
- The AU, the AfDB and the ECA should establish dialogue which provides for a coordinated review of relations with the emerging economies, and where relevant (as in the forthcoming UN High Level Conference on South-South Cooperation), involve other relevant multilateral organisations in this dialogue;
 - The ECA should provide assistance with the compilation of relevant statistics and through its flagship publication, The Economic Report on Africa, monitor the trajectory of aid, trade and FDI relations between Africa and the emerging country partners;
 - A specific challenge arises for the AfDB in how to leverage emerging economy support for the financing and co-financing of regional infrastructure;
 - The Africa Partnership Forum should be widened to include participation by non-OECD emerging economies.

Multilateral organisations in the UN-family, the OECD/DAC, and the WTO should:

- Provide support for individual African governments in the monitoring of trade, aid and FDI interactions with emerging countries;
- Coordinate strategic analysis where action is appropriate at continental or regional level;
- Facilitate coordinated bargaining where this is appropriate;
- Help build capabilities in recipient countries to develop an adequate strategic response to relations with emerging economies;

- Provide support to the World Bank's call for Sovereign Wealth Funds to invest in the development of Africa's infrastructure.

Emerging country governments should:

- Recognise that flows of finance to Africa – both development aid and FDI – will entail future repayments, and that every effort should be made to avoid Africa entering a new realm and era of debt dependency;
- Recognise that their long-term access to Africa's natural resources depends on developing a non-exploitative relationship which provides for win-win outcomes. Thus resource rents should be shared equitably and maximum efforts should be placed on developing downstream and upstream linkages from the resource sector;
- Complementary investments in infrastructure designed to facilitate access to Africa's resources should also address the needs of the non-resource sectors of the economies, of promoting regional infrastructure and of also addressing the needs of countries with no, or poor resources;
- Market access should be provided for the preferential entry of African products into their markets. However, given poor production capabilities in Africa, complementary assistance is required to assist in the building of effective production capabilities, particularly in local firms and SMEs;
- Tolerance should be displayed when African governments seek special and differential treatment in third-country markets;
- Every attempt should be made to include African firms and farms in their global value chains producing for global product markets;
- In the absence of participating in the Accra Agenda for Action, attention should be given to addressing some of its principles, not least the objective of ensuring country ownership of aid-inflows and addressing the needs of transparency and legitimacy design to prevent corruption and the misuse of aid.

“The problem is that China has a strategy for Africa, but Africa lacks a strategy for China”

(Comment by Kenyan scholar, 2005)

1. THE ENTRY OF EMERGING ECONOMIES: NEW OPPORTUNITIES

Africa is currently entering an era of disruptive change as new emerging economy actors enter the stage. These new entrants have growing economic power, and in some cases also significant political influence.

Historically, African economies were closely integrated with the former colonial powers in Europe, and with North America and Japan. This was reflected in institutions of governance (parliamentary democracies), in language (English, French, Portuguese and Spanish complemented and often took the place of local languages), in infrastructure (constructed to facilitate contacts with western powers), in economic specialisation (Africa supplied commodities to, and imported manufactures from the west) and in the integration of African producers in western firms (foreign direct investment, FDI) and value chains. Financial flows, too, reflected this process of integration between African and western powers. In the latter third of the 20th century, there was an increasing flow of western financial resources into Africa (aid and FDI) and back to the source countries (debt repayment, profits and interest).

But the global economy and politics is now entering a period of disruptive change. Since 1979 China has grown at a compound growth rate of 9 per cent p.a., and India at a similar rate since the early 1990s. This rapid growth is not unique – Botswana, Hong Kong, Japan, Korea, Singapore and Taiwan had all grown at similar rates for prolonged periods. But all of these rapidly growing economies were small, so that their growth could proceed without changing the basic parameters of production and exchange in other countries. However, China and India together account for almost 40 per cent of the global population, so that when they grow very rapidly for prolonged periods, the “small country assumption” has to be suspended. China is likely to become the second biggest economy in the world by 2020, and India the third largest by 2035. Their size means that their expansion disrupts the path of incremental change which has dominated many societies for so long, not least the relatively weak and poor economies in Africa. It is for this reason that these newly emerging very large Asian economies are referred to as the “Asian Drivers”.¹

From the African perspective, the most important consequence of Asian Driver entry into the global economy is their impact on the global terms of trade. The prowess of the Asian economies in manufacturing has led to the growth of price competition (and in many sectors, price deflation) in industrial

¹ www.asiandrivers.open.ac.uk; see Special Issue of World Development, Vol. 36, No. 2, 2008. Special Issue of Review of African Political Economy, Vol. 35, No. 115 and the forthcoming Special Issue of the European Journal of Development Research (2009).

goods. At the same time, Asian Driver expansion of infrastructure, the growth in their manufacturing sectors and the changing composition of food demand towards meat products led to an increase in the price of commodities between 2001 and 2009. Previous spikes in commodities prices in the 1970s and the 1950s were short-lived – three-four years in duration. The 2001-2009 Asian Driver induced boom in commodity prices lasted more than seven years, and will probably be sustained once the financial-sector induced crisis in the global economy abates and growth resumes, particularly in China and India who are the primary sources of demand for Africa’s commodities. These changing terms of trade have major strategic implications for Africa, and frame the development of policies specific to particular issues (for example, to aid, to foreign investment and to trade negotiations).

This report summarises the major changes emerging in Africa’s interaction with the external world arising in large part as a result of the disruptive entry of the emerging economies into the global arena. Although China and India are the primary sources of disruptive change, they are not alone and their growing presence opens the space for other new economic and political actors. The report therefore also considers the role played by other emerging economies in Africa. These are Brazil, Korea, Malaysia, Russia and Turkey. These economies have been chosen partly because of their size, but also because each in its own way represents a particular type of disruptive force. Brazil is large and has similar economic parameters to many African economies. Korea was once a low income economy similar to those in Africa currently (in the 1960s it had a lower per capita income than Ghana), but has become a dynamic knowledge-intensive participant on the global stage; Malaysia and Turkey strive to emulate its path. Russia is not just very large, but also is rich in resources, as are many African economies.

The central idea behind this focus on new emerging economies in Africa is that their growing emergence and deepening links are disruptive of the trajectory of social, political and economic change in Africa. They pose a new and substantive challenge to Africa – *how can African economies make the most of the opportunities offered by these new participants on the global economic stage, and how can African economies minimise the potentially negative impacts posed by their growing presence?*

2. TRADE, AID AND FDI: KEY VECTORS OF CHANGE²

How might the impact of these rising powers on Africa be assessed? Three key variables are of importance and provide a framework for considering the impact for development strategies and policy responses to the entry of new emerging economy actors in Africa:

- Their *modes of interactions* with Africa – this report will focus on Trade, FDI and Aid;

² For an extended discussion of these vectors of change, see Kaplinsky and Messner, 2008.

- The extent to which these interactions are *complementary* (that is, both Africa and the emerging economies gain) or *competitive* (emerging economies gain, Africa loses; or African economies gain and emerging countries lose);
- The extent to which these impacts are *direct* and occur as a result of bilateral relations; another set of impacts are those which are *indirect* in nature, for example, China's trade with the rest of the world affecting relative prices, the terms of trade and thus the core development strategies of African countries.³ This report will only focus on the direct impacts.

Although trade, aid and FDI are considered as independent vectors, this is to some extent an artificial separation. In the Colonial era they were fused and the imperial powers' interests in Africa were closely coordinated. For example, in the immediate post-war period, British Colonies were seen as providers of tradable commodities for UK consumers, involving FDI from UK firms, with infrastructure to support this trade provided by the UK Colonial Office (roads and ports to transport the tea to the UK). French and Portuguese presence in Africa was coordinated in a similar way.

But as Africa was decolonised in the second half of the 20th century, these vectors increasingly came to be separated, partly as a result of opposition from African countries, partly because new players were entering the field (notably the US and the multilateral agencies), and partly due to growing public opposition in the OECD economies. Current views on "best practice" are that the vectors should be separated. Aid should be untied, and although trade and FDI are often closely co-related, this is seen as reflecting an outcome of economic processes rather than of concerted government-led strategic agendas by source-countries of aid and investment.

This separation of the trade-FDI-aid vectors characteristic of the latter stage of western dominance in Africa is now being challenged by some of the emerging economies (Section 3). They are explicitly coordinating interventions in these vectors in a way which is reminiscent of the earlier periods of Colonial rule. African countries need not only to be aware of these inter-linkages, but to understand the extent to which these linkages can be manipulated in Africa's own interest. Africa will need to coordinate its response in the same way if it is to gain from the opportunities opened by the emergence of new actors on the global stage (Section 4).

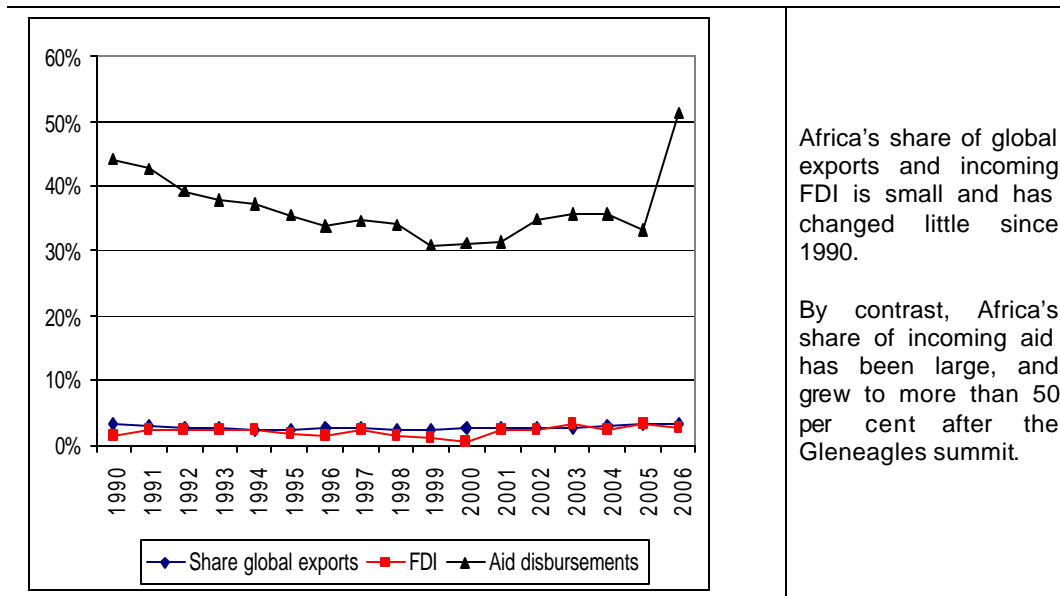
³

Kaplinsky (2008)

3. TRADE, FDI AND AID IN AFRICA: THE GROWING PRESENCE OF EMERGING ECONOMIES

Africa's presence in the global economy closely reflects its economic weaknesses. In the case of global trade and incoming FDI, its share never rose above four per cent between 1990 and 2006. By contrast, and as a consequence of its low levels of per capita income, Africa's share of global aid disbursements was substantial throughout this period, rising to more than 50 per cent in 2006, the year after the Gleneagles G8 summit (Figure 1).

Figure 1: Africa's Share of Global Exports, Incoming FDI and as a Recipient of Aid Disbursements



Africa's share of global exports and incoming FDI is small and has changed little since 1990.

By contrast, Africa's share of incoming aid has been large, and grew to more than 50 per cent after the Gleneagles summit.

Source: Trade data from COMTRADE (accessed 26 June 2008); Aid data from OECD DAC (accessed 26 June 2008); FDI data from UNCTAD (accessed June 2008).

3.1. The Emerging Economies and Africa: The Trade Vector

The trade balance in Africa's trade with the emerging economies

Africa's trade with the new emerging economies grew rapidly, from a combined export+import total of US\$8.8bn in 1990 to US\$148bn in 2007.⁴ The growth in trade has been particularly marked since 2002.

In 2006 this trade was, in aggregate, almost in balance, with an overall surplus of US\$2.8bn in 2006, an improvement from a deficit of US\$1.7bn in 1995, but showing little improvement from the surplus of US\$1.9m in 2000. However, as can be seen from Table 1, this picture of balanced trade masked a sharp deterioration in Africa's non-oil trade balance with these emerging economies. This had risen over the same time-period from a deficit of

⁴ Compiled from IMF DOTS

US\$7.7bn in 2000 to a deficit of US\$35.1bn in 2006. Excluding oil, Africa has a negative trade balance with each of the emerging economies except Turkey. The deterioration in this balance was most evident in the case of trade with China.

Table 1: Africa's Trade with Newly Emerging Economies, 1995-2006 (US\$Bn)

	Brazil	China	India	Malaysia	Russia	Korea	Turkey	Total Emerging Countries
1995								
Total Trade	-0.1	-1.0	0.3	-0.4	0.0	-0.8	0.3	-1.7
Non Oil Trade	-1.1	-1.3	-0.5	-0.4	0.0	-1.8	-0.7	-5.7
2000								
Total Trade	1.6	0.5	-0.3	-0.4	-0.7	-0.1	1.4	1.9
Non Oil Trade	-0.8	-3.1	-0.5	-0.4	-0.6	-2.2	-0.1	-7.7
2006								
Total Trade	0.6	2.2	4.5	-1.1	-2.0	-4.2	2.8	2.8
Non Oil Trade	-5.9	-18.8	-3.0	-1.1	-1.0	-7.2	1.9	-35.1
<ul style="list-style-type: none"> • In aggregate, Africa's trade with the newly emerging economies was in balance in 2006, a similar picture to that which prevailed in 1990 and in 2000. • If oil is excluded, then Africa's trade balance with the emerging economies is in deficit, with a major increase in this deficit between 1990 and 2006. 								

Source: Calculated from COMTRADE, Accessed via WITS July 2008.

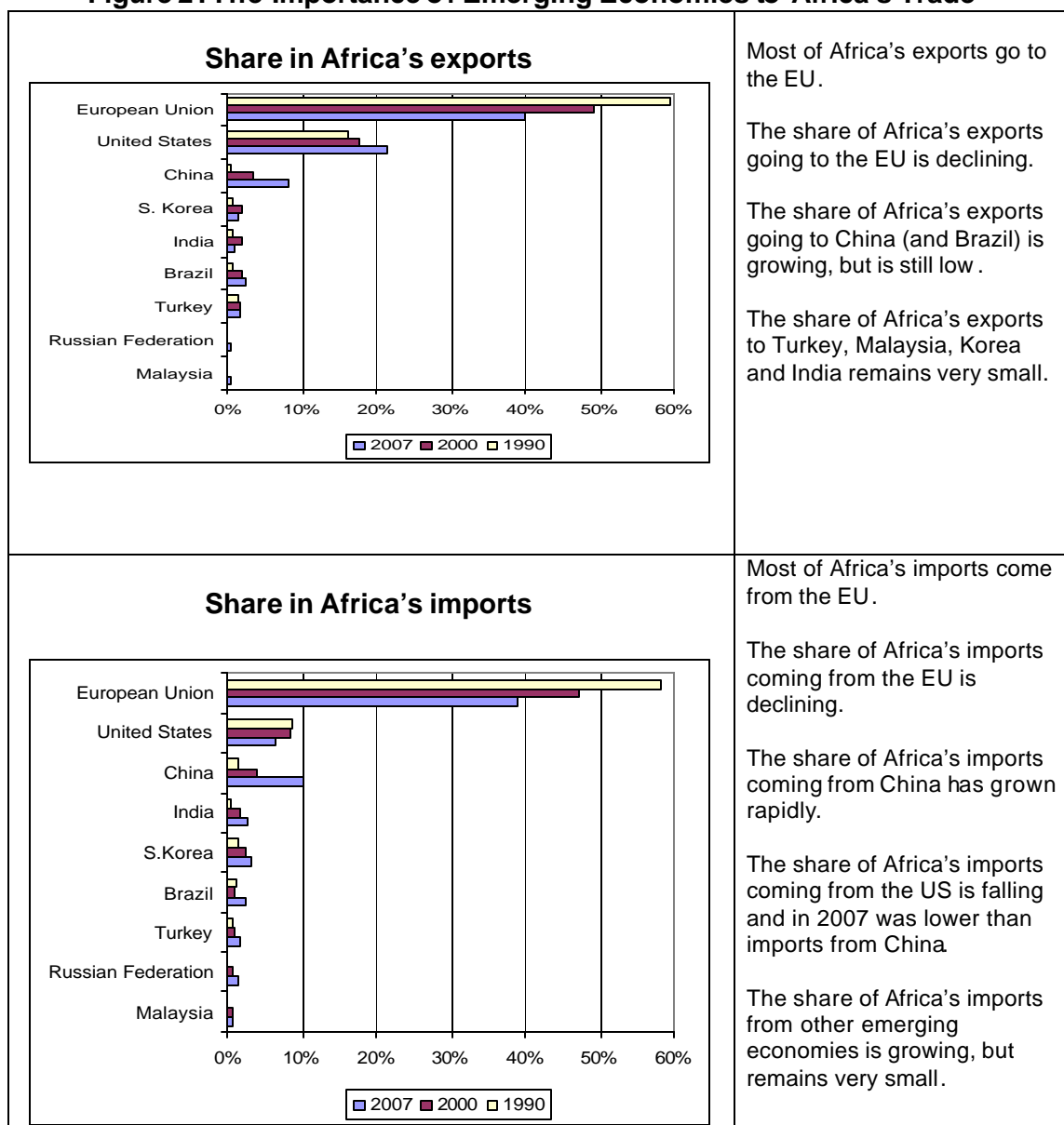
How important are the emerging economies in Africa's trade?

The significance of these emerging economies to Africa varies. Using trade as a proxy of these links, Africa's exports were historically predominantly destined for the EU (Figure 2). That dominance remains – in 2007, it was still the case that almost 40 per cent of exports went to the EU – but is declining rapidly (from 60 per cent in 1990). The major change in destination has been the growth in exports to the USA, largely arising from oil and gas exports, and exports of clothing and other manufactures under the AGOA (African Growth and Opportunity Act) scheme providing preferential access to US markets. By contrast, although Africa's exports to China (and to a lesser extent Brazil) have been growing rapidly, they still comprise a small share of total exports. By 2007, exports to the other new emerging economies remained small. The rate of change of export growth to China, Malaysia and Brazil has however been very rapid (42 per cent, 37 per cent and 24 per cent p.a. respectively between 2001 and 2007).

The other side of this Africa-centred trade picture concerns the origin of Africa's imports (Figure 2). In some respects there are similarities with the export picture, in that the share of the EU in Africa's imports remains large, but is rapidly diminishing in significance. Similarly, the US has been pushed into third place by China as a source of Africa's imports. The most significant change in shares is the growing role of the emerging economies in general, and China in particular. Korea, Brazil and India have also become increasingly

important as a source of imports into Africa, across the range of sectors – consumer, intermediate and capital goods, as well as in specialised services, particularly those required to design and construct infrastructure.

Figure 2 : The Importance of Emerging Economies to Africa’s Trade



Most of Africa’s exports go to the EU.

The share of Africa’s exports going to the EU is declining.

The share of Africa’s exports going to China (and Brazil) is growing, but is still low .

The share of Africa’s exports to Turkey, Malaysia, Korea and India remains very small.

Most of Africa’s imports come from the EU.

The share of Africa’s imports coming from the EU is declining.

The share of Africa’s imports coming from China has grown rapidly.

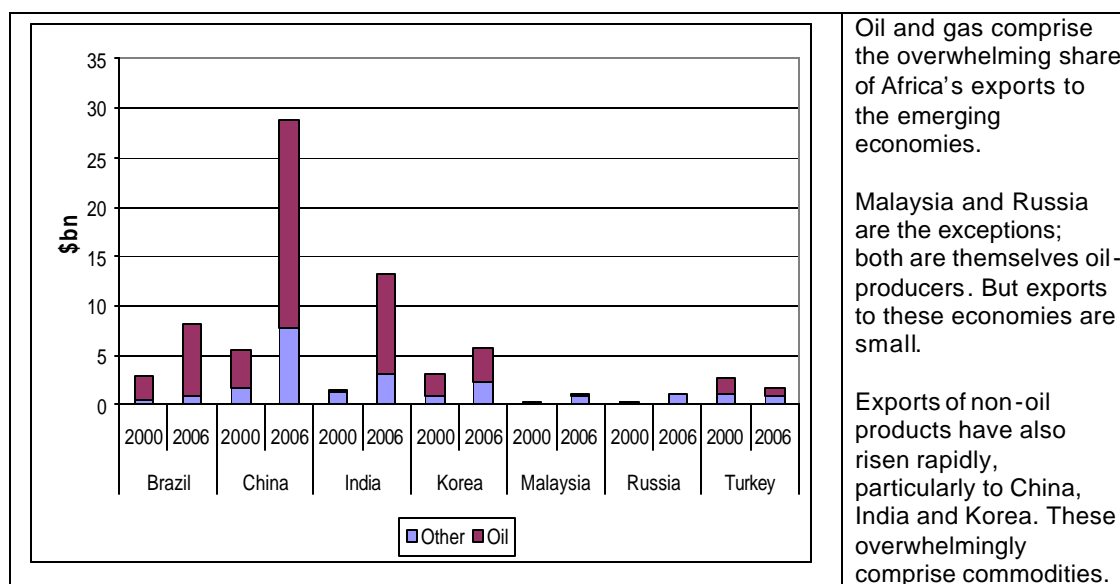
The share of Africa’s imports coming from the US is falling and in 2007 was lower than imports from China

The share of Africa’s imports from other emerging economies is growing, but remains very small.

Source: Direction of Trade Statistics (IMF), Annual values, accessed via ESDS. March 2009.

Most of Africa’s exports to the emerging economies comprise oil and gas (Figure 3). In 2006, oil and gas and associated products accounted for nearly half or more of the exports to the emerging economies, apart from Malaysia, Russia and Turkey. Oil was an especially large share of exports to Brazil, China and India.

Figure 3: Oil and Gas in Africa's Exports to Emerging Economies



Oil and gas comprise the overwhelming share of Africa's exports to the emerging economies.

Malaysia and Russia are the exceptions; both are themselves oil-producers. But exports to these economies are small.

Exports of non-oil products have also risen rapidly, particularly to China, India and Korea. These overwhelmingly comprise commodities.

Source: Calculated from COMTRADE, Accessed via WITS May 2008.

Another way of assessing the significance to Africa of trade with the emerging economies is in relation to the technological intensity of African exports (Table 2). The greater these are, the higher the value added in Africa, and the greater the learning and externalities with other sectors. In 2006, 70 per cent of Africa's exports to the world were accounted for by primary products, which include crude oil and metal and mineral ores. Africa's exports to the emerging countries are even less technology-intensive than its exports to the world, particularly those to Brazil, China and Korea. In each case, the share of unprocessed primary products was more than 80 per cent of their total imports from Africa. Africa's exports to Malaysia, Russia and Turkey appear to be somewhat more technology intensive.

Table 2: Technological Intensity of Africa's Exports to the World and to the Emerging Economies, 2006 (Percent Share)

	World	Brazil	China	India	Korea	Malaysia	Russia	Turkey
Primary	70	84	82	67	80	63	65	65
Resource Based	13	10	14	20	12	14	21	17
Low Technology	7	1	1	1	2	11	7	4
Medium Technology	7	4	2	2	5	8	2	14
High Technology	1	0	1	0	1	4	5	0

- Most of Africa's exports are primary and resource-based commodities.
- These commodities are even more important in trade with China and India.

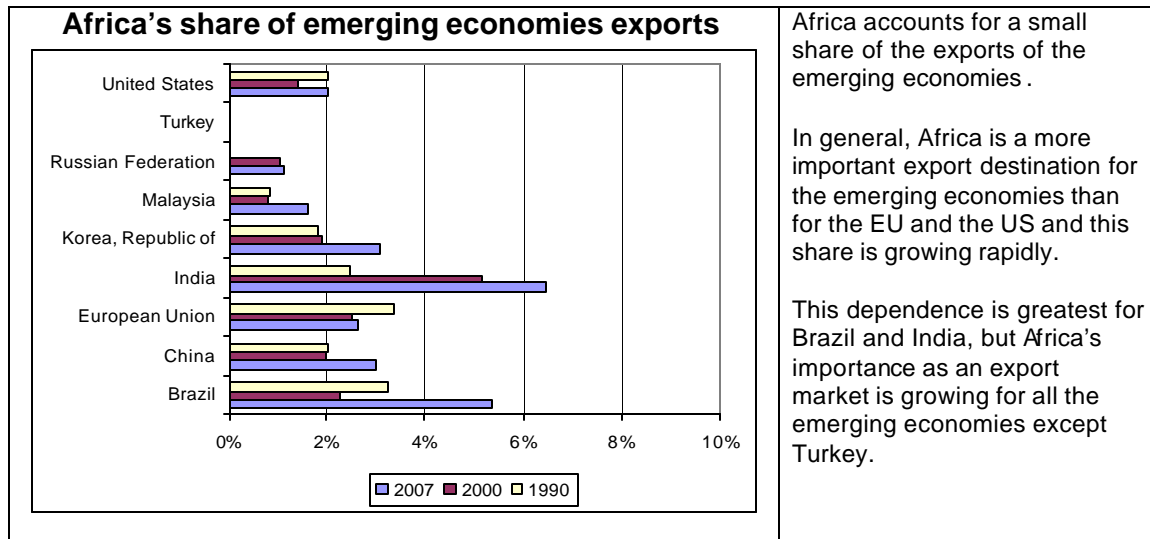
- Africa's exports to Malaysia, Russia and Turkey include a higher component of technology-intensive products.

Source: Calculated from COMTRADE, Accessed via WITS May 2008. Technological classification drawn from Lall (2000).

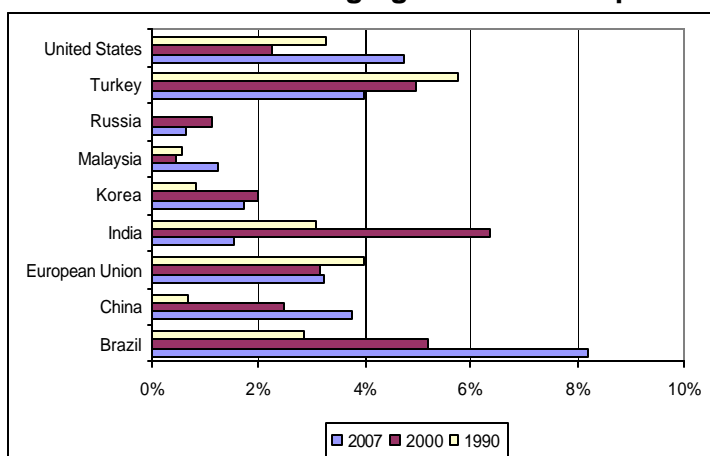
How important is Africa in the emerging economies' trade?

Africa's strategic response to the opportunities opening up by the growing interest of new emerging economies on the continent needs to be informed by its leverage in these countries – how important is Africa to them? In aggregate (compare Figure 4 with Figure 2), Africa's importance to trading partners is of much lesser significance than their importance to Africa. However, within this, there are significant structural differences. First, the emerging countries are more dependent on Africa for their imports than their exports. Second, relatively speaking, their dependence on imports from Africa is greater than that of the EU and the US. And, thirdly, emerging economies such as Turkey, Malaysia and Russia which export very little to Africa, are more dependent and have a growing dependence on imports from Africa. This overall picture of import dependence is not surprising – most of Africa's exports are oil and gas (see Figure 3 above) – products which have widespread and supply-constrained markets throughout the globe.

Figure 4: Importance of Africa in the Trade of Emerging Economies



Africa's share of emerging economies imports



In general, Africa is a more significant provider of imports to all partner countries than as a market for their exports.

However, whilst its share of emerging country imports grew rapidly for Brazil and China between 2000 and 2007, its relative importance declined for Turkey, Russia, Korea and India.

Source: Direction of Trade Statistics (IMF), Annual values, accessed via ESDS. June 2008.

Given the importance of oil (and, also, of other mineral commodities) in Africa's exports to the emerging economies, it is not surprising that only a relatively few African economies are major trading partners to these emerging economies (Table 3). The three major African oil exporters (Nigeria, Algeria and Angola) and South Africa (which predominantly exports primary commodities other than oil) are the major trading partners of all the emerging economies except Russia (which is itself a producer of oil and commodities) (Table 3).

Table 3: Percent Share of African Countries in Selected Country's Total Imports from Africa, 2007

	South Africa	Nigeria	Algeria	Angola	Total Share Accounted for
Brazil	5	47	24	6	82
China	19	1		33	53
India	28	3			31
Korea	25	11	10	3	49
Malaysia	27	1			28
Russia	13				13
Turkey	32	7	31		70

- Four African economies – South Africa, Nigeria, Algeria and Angola – are the major providers of imports to all of the emerging economies except Russia

Source: Calculated from Direction of Trade Statistics (IMF), Annual values, accessed via ESDS. June 2008.

3.2. The Emerging Economies and Africa: The Investment Vector

There is a bewildering array of data on inflows of FDI into Africa. A number of problems contribute to this confusion. First, country-level reporting of FDI (as to the IMF and as contained in the UNCTAD FDI Surveys) is uneven and there are major differences in recording practices and ambiguities in the data on FDI flows – mergers and acquisitions, levels of foreign ownership and reinvested profits are treated by different countries in different ways, and even then, data is collected at differential levels of detail. Second, many estimates of FDI are based on loose intention, which often fail to materialise, or do so in rather different forms to that which is announced with a great fanfare of publicity. And third, in some cases (notably China), FDI is bundled together with concessional loans, and there is much double-counting, with the same ventures being recorded both as aid flows and as inflows of FDI.

Table 4 draws together different estimates of FDI inflows into Africa from the emerging economies. It is based on a variety of sources which often provide contradictory data. This data shows a generalised increase in incoming FDI into Africa from the emerging economies, with significant (and often under-recognised) inflows from Brazil, Russia and Turkey as well as China and India.⁵ Until 2002, FDI inflows from the emerging economies into Africa were small and were dwarfed by those sourced from the UK and the US and other traditional western sources of FDI. But in recent years, Africa has seen significant inflows of FDI from non-traditional donors, especially China, Brazil, Russia and Turkey.

Table 4: Emerging Economy FDI Flows into Africa (US\$m)

	China		India		Korea		Malaysia	Brazil ¹	Russia ²	Turkey ³	UK	USA
1991	2				16		1				1069	85
1992	8				28		13				523	305
1993	15				84****	29	7				393	837
1994	28				134	111	36				500	762
1995	18				19	38	72				1116	352
1996					37	8	496				875	1678
1997					1847	88	148				1020	3436
1998					191	81	78				-41	3075
1999	591**	42			175	20	222				1901	596
2000	551	85			243	24	78				2120	716
2001	708	25	1630***	185	14	14	49			578	1658	2438
2002	983	30	116	883	12	7	340	150	1200	652	3291	-578
2003	2087	75*	238	338	2			1900		942		
2004	317				22	51	411		928	2300	5639	2697
2005	392						176	1400	238		10588	1325
2006	520											

Source: Unless otherwise stated, data is from UNCTAD (2007)

Note: Empty cells do not reflect zero FDI flows, but an absence of information.

* 2003-2006 Chinese Statistical Bulletin 2006

⁵ In general, the data collected from source countries suggests higher FDI outflows to Africa than the data available from the UNCTAD and IMF databases.

** 1999-2003 data in this column represent [China's approved FDI flows into Africa 1999-2003 from UNCTAD \(2007\)](#)

*** 2001-2003 data in this column, [Ministry of Finance India](#)

**** 1993-2005 data in this column from [Korea Export Import Bank as quoted in Kim \(2006\)](#)

Brazil¹ 2004 from Harsch (2004), 2005 and 2007 calculated on information from FDC-CPII (2007)

Russia² M&A purchase, 2004 from Kuncinas (2006), 2006-2007 from Nestmann and Orlova (2008)

Turkey³ 2003 to 2005 from Zaman (2005), 2006 from [www.turkoafrika.com](#)

Based on numerous press statements and industry journals it is possible to draw a crude picture of the country and sectoral orientation of emerging country FDI into Africa. Table 5 lists the major FDI destinations and sectors for each of the emerging economies, focusing on stocks rather than flows. It is clear that South Africa is the major source of activity for FDI from each of the emerging economies. Its attractions reflect emerging economy investments in manufacturing, commodities and services. The importance of oil and gas in Africa's exports identifies the next tier of African economies – Sudan, Angola, Algeria and Nigeria. They attract FDI from China, Brazil, India and Malaysia. Mining and energy generation follows in importance, in turn followed by the related sectors of infrastructure and construction. Although Chinese and Indian firms surface in manufacturing, so far this has largely been in the clothing sector, with exports destined to the US (and, to a lesser extent, the EU). Turkey stands out as an exception, with few investments in oil and gas or in raw materials sectors.

Table 5: Country and Sectoral Focus on Emerging Economies FDI in Africa, 2000-2006

China	S. Korea	Brazil	India	Russia	Malaysia	Turkey
S. Africa [^]	S. Africa [*]	S. Africa [*]	S. Africa	S. Africa ^{**}	S. Africa ^{**}	S. Africa
Sudan ^{**}	Sudan ^{**}	Sudan	Sudan ^{**}		Sudan [*]	
		Angola ^{**}		Angola [*]		
Algeria [*]	Algeria ^{**}					Algeria [*]
	Morocco [^]		Morocco			
Nigeria [^]		Nigeria ^{**}		Nigeria ^{**}		
			Mauritius ^{**}		Mauritius ^{**}	
		Mozambique ^{**}				Mozambique
	Egypt ^{**}				Egypt	Egypt ^{**}
			Libya			Libya [*]
Zambia [*]	Cote d'Ivoire [^]	Guinea-Bissau [*]		Guinea [*]	Chad [^]	
				Botswana	Namibia	
Sectoral focus						
Oil & Gas		Oil & Gas	Oil & Gas		Oil & Gas	
Mining	Mining			Mining		
Energy		Energy	Energy		Energy	
Infrastructure	Construction	Construction	Construction			Construction
Manufacturing			Manufacturing			Manufacturing
	Telecomm.		Telecomm.		Telecomm.	
<ul style="list-style-type: none"> • South Africa has been the major destination for FDI from the emerging economies. • The next tier of destinations reflect recent investments in oil, predominantly in the Sudan, Angola 						

and Nigeria, and originate from China, Korea, Brazil, Russia and Turkey

- Investments are also growing in mineral extraction in Zambia, the DRC, Botswana, Russia and South Africa.
- Investments in telecommunications, power generation, construction and infrastructure have been growing in importance
- South Africa is the only African country in which emerging countries have made significant investments in manufacturing. Turkey is the only emerging economy with a relative predominance in FDI into the manufacturing sector.

Source: Own compilation; various sources (see Annex for details); data for Brazil, Turkey, Russia incomplete

** very significant - >20 per cent

* significant - 10 per cent to 20 per cent of total emerging economy FDI outflows to Africa

^ 5 per cent to <10 per cent

Others negligible - <5 per cent

3.3. The Emerging Economies and Africa: The Aid Vector

Given the growing importance of Africa for the emerging economies, both as a source of raw material and as future markets, most emerging economies are seeking to engage in Strategic Partnerships with Africa. China, India, Turkey, Korea and Brazil have all held large bilateral summits specifically targeted at increasing cooperation with Africa in the last few years.

The aid provided by the newly emerging economies to Africa must be seen in the larger context of global aid, and global aid to Africa. As was shown in Figure 1, Africa has been the major beneficiary of global aid disbursements, accounting for more than half of the total in 2006. These aid-flows represent a combination of multilateral (30 per cent) and bilateral aid (70 per cent). (averages 2000-06). Aid-reporting by DAC countries to Africa is comprehensive and can be found on the DAC-OECD website⁶. However, none of the seven emerging economies considered in this report are members of the DAC although two – Korea and Turkey – are members of the OECD and report to DAC. The other five emerging economies – Brazil, China, India, Malaysia and Russia – are neither OECD nor DAC members.

Hence, there is no coordinated or consistent set of data on aid flows from these individual emerging economies to Africa. Moreover, little of the assistance provided by some of the emerging economies would qualify as “aid”, yet it undoubtedly goes some ways to supporting Africa’s needs for finance. For example, since the end of the civil war, China has provided at least US\$6bn, and possibly as much as US\$14bn to the Angolan government in loans. The most recent tranche in March 2009 was to aid the expansion of agricultural production.⁷ A careful search of a large number of sources has been undertaken and the detailed results – by emerging economy – are available in the Annex

⁶ <http://www.oecd.org/dac>

⁷ (<http://www.google.com/hostednews/afp/article/ALeqM5i0hpqnhmj3GYfBFS8IbzAJ1WDf5w>, accessed 13th March 2009).

Debt relief under the Highly Indebted Poor Countries (HIPC) initiative, as well as bilateral cancellation of loan agreements have been reached between China, Russia and Brazil and many African countries. China's debt forgiveness for 31 African countries in 2003, amounted to US\$1.27bn. Between 2006-2009 a further US\$1.3bn of debt was cancelled. This debt relief reflected both demands from African countries and China's attempt to respond to the call that it fall in step with leading Western donors. Brazil's debt relief was around US\$400m.

As old debts are being cleared, there is growing concern among traditional donors of the possible future debt burden on African countries, given the heavy concessionary loans being provided by China. As can be seen from Box 2, this is one of the major issues which is currently affecting the DRC's very large aid-FDI-trade venture with China. These concerns of traditional donors are compounded by the fact that Chinese aid to Africa is generally not transparent, and there is considerable ambiguity about the sums lent to African countries and on what terms. As traditional donors commit to the Paris Declaration (Section 5.2 below), there is concern that the emerging economies in general, and China in particular, are not following similar disclosure paths.

Since China and India are the key donors amongst these emerging countries, this overview section provides a little more detail on their overseas aid activities (Box 1). Although both countries have a wide range of aid activities in Africa, in general Indian aid is smaller than Chinese aid (although this differs in individual countries, for example Ghana – see Annex). Indian aid is also more geared towards technical assistance than is Chinese aid, although there has been a sharp change in the orientation of Indian aid in recent years, and it is beginning to look much like that of China's aid than it did in the past.

Africa has consistently received support from China over the decades. Alden (2007) reports aid commitments of US\$4.9bn between 1957-1989. Africa as a region has received the largest share in China's development assistance, around 44 per cent of the total, Chinese aid comprises a mix of tied aid, as well as grants and concessional loans. Davies (2006) indicates aid flows between 1949-2006 to be around US\$5.6bn. These divergent numbers are explained by three factors. First, China's classification of what constitutes aid differs from that used by DAC and the OECD. Second, data on aid inflows from individual African countries as well as from China are either not collected systematically or publicised. And third, not all aid commitments are realised as disbursements and some sources provide data on commitments and others on disbursements. Therefore managing a comprehensive number for Chinese aid to Africa has been problematic.

China's integrated strategy in Africa is reflected most clearly in what has come to be called the "Angola mode". This is a scheme of financing in which China provides its large state-owned firms with export credits, securitised by access to an African country's resources through agreement with the government of the African economy. It builds into the loan considerable use of Chinese

inputs since the finance is secured in China and generally is limited to the use of Chinese (and some local African) inputs. The terms of these “Angola mode agreements” – developed in financing China provided for post civil war reconstruction in Angola in exchange for oil – vary and are generally not transparent, so it is unclear whether there is any significant grant element in the financing. Hitherto, this mode of financing has been used inter alia for China’s access to oil in Angola (between US\$6bn and US\$14bn), for manganese exploration rights in Gabon (US\$3bn) and for the copper and cobalt investments in the Democratic Republic of the Congo (Box 2).

Box 1: Indian and Chinese Aid to Africa

“India and China have different patterns of aid. India concentrates on non-monetary aid mainly in the form of technical assistance and scholarships, while China offers a wider range of monetary and non-monetary aid packages, which include grants and loans for infrastructure, plant and equipment, as well as scholarships, training opportunities, and technical assistance. Chinese monetary aid is tied to the use of Chinese goods and services, and requires adherence to the ‘One China’ policy, but does not carry the ‘good governance’ conditionalities that currently characterise western donors. Especially in the case of China the line between FDI and aid is often blurred, as is the line between aid and trade” (McCormick, 2008: abstract p.1).

<u>Aid Type</u>	Given by	
	<u>China</u>	<u>India</u>
General budget support	✓	
Grants/loans for infrastructure, plant & equipment	✓	
Scholarships for academic training	✓	✓
Other types of training opportunities	✓	✓
Technical assistance	✓	✓
Tariff exemption	✓	
Debt relief	✓	

Source: McCormick, 2008

Aid from the other emerging economies is both smaller and less well documented. Table 6 summarises the available information on aid from Korea, India, Turkey and Brazil to Africa. To the extent that this information is accurate, it is evident that aid flows from these emerging economies to Africa are small in magnitude and that they represent only a small increment to total aid inflows into the continent. Moreover, with the exception of Brazil, a relatively small share of total external aid is directed towards Africa, much less

than then the half of total EU aid, the third of total Japanese aid, or the quarter of total US trade which goes to the continent.

Table 6: Indian, Brazilian and Turkish Aid to Africa

	Aid disbursements to Africa (US\$m)				Share of total aid inflows into Africa*** (per cent)				Aid to Africa as per cent of total country aid			
	1990	1995	2000	2006	1990	1995	2000	2006	1990	1995	2000	2006
EU 15	9,968	8,643	6,273	20,862	40	40	40	48	51 per cent	42	41	52
USA	3,529	1,847	2,107	5,805	14	8	14	13	42	33	28	27
Japan	1,069	1,615	1,226	2,621	4	7	8	6	16	16	13	36
Korea	9	15	24	48	0.04	0.07	0.16	0.11	74	21	19	13
India	...	...	1.56	4.44	...	...	0.01	0.01	...	...	1.52	1.52
Turkey	0	2	0	25	0.00	0.01	0.00	0.06	0	2	2	4
Brazil	...	...	24*	...	...	...	0.05	...	...	...	27-34 **	

- Aid flows from Brazil, Turkey and India to Africa are small
- These aid flows represent a tiny fraction of aid to Africa
- As a proportion of emerging country aid, Indian and Turkish aid to Africa represents a much smaller proportion than aid from the EU, the US and Japan

Source: EU 15, USA, Japan, Korea and Turkey data all from OECD-DAC (accessed May 2008)

India: calculations based on data from (Price, 2005), and (India Ministry of Finance);

Brazil: estimates based on data from (Altenburg & Weikert, 2007), (Schläger, 2007) and (Stamm, 2006)

Note:

*the data on aid disbursements includes contributions from partner organisations based on a rough estimate, i.e. official data multiplied by ten (the factor is an estimate from official sources quoted in (Schläger, 2007). Brazil does not publish its development assistance data

**estimates from (Altenburg & Weikert, 2007), and (Stamm, 2006)

**** percentage of country share as a total of all DAC ODA

Given that most of the emerging economies are developing countries and aid recipients themselves, it is understandable that the flow of financial aid to African countries is relatively low compared to the US, Canada, the EU and Japan. Capitalising on their own experiences, the emerging economies offer non-financial assistance to their African counterparts in a wide variety of sectors. The engagement is generally characterised as South-South Cooperation and is seen as a way for developing countries to work together.

Cooperation between the emerging economies has been reached through bilateral agreements between African Regional Bodies and emerging economies as well as through contributions to international organisations working on development issues in Africa. While China and India have strong bilateral ties, Malaysia, Korea and Russia tend to work through international fora such as the Global Fund for Development and the UN organisations. Turkey has established relations with the African Union, where it has observer status. They have also worked through the African Development Bank to fund infrastructure and development projects.

Assistance in various sectors has been provided including health, agriculture, education and institution building. Given the diverse nature of the emerging economies themselves, they have been able to assist their African counterparts across different economic and social sectors. For example Brazil and India have shared experiences in the health sector, especially in their own struggles against HIV/Aids. Malaysia has provided assistance in banking and legal issues, especially in building institutional capacity. Turkey and Korea have focused on access to low cost technology as well education and agricultural projects.

Assistance in developing human resources through training has been encouraged by emerging economies and African countries, through general assistance in the education sector by offering scholarships and building schools, to more focused areas such as agriculture, banking, legal issues, technical training. Brazil has provided vocational training centres for post conflict areas, while India and Korea have sponsored IT centres and training.

Assistance in humanitarian causes has been provided both through financial contributions as well as in personnel and materials. Russia has helped to train and equip local staff to handle Humanitarian and Rescue issues. China has contributed personnel to UN Peacekeeping Missions in Africa, as well as helping to train and equip African Union peacekeepers.

Given China's increasing presence in Africa, traditional donors such as the EU are encouraging trilateral engagement in the fields of peace and security, infrastructure, the environment and agriculture. Given the different agendas that the traditional donors and the Chinese are perceived to have, trilateral cooperation in the above fields would allow for a joint effort to address important development issues within Africa.

3.4. The Integration of Trade, FDI and Aid Vectors: Are the Emerging Economies Distinctive?

As observed at the outset of this report, in the early years of colonial rule, trade, investment and aid from the colonial mother country were closely integrated and harmonised to serve the best interests of the colonial power. But as colonialism matured and decolonisation proceeded, these integrative bonds were weakened. Current “best practice” actively separates these vectors of integration. For example, there have been strong moves to untie aid and FDI recipient countries are encouraged not to provide special privileges to FDI from countries with whom they have extensive trade links or from whom they receive aid. Another feature of current “best practice” is the growing presence of conditionalities in all three vectors. To some extent this mirrors aid conditionalities which characterised aid to Africa during the decades of Structural Adjustment in the 1970s and 1980s. During that period, aid support was contingent on the acceptance of a particular package of economic policies, the “Washington Consensus” agenda. More recently, conditionality has reflected political and social agendas. In the case of aid, for example, transparency of expenditure and the avoidance of corruption have been

implemented through the Paris Club and DAC. In the case of FDI and trade, concerns for the environment and for labour and social standards have led to a series of standards for products (for example, organic foods and furniture made from sustainable forests) and processes (for example, Fair Trade and labour standards).

The emerging economies in general, and China in particular, have a distinctive position by comparison with this emerging pattern of best-practice Aid. Trade and FDI from the OECD economies. In the first place, they exercise a much close strategic integration of aid, trade and FDI. This is particularly marked in the case of China and is most clearly evident in the comprehensive aid package negotiated with the DRC in late 1997 and early 2008 (Box 2).

Box 2. The Strategic Integration of Aid, Trade and FDI: China and the DRC, 2007-2008

The context is one in which the DRC possesses extensive mineral resources, but lacks the resources or technology to exploit these. (The total DRC state budget in 2007 was only \$1.3bn, most of which was used to pay salaries). Before the elections in 2006, the DRC government had approved a large number of 35-year mining contracts in processes which were not transparent. Reacting to international concern, the new incoming government began a process of reviewing 61 mining contracts entered into between 1997 and 2003. The ability to review these contracts was strengthened by the existence of an alternative path to exploiting the DRC's extensive mineral deposits, in large part by the Chinese aid-trade-FDI package signed in 2007 and 2008.

This constituted two large, but related, initiatives. The first entered into in late 2007, involved a loan for \$8.5bn from the Chinese EXIM Bank. This was to promote exploitation of the mining sector, and was supplemented with a further \$5bn loan in early 2008. Together, these loans were securitised by providing China with access to, and security provided by \$14bn of copper and cobalt reserves. (The DRC has one-third of global cobalt reserves and 20 per cent of global copper reserves). This aid was tied to an investment package to exploit these mineral resources by a jointly owned company, Socomin, owned by Chinese (68 per cent) and Congolese (32 per cent) state-owned companies. The \$3bn investment in the mines will be repaid out of future profits. By agreement, not more than 20 per cent of the workforce can be Chinese, 0.5 per cent of investment will be allocated to training, a further one per cent will be spent on social investments and three per cent on environmental projects in the surrounding areas. In addition, at least 12 per cent of the work will be sub-contracted to local firms.

In addition to these investments in mines, China will provide support for investments in five key areas identified by the DRC state – in water, electricity generation, education, health and transport. \$8.5bn will be allocated to a variety of projects which include a high-voltage power distribution network, highway and railway extensions, and the construction of 31 hospitals, 145 health clinics, 5,000 houses and two universities. Additional resources are allocated to rehabilitate and expand water supplies. Supplementing all of this, are a range of additional aid projects, including training programmes in China for poverty reduction and subsidised loans to construct the national People's Palace (the parliament) and the Stadium of the Martyrs outdoor and sports complex.

In early 2009 the IMF sought to block this investment, arguing that the DRC could not enter into a new arrangement with a privileged preferential creditor when it still owed western creditors \$11.5bn. The DRC government and the Chinese investors however reaffirmed their commitment to this large investment in March 2009.

Source: Vandaele, 2008; Komesaroff, 2009; "Wild" (2009)

4. MAKING THE MOST OF OPPORTUNITIES: HOW CAN AFRICA TAKE ADVANTAGE OF THE RISE OF THE EMERGING ECONOMIES?

How can Africa make the most of the opportunities provided by these new disruptive entrants? In what areas do the major opportunities arise? What strategies might be employed to ensure the most successful outcomes? And who are the main bargaining parties? These are the questions which need to be addressed if the most can be achieved for Africa in a rapidly-changing world.

Here a distinction needs to be drawn between a strategic response to the entry of the new emerging economies into the African economy, and the specific policies which are adopted to best implement these strategies. Policies are contextual – they reflect specific agendas, specific parties and specific points in time. It is clearly not feasible to map out these policies for more than 50 African countries, let alone for the external bilateral and multi-lateral agencies who have traditionally dominated aid and policy agendas in Africa. For this reason, the remainder of this report addresses the key strategic issues which might productively frame the development of specific policy responses.

Before setting out this strategic agenda, however, Section 4.1. summarises the key developmental impacts of the emerging economies on Africa. This summary needs to be read in conjunction with the more detailed discussion in Sections 4.2-4.5 below.

4.1. The Developmental Impact of the Emerging Economies on Africa in Summary

The relatively recent arrival of the emerging economies in Africa's economic and political landscape means that their developmental impact is as yet only embryonic. However it is possible to discern some major trends in relation to five sets of stakeholders - consumers, the manufacturing sector, the agricultural sector, the commodities sector, and governments.

The developmental impact on African consumers

The impact of the emerging economies on Africa's consumers has in general been positive. Their trade impact has led to a fall in the prices of many key consumer goods, particularly basic consumer goods such as clothing and footwear. To some extent this reflects a change in product mix, that is, that consumer goods produced by the emerging economies are not only generally cheaper than like-for-like alternatives from traditional trading partners, but are also aimed at lower income consumers. They are thus more appropriate to African conditions.

Another important area of advantage to consumers has been in the provision of core generic medicines which are appropriate to African conditions, and in particular to the provision of cheap retroviral drugs and insecticide-dipped mosquito nets which significantly help to reduce malaria. African consumers

have also gained from the availability of improved infrastructure, including enhanced railways, roads and bridges and telecommunications.

The one exception to this positive impact on consumers is with regard to food prices. Changing terms of trade (Section 4.3 below), largely induced by China and India, led to increases in the price of food across a range of agricultural products during the 2001-2008 supercycle and look likely to be sustained in the future. These increases are not limited to foods which the emerging economies necessarily import directly, since there is a large measure of substitutability between crops and the inputs used in agriculture (for example, energy, pesticides and fertilisers) which are often generic in nature. Unlike the cheapening of manufactured products which are predominantly consumed by middle- and upper-income citizens, rising food prices hit the poor directly, and disproportionately hard.

The developmental impact on Africa's manufacturing and infrastructural sectors

The impact of the emerging economies on the manufacturing sector has generally been adverse, and significantly so. Many opportunities in export markets have been foreclosed, or have only remained open due to the sustaining by northern economies of trade preferences for African exporters. Manufacturers targeting their own domestic markets have also been severely disadvantaged by competitive imports from the emerging economies, particularly from China. Another casualty from emerging economy competition is the construction sector involved in large infrastructural projects. This has particularly adversely affected South African firms, since Chinese competition has driven other infrastructure providers out of many markets. This arises not just from the efficiency of Chinese firms, but also from the strategic integration of Chinese aid with the competitive bids of Chinese construction firms, tied to the acquisition of Chinese-sourced inputs. An interesting side-effect of Chinese competition is that it is not just South African and northern firms who have been squeezed out of many markets, but also those from Brazil (as in the case of Angola).

Set against this generally negative impact on Africa's manufacturing and infrastructure sectors, the provision of cheap and appropriate capital goods from the emerging economies has provided many African producers with lower cost and more effective productive capacity. A more complex, but also important, positive outcome of emerging economy presence in Africa has been that the provision of cheap consumer goods such as basic clothing has helped to moderate wage pressures in other sectors.

The developmental impact on Africa's agricultural sector

In principle, with most of its population in the agricultural sector, Africa stands to gain from an Asian Driver induced shift in the terms of trade. However, for a number of reasons, the reality has been rather different. First, the crops in which Africa has a global comparative advantage – particularly beverage crops (tea, coffee and cocoa) are in general not subject to the same upward-pricing pressures as grains, pulses and animal feeds. Second, despite Africa's large land-mass, most countries in Africa are not especially well-endowed in

the resources required to produce these in-demand crops. Third, one of the major consequences of emerging economy demands for hydrocarbon-based energy has been the rise in prices of oil-based agricultural inputs, especially transport, fertilisers and insecticides. Fourth, more than 50 per cent of all African farmers are in food deficit. Thus, an increase in food prices may, on balance, in fact be detrimental to small scale and poor farming families. And, fifth, not all African countries are exporters of agricultural commodities – less than half of all African economies (that is, 22 out of 54 countries) account for more than 80 per cent of soft-commodity exports.

The developmental impact on Africa's commodities sector

Those African economies which are producers of oil, gas and minerals based hard commodities are potential beneficiaries of the changing terms of trade. Some African economies, notably Botswana, have harvested these resource rents wisely. But in other cases, there have been a range of negative impacts which, from the developmental perspective, have drowned out the windfall gains arising from rising commodity prices. An example of this has been Zambia, where rising copper prices have led to a sharp appreciation of the real exchange rate. Coupled with the legacy of macro-policies adopted during recent World Bank and IMF-induced policy reforms (for example, tax-holidays and privatisation), little of the boom in copper prices during the 2001-2008 supercycle accrued to Zambian stakeholders (Bova, 2008; Weekes, 2008). An additional negative outcome from the commodity boom has been the ability which rising prices have given to some African governments, under global pressures on human rights (for example Sudan) or the transparency of aid-spending (Angola) to withstand global attempts to impose better forms of governance.

An additional factor has been the uneven spread of hard commodity exports amongst African countries. Only five African countries account for more than 80 per cent of all oil and gas exports and virtually all of the remaining African economies are net importers of oil. In fact during 2007 and the first eight months of 2008, the increasing burden of rising oil prices wiped out all of the foreign exchange benefits arising from increasing aid to African oil-importing economies. The consequences of rising oil prices as peak-oil approaches are likely to make this a long-term problem for much of Africa. Similarly, only 12 African economies account for more than 80 per cent of all of Africa's exports of hard commodities.

The developmental impact on African governments

In many respects the primary beneficiaries of the impact of emerging economies in Africa have been on the government sector. New injections of aid have in some cases allowed for improvement in the run-down facilities which civil servants and politicians use, such as parliamentary buildings and housing for civil servants. In some cases, notably prospectively in the case of the DRC (see Box 2 above), emerging economy investments have led to an increase in government revenue through joint venture partnerships in mineral expansion, and through the ability provided to renegotiate asymmetrical agreements with traditional economic partners. Peace-keeping forces provided by China and India have also played a role – albeit small – in the

attempts in some African countries to reduce internal conflict. Finally, African governments have been aided in their negotiations with traditional aid donors to withstand Washington Consensus policy reform by drawing on alternative emerging country resources, as well as on the policy experience of countries such as China and India which runs counter to that often prescribed by international institutions. It has augmented the policy-space for new approaches to African development.

But insofar as incoming aid from the emerging economies requires repayment (as opposed to being grants), there is a danger that large inflows with associated grace-periods may obscure the longer term implications of these flows for future indebtedness.

4.2. Setting the Strategic Agenda

There are more than 50 countries in Africa, and this report addresses their relations with seven emerging economies. Each of these economies has its own history. They have different endowments and are at different stages of development. Some African countries are landlocked and some have large desert tracts. Population densities vary enormously, and human skills are unevenly developed within and between countries. Perhaps most importantly, the different countries on the continent have very different political and governance systems, with varying capacities to focus and implement strategic choices. At the same time, although the seven emerging countries considered in this report have in common their desire, as relatively new entrants, to deepen their links with Africa, they, too, differ enormously in their endowments, needs and strategic capabilities.

For these and related reasons, it is neither feasible nor desirable to set out a single path in which individual African countries, or groups of African countries should interact with these new disruptive entrants into the global arena. Notwithstanding this cautionary note, Africa clearly has an enormous opportunity to restructure its external relations by capitalising on the entrance of these new economies. In what follows, this report sets out some of the key parameters which may be addressed, but does so only at general level to illustrate how these opportunities may be grasped. Policy definition, and especially policy implementation, are not optimised through reports and paper documents. They reflect interactions and commitments between key stakeholders and it is here that the primary actions are required. Rationalisation through reports often follows strategic discussions and decisive action.

In preparing the way for a process of strategic formulation, the remainder of this report sets out some of the key issues which need to be considered. This begins with a recognition of the bargaining power which some, but not all African countries have in the context of a likely commodities' boom and terms of trade reversal (Section 4.3), despite the fallback in commodity prices arising from the financial-sector induced global crisis which emerged after September 2008. For the gains to be realised, strategic investments need to be made in infrastructure and human resource development (Section 4.4). But

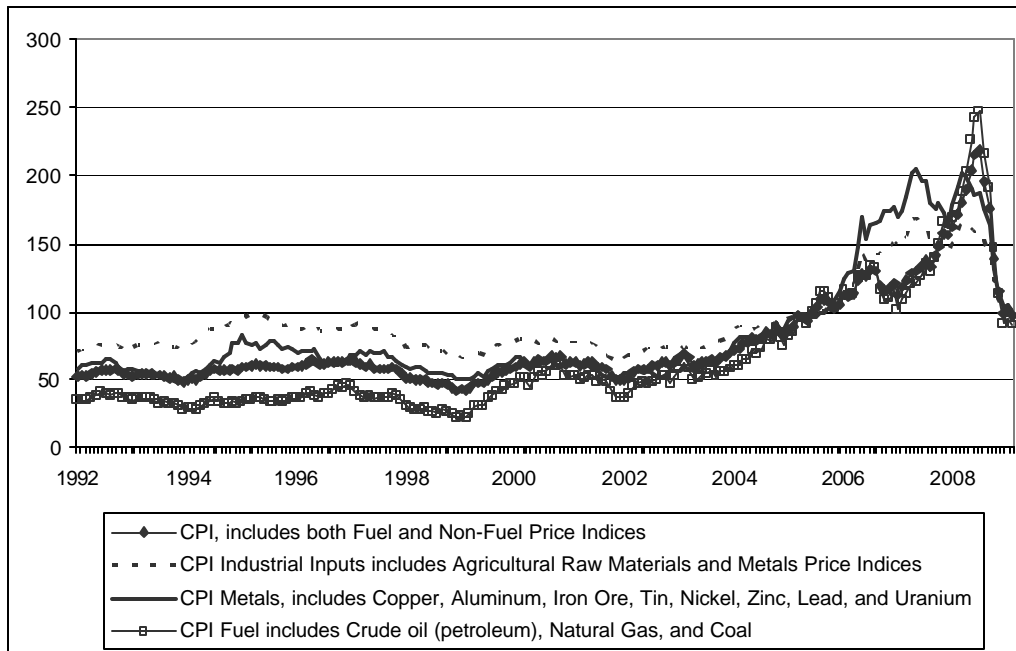
notwithstanding these economic opportunities, Africa faces enormous social challenges, and these, too, need to be met (Section 4.5). In all these cases, a strategic focus is critical, and this raises the question of who in Africa might assist in defining and executing this strategic response to the entrance of new emerging economies in Africa (Section 5.1).

4.3. The Commodities Boom and the Terms of Trade Reversal

The period between 2001 and 2008 saw a sharp rise in commodity prices. This is not the first time in post war history that commodity prices have risen, but the previous price spikes in the 1950s and the 1970s were short-lived in nature. They were short-lived since the primary drivers of rising commodity prices (the Korean and Middle East Wars) were temporary in nature. This time round, the rise in commodity prices is fuelled by growth in major consuming economies, particularly China, but India is also about to enter the global market for commodities. China's structural growth has fuelled a demand led Super Cycle in Commodity Prices, that has been interrupted by the Financial Crisis in 2008. Unlike the previous commodity booms in 1951-53 and 1973-75, the 2003-08 commodity boom is likely to resume an upward trend driven by the nature of China's domestic growth (Farooki, 2009). Both these giant Asian Driver economies are at the early stages of their commodity-intensive growth paths and short of a major collapse in their growth trajectories, their thirst for energy and mineral products is likely to be sustained for some time (Kaplinsky, 2006). Moreover, as incomes in these two economies rise, food consumption patterns are changing in favour of meat products and this, and the associated drive for global energy security and biofuels has now also led to a sustained increase in agricultural prices. Thus, once the global economic crisis begins to resolve and Chinese and Indian growth resumes, then there is the likelihood and the interrupted commodities boom will be resumed.⁸

⁸ It is often forgotten that "rising commodities prices" implicitly assumes relative prices of manufacturing and services. As commodities' prices have fallen in 2009, so have those of many manufactures and traded services .

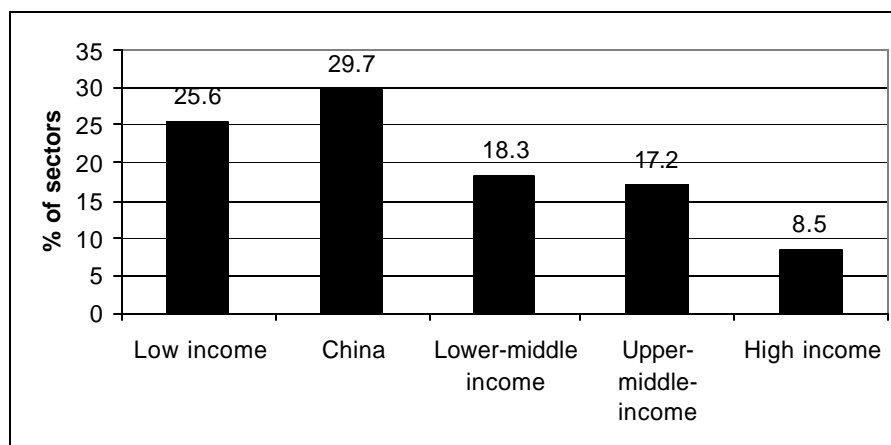
Figure 5 : Monthly Index of Commodity Prices, 1992-2009 (2005=100)



Source: <http://www.imf.org/external/np/res/commod/index.asp>, accessed 16th March 2009

But rising commodity prices in themselves do not necessarily change the economic equation for different countries. It is the **relative** change in prices that is important in terms of trade, for economic strategy. Here, too, the global economy has experienced significant changes in recent years. Growing competence in manufacturing in Asia in general and China in particular, has meant that as commodity prices have been rising, the prices of manufactures have been falling, particularly for the products exported by low income economies (Figure 6). It is this change in relativities which challenges development strategies everywhere, but especially in Africa (Kaplinsky, 2006 and 2009). This is because Africa is at a nascent stage of industrial development and although it is rich in mineral commodity resources and energy, it has considerable potential in these sectors. Africa's agricultural potential is however not strong (Bloom and Sachs, 1998).

Figure 6 : Percentage of Sectors with Negative Price Trends, 1988/9-2000/2001 by Country Groupings



Source: Kaplinsky (2005)

What relevance does this have for Africa and its relations with the emerging economies? First, the power in many cases now lies with commodity producing countries rather than industrial countries. Africa is especially well favoured, not so much in terms of its existing commodity exports, but rather in terms of its potential exports. Table 7 shows that in many mineral commodities, Africa is the primary resource base for the future. In energy, it is not so much Africa's share of global reserves which is so strategically important, but its share of unallocated reserves. New hydrocarbon discoveries off the west coast of Africa, as well as in Uganda, and the potential for oil discoveries in other parts of Africa, make it an exceptionally attractive region for countries with rapidly-growing energy needs.

Table 7: Africa's Share of Global Production and Reserves (per cent)

Mineral	Production	Reserves
Platinum Group Metals	54	60+
Gold	20	42
Chromium	40	44
Manganese	28	82
Vanadium	51	95
Cobalt	18	55+
Diamonds	78	88
Aluminium	4	45

Source: African Development Bank (2007)

But Africa does not only stand to gain from the commodities boom. Although mineral potential is widespread in the continent, the current pattern of resource exploitation is very concentrated. As shown above, only five countries account for more than 90 per cent of all energy exports, only 12

countries account for more than 90 per cent of all mineral exports and although agricultural exports are more widely-diffused in Africa 22 countries account for 90 per cent of exports.

The key, therefore, is for Africa to use this power in commodities to its best advantage in its relations with the new emerging powers, particularly in the exploitation of these mineral resources and in the provision of related infrastructure. The agreement which the DRC reached with China in 2007 and 2008 shows the potential for using this power to leverage advantageous terms, particularly as China and other emerging economies seek to gain access to the resources which were previously the domain of western economic powers. As Box 2 (above) shows, it is not just that the DRC was able to crowd-in aid-assisted Chinese investments in infrastructure and training, and to ensure minimum local content, with local co-ownership in mineral exploitation, but also that it was able to use this leverage provided by China to force the renegotiation of more than 60 35-year mining agreements which had previously been reached with western firms.

But, second, the terms of trade reversal does not only affect commodity exporters. It simultaneously also affects manufacturing. Here the impact of China's entry into global markets has been much more negative for Africa. Excluding South and North Africa, more than half of all SSA's exports of manufactures are in clothing products. In the first two years after the ending of the Agreement on Clothing and Textiles (which removed quotas on China's and other Asian economies' exports to the US and the EU), Africa's clothing exports fell by 25 per cent (Kaplinsky and Morris, 2008). A similar story can be told for furniture and other labour intensive manufactures. Therefore, part of the bargain to be reached with the newly emergent economies entering in Africa is to ensure that these negative impacts on the very manufacturing sectors which are essential for promoting long-term sustainable growth are countered. African countries need to ensure that China and other exporters of manufactures incorporate Africa in their global value chains which are so successful in global markets. For example, Chinese firms may provide textiles for Africa, or African-Chinese firms to export to the US under the AGOA regime as a substitute for clothing currently being exported to the US directly from China.

4.4. Infrastructure and Human Resources

Taking advantage of Africa's resource potential requires an efficient infrastructure. Here Africa is particularly disadvantaged. It is the highest continent with few navigable rivers; 93 per cent of the land mass is in the tropics with heavy rainfall; many African states are landlocked, and only 10 per cent of the land lies within 100km of the coast (compared to 18 per cent in the OECD and 27 per cent in Latin America); and only 21 per cent of its people live within 100km of the coast compared to 69 per cent for the OECD and 42 per cent for Latin America). Africa's transport and logistic costs are

estimated to be 2.5 times the global average.⁹ As Table 8 indicates, these disadvantages in physical infrastructure required to extract commodities and ship them to the ports are compounded by high insurance costs. Even within developing economies, the share of freight and insurance costs in total production costs are higher in Africa than in other developing regions, and are particularly high in West Africa and East Africa. The improvement in Africa's infrastructure should therefore be a key objective in taking strategic advantage of the entrance of new emerging economies into the African scene. Access to primary commodities should be facilitated as part of a wider process of infrastructural development.

Table 8: Freight and Insurance as a Percentage of Production Costs, 1997

World	4.1
Developed countries	3.4
Developing countries	6.5
Africa	10
Latin America	5.6
Asia	6.5
Landlocked Africa	
East Africa	14.6
Southern Africa	9.9
West Africa	24.6
Less Developed Countries (1995)	12.5

Source: UNCTAD, 2001.

However, Africa should not make the mistakes which characterised infrastructural development in the colonial era, in which the primary infrastructure was built to ship raw materials out to the ports. Instead, consideration in this infrastructural development should be given to the promotion of regional infrastructure to ease greater intra-regional trade. This has great developmental importance. For example, intra-African trade is characterised by much higher technological intensity than in Africa's trade with the external world (and particularly its trade with China and India – see Table 2 above). It is thus an important vector for promoting diversified economic structures and sustainable income growth. Moreover, infrastructural development for commodities extraction should also consider the potential for providing, at relatively little marginal costs often, spurs which reduce logistics costs for surrounding small scale input providers and agricultural producers.

Although primary commodities have a key role to play in the 21st century, long term development also requires the development of two other sets of infrastructure. The first is telecommunications and, here, Africa is already relatively well-served in mobile telecoms, and much of this infrastructure

⁹ Perkins, D. (2009), 'Development Corridors and Spatial Development Initiatives (SDIs) in Southern and East Africa', MMCP Workshop, University of Cape Town, March.

draws intensively on Asian technology, competences and finance. These links and investments in telecom infrastructure should be promoted further and should, too, be the subject of strategic bargaining with new emerging economy entrants into the African continent.

However, the primary infrastructure which Africa requires for long term and equitable income growth is the quality of its human resources. Knowledge is the key component of production systems. This is pervasive, not just in the obvious areas of manufacturing and knowledge-intensive services, but also in the commodities sector. Here it is possible to distinguish a low and a high road to resource exploitation. Either Africa can remain simply source of raw materials, providing little else but basic ores and oil, or it can become a source of knowledge for the resource sector. This high road is a path trodden by the USA in the 19th century and by Australia and Norway in recent decades, where the National System of Innovation was oriented to making the most of the commodity resources (Wright and Czelusta, 2004). Whilst it may appear to be a long way from Africa's current low-tech road to the commodities sector, "the longest journey begins with the first step", and key long-term investments in knowledge and human resources need to be made now if Africa is to thrive in the future.¹⁰

4.5. The Development Agenda

Meeting Africa's social needs – high *and growing* levels of absolute poverty – is a mammoth task and is the target of the Millennium Development Goals (MDGs). These social needs have to be addressed at a number of levels, including promoting growth, providing access to basic health and education, and addressing the needs of specific disadvantaged communities in Africa. How much of this agenda can be placed on the plate of the new emerging economy entrants?

A key element in the required policy agenda is debt forgiveness. For the moment, this is not a big issue in relation to the emerging economies, many of whose aid programmes have only been ramped up in very recent years. Although it might become a concern in the future, this is not a primary concern now. Another key component of the general policy agenda is budgetary support. This is an area in which the emerging economies may be expected to make only a limited contribution, including perhaps through their participation in multilateral agencies. However, since all of the emerging economies are themselves either low income economies or foreign exchange constrained economies (or both), this is unlikely to be a major realm of activity for them in their relations with Africa. At any rate, even if it is likely to become more important, there is little specific influence which African countries can have on the role played by emerging economies in this process.

Instead, Africa might seek to obtain direct assistance in three key areas in which the emerging economies have specific competences. The first of these

¹⁰ This policy agenda will be the subject of a research programme to be undertaken by a consortium of African and British scholars – see www.commodities.open.ac.uk.

is peace-keeping. Here, the emerging economies have the advantage of non-alignment, and their oft-criticised failure to participate in global sanctions against countries such as Sudan, paradoxically gives them particular competences in helping to resolve conflicts. China has become especially relevant in this regard, and by mid-2008 had sent more 10,000 peacekeeping troops abroad, most of them to Africa.¹¹

The second area of support reflects the similar operating environments in Africa and many of the emerging economies. Faced with common low income consumers, China, India and Brazil have each begun to develop process and product technologies which are particularly appropriate for other developing countries, including those in Africa. The value of appropriate technology is particularly apparent in small scale agriculture, manufacturing and services. Already, China and India have become a major source of not just low-cost consumption goods in Africa, but also low-cost and appropriate capital and intermediate goods, as well as low cost and appropriate services (for example, rural telecoms). Drawing on these appropriate technologies and skills, including through technical assistance programmes in agriculture, health and infrastructure development is a key area for technical assistance from the emerging economies.

A final specific area in the social agenda where Africa stands to gain much from links with the emerging economies is in relation to the health and pharmaceutical sectors in general, and malaria and HIV/AIDS in particular. Brazil, China, India and Russia all have major emerging problems with regard to HIV infection rates and each, in their own way, has developed specific competences in these areas. At the same time, Africa is itself developing competences in these critical developmental issues, and a combination of technical assistance from, and cooperation with the emerging economies is an important strategic asset for Africa to exploit in its relations with these new entrants into the global arena. Brazil, for example, has already begun to provide support for the HIV/AIDS initiative, and Indian pharmaceutical firms are major providers of generic drug in East Africa. Both initiatives lend themselves to expansion.

¹¹ http://news.xinhuanet.com/english/2008-06/30/content_8466332.htm, accessed 18th July 2008.

5. DEVELOPING A POLICY RESPONSE: IMPLICATIONS FOR KEY ACTORS

5.1. Who Might Develop this Strategic Agenda and How Might this Happen?

In Section 2 of this report it was observed that in some respects there are similarities between the new phase of emerging economy activity in Africa and the pattern of interaction between Africa and the colonial powers in the colonial era. As in earlier years, to a greater or lesser extent, the newly emerging economies are coordinating their agendas in Africa in relation to the three primary vectors of interaction – trade, FDI and aid. They, as can be seen from Table 9, increasingly “have a strategy for Africa”. However, the problem is that Africa “lacks a strategy for the emerging economies”. Four key agendas need to be addressed for this strategic gap to be filled.

Table 9: The Emerging Economies and Africa

	Africa's importance to emerging economy	Emerging economy's importance for Africa	Export to Africa	Imports from Africa	FDI to Africa	Aid to Africa	Strategic integration by emerging economy	Strategic integration by Africa
Brazil	Energy (short term); minerals; market for goods and services	Technology, particularly in health; support for infrastructure .	Food, transport, refined petroleum , iron ore .	Crude oil (formerly refined oil products) .	Oil and iron ore and coal; infrastructure .	Debt relief, infrastructure; AIDS projects; training; biofuels	Weak. Brazil seeks African support in global arena. African-South America Cooperative Forum established, coordinated by Brazil and Nigeria.	Very little, apart from South Africa.
China	Energy, minerals; support in global fora.	Source of low cost technology and low priced consumer goods.	Wide range of products, of increasing technological content.	Oil predominates, and is of growing importance. Some imports of minerals	Predominantly in resource sectors, but increasing flows to manufacturing and services.	Coordinated through FOCAC; tied to Chinese firms and inputs; extensive technical assistance; prestige projects (parliament, sports stadiums) are important and widespread. Aid concentrated in oil exporting economies; debt-cancellation	Very high – initiator of numerous fora for coordinated discussions; close interlinking of aid and FDI to trade interests, particularly securing long-term access to Africa's resources; China also seeks African support in global arena.	Very little. Mainly through FOCAC fora organised by China .
India	Market (present); source of raw materials (future)	Source of cheap products; technical assistance .	Refined petroleum products; pharmaceuticals	Oil; gold.	In clothing in order to gain AGOA access to US; oil in Sudan and elsewhere. Geographically concentrated in E Africa, but growing in Libya and Ivory Coast.	Predominantly lines of credit tied to Indian goods. But recent years seen substantial increase, linked to access to minerals and oil.	Indian government becoming more active in promoting a strategic focus, especially in minerals sector. More focused in its approach to Africa than China. India-Africa Summit (14 countries) established 2008.	Very little. Mainly through Indian-organised forum, which is less developed than that of FOCAC
Malaysia	A source of oil, minerals, coca, oil.	A source of vegetable oils, some machinery, and technical assistance .	Vegetable oils.	Oils and minerals Little integration of vectors.	Historically concentrated in Mauritius and S Africa. Recent rise in investments in oil, gas, and energy by Petronas and investments in palm oil dominates all other flows.	Mostly technical assistance. Increasingly Africa features relatively highly in Malaysia's external aid programme.	Most links through multilateral forums (for example, the Commonwealth) Southern African International Dialogue established in 2005.	Only South Africa has had an explicit, albeit loose, strategy towards Malaysia.

	Africa's importance to emerging economy	Emerging economy's importance for Africa	Export to Africa	Imports from Africa	FDI to Africa	Aid to Africa	Strategic integration by emerging economy	Strategic integration by Africa
Russia	Russia sees Africa as a partner and potential competitor in a range of natural resource sectors, particularly mining, oil and gas.	Russia has a similar export profile to that of Africa – mainly resource-based products	Agricultural products, predominantly to North Africa.	Raw materials - ores and unprocessed foodstuffs	Almost all FDI in Africa has been in the minerals sector, and much of it in Southern Africa.	Russian aid to Africa has been limited and mostly channelled through multilateral agencies.	There appears to be no sign of coordinated activity amongst the various vectors of interaction with Africa. The clearest signs of an emergent strategy towards Africa appear to be in relation to South Africa and in relation to investment by major Russian firms in the minerals and diamonds sectors.	There are few signs of an emergent strategy from Africa towards Russia.
South Korea	Korea has no oil of its own and is the worlds fifth largest consumer of oil.	Source of oil and minerals; market for manufactured exports	Shipping and automobiles, plus other manufactured goods.	Oil.	Mining , Hotels and Tourism, Manufacturing.	Aid programme distinguishes between African partners with developmental needs, and strategic partners (oil and mineral assets).	Historically Korea has lacked a strategy for Africa. In recent years this has changed, with an increasing trend towards the integration of trade, FDI and aid, as well as the establishment of the Korea Initiative for African Development	Given Korea's limited engagement with African countries, there are few signs of a cohesive African policy towards Korea.
Turkey	Africa is an important market for its industrial outputs	Gold, gas.	Metal products for construction sector.	Gold and oil .	Historically in North Africa, but now spreading widely over Africa. Many investments are small in scale.	Aid has risen steadily, but from a low base. Africa receives only a small share of Turkey's aid budget. In recent years, Sudan and Somalia have been the primary recipients of Turkish aid.	Turkey has begun to develop an Africa strategy, involving cooperation between the state and the business sectors. "Open Up Africa" policy initiated 1998. Observer Status at the AU.	Turkey seeks African support in its quest to enter the EU. This may be turned to the advantage of African countries seeking aid and appropriate FDI.

Source; Compiled from Annex

The first key step is for African countries to recognise the power that they have in the context of the commodities boom and terms of trade reversal. Although at present only a limited number of African economies are major beneficiaries of this boom in terms of their current production structures, many other African countries have the potential to become major exporters of energy and mineral commodities. For example, Mozambique possesses significant coal and iron deposits which have not yet been tapped.

The second key issue is for African countries to adopt a similar strategy of assimilating the vectors of integration being pursued most clearly by China, but increasingly also by India and the other emerging economies (Table 9 above). Meeting the trade needs of the emerging economies – Africa as a source of primary commodities and, to a lesser extent, as a market for their exports – should be conditional upon their providing aid to exploit these commodities, as well as meeting Africa's complementary developmental and infrastructural needs. Where appropriate, it should also incorporate FDI from the emerging countries, and participation in the emerging country firm value chains which serve global markets (for example, Chinese, Indian and Turkish firms providing their fabric to African countries for onward export, through the marketing channels of these emerging country firms, to the US and the EU).

The third key strategic agenda is to develop a differentiated view of the various emerging economies, and of different stakeholders within them. Each of the emerging economies has distinct sets of interests. Turkey, for example, sees Africa as a market primarily, whereas for China and India, Africa's importance stands out in terms of long-term access to primary commodities. Similarly, there are also different interest groups within each of the emerging economies. This is most notable in the case of the very large Chinese economy, where although the Beijing-controlled EXIM Bank provides the primary lines of credit for Chinese FDI-aid events in Africa, the primary drivers are the provincial governments in China. Some of these provincial governments are more active than others, and some concentrate on particular regions and countries within Africa. A new generation of Chinese FDI into Africa is emerging from private Chinese firms, and these display very different characteristics to the state-owned enterprises. For example, when copper prices fell precipitously in early 2009, the large state-owned firms continued to operate in and invest in African copper mines. By contrast there was a sudden and mass flight of Chinese small scale copper-smelting firms operating in the DRC.¹²

The fourth key strategic issue is who in Africa is going to drive this strategic agenda. At the most basic level, this must necessarily involve individual African governments. Although they do not generally directly control inward FDI and trade flows, they hold the key levers which determine access to their economies. Each of the governments needs to make a cool, informed assessment of its specific attractions to the emerging economies and then to coordinate an integrated strategic response to offer access to the emerging economies in a way which best meets the needs of their domestic economies.

¹² "Chinese copper entrepreneurs flee", Financial Times, 20th February 2009.

This will involve extensive background analysis, but also the convening of appropriate stakeholder groups to ensure an integrated approach providing clear signals to emerging country partners. It is here that we can return to an earlier observation – formal written strategies which are not implemented effectively are much less useful than dynamic and active coalitions of local interests interacting effectively amongst themselves and with emerging country partners.

A final arena for integrated response is in regional and all-Africa fora such as SADC, ECOWAS, NEPAD and the AU. These multi-country organisations are important for three major and related reasons. First, by aggregating African countries in the bargaining process, they help to avoid contradictory bargaining positions and wars of incentives. As has been evident for many decades in the diamonds sector, there is enormous power in cartelised bargaining. This is not just a matter of achieving the best price for Africa's resources, but also of ensuring that wider objectives can be met, such as the construction of regional infrastructural networks to provide access for non-commodity exporters. Second, and related to this, as observed earlier, not all African countries have extensive commodity deposits or are significant commodity producers. Their interests need to be protected by those economies who do have primary resources and markets of interest to the emerging economies. Including these marginalised economies is not just a matter of altruism for the commodity exporters. As observed earlier, intra-regional trade may be a primary area for the development of the capabilities which are required for long term and sustainable growth so that it is in the interests of all parties – commodity exporters and non-commodity exporters alike – that these intra-regional links are strengthened as a consequence of engaging with the emerging economies. A final reason why the multi-country organisations are important is that the emerging economies themselves see these as important organisations for bargaining access to Africa's resources and markets. This is most evident in the case of the FOCAC (Forum for China-Africa Cooperation), but it is also relevant for other emerging economies as well (Table 9 and Annex).

5.2. Emerging Economies, the Paris Declaration and the Accra Agenda for Action

How do the activities of the emerging economies entering Africa relate to the Paris Declaration on Aid Effectiveness of 2005 and the Accra Agenda for Action? In considering these issues, the distinctive integrated nature of some of the emerging economies' activities in Africa – particularly China, but also India – must be borne in mind, as it tightly bundles aid (the concerns of the Paris Declaration and the Accra Agenda) with aid and FDI. In this they diverge considerably from the practices instituted and promoted by traditional donors.

The Paris Declaration

With the exception of India, all of the emerging economies considered in this report were signatories to the 2005 Paris Declaration. This Declaration addressed five major issues.

The first was the Ownership of Aid Inflows, that is the need for African economies to develop strategic agendas for leading the inflow and for absorbing incoming resources effectively. This report's discussion of a strategic response to emerging country activities in Africa endorses this proposal, and indeed suggests that this leadership may be even more important in confronting the strategic integration of emerging country aid than it is the case for aid from traditional donors. Hitherto, much of recent emerging economy aid to Africa – particularly Chinese aid – has been driven primarily by the donor's need for resources rather than from Africa's need for assistance.

The second agenda of the Paris Declaration was the need to align donor and recipient strategies. Included in this was the need of recipient economies to ensure transparency in the use of incoming resources and for donors to align these resources with domestic diagnostic and accounting procedures. There is little evidence that this has been the case with emerging country aid, which appears to occur in a virtual vacuum in many African countries and where agendas are often poorly articulated by recipient economies. Alignment is thus considerably weaker than it is for traditional donors.

Harmonisation between aid donors is the third issue addressed by the Paris Declaration. Here, too, there is little evidence that emerging country aid agendas – at least those of China and India – are integrated in the wider aid programmes of other bi-lateral donors and the multi-lateral agencies. Most often, emerging country aid is announced without prior discussion with traditional donors concerning the specialisation of different donors aid activities. This has also been a special problem with regard to emerging country participation in fragile states, notably in the case of Sudan. For example, Chinese aid to Angola made it possible for Angola to refuse to comply with the demands of the Paris Declaration (Burke and Corkin, 2006). However, in 2008 there were signs that China had become increasingly aware of the problems posed to its own interests in fragile states, and hence the need to think about some of the governance issues raised by traditional donors. China has sent some peace-keeping troops to join coordinated donor efforts in the Region.

Managing results – improved forms of assessment, monitoring and reporting – was the fourth issue raised in the Paris Declaration. Here the relatively closed nature of much emerging economy activity in Africa has meant that whilst there may have been significant advances with regard to the management of their aid programmes, this has not entered the public domain as it would have had these aid programmes been more closely harmonised with those of traditional donors.

The final agenda item of the Paris Declaration was the call for mutual accountability. This included an explicit role for parliament in the aid giving and receiving process, as well as the inclusion of a broader range of development partners, including NGOs and civil society. Whatever the success of mutual accountability with respect to traditional donors, there is little evidence of the emerging economies engaging themselves in these

processes. In fact a distinctive feature of Chinese aid is its explicitly exclusion of civil society organisations from the aid and FDI relationship.

The Accra Agenda

Whilst recognising progress since the 2005 Paris Declaration, the Accra Agenda seeks to speed up progress by addressing three issues.

The first issue is the need to strengthen recipient country ownership of aid programmes, and the second is to build more inclusive partnerships through closer involvement of parliaments, central and local governments, civil society organisations, research institutions and the private sector. The most that can realistically be hoped for in Africa's relationship with emerging economies, particularly China and India, is that central governments develop a much sharper strategic focus, including with respect to their strategic response to the integrated agendas of emerging economy participation in their economies. It is unlikely that China will be receptive to participation of other non-state stakeholders. However, any progress which can be made in strengthening the strategic capability of African states – either individually or as a group – will be a major advance.

The third element of the Accra Agenda concerns processes of ensuring results, accountability and conditionality. On the issue of results, one of the notable features of Chinese aid, but also the case for aid from other emerging economies, is that it has been highly results-oriented. Implementation has been rapid, and generally effective. In part this speedy response is a direct consequence of a donor driven aid programme which, at best, consults mainly with recipient governments, and shows little signs of environmental assessment audits having been undertaken. In this sense there is perhaps an inevitable trade-off between the calls for rapid economic results and wider developmental concerns. Whilst traditional donors grapple with these trade-offs continually, this appears to be of lesser concerns to many of the emerging country donors.

5.3. Recommendations

With the exception of Turkey, none of the key emerging economies report to, or see themselves as part of the DAC aid consortium. Moreover, as a recent UN-ECOSOC report makes clear, emerging economy aid is distinctive in other respects as well, that is, that it is almost entirely free from conditionality, and makes no pretence of including non-governmental actors in the aid-relationship (UN, 2008). In this sense, the involvement of the emerging economies in Africa stands outside of the Paris Declaration and Accra Agenda for Action processes. Whatever the desirability of this, it is a reality, and the recommendations which are outlined below for the key development partners are based on this real-world position.

A second starting point before the recommendations for key parties are laid out is the recognition, observed earlier in this report, of the inadequacy of data on the involvement of the emerging economies in Africa – “A ... main problem hindering in-depth analysis of South-South concessional financing flows is lack of accessible and comprehensive information and data”. This is

highlighted in the latest OECD/DAC *Development Co-operation Report*, which states “it is highly desirable that consistent and transparent accounting of flows from these countries is put in place as soon as possible.” (UN, 2008: 7)

Recommendations are outlined for consideration by the following key actors: African governments; the AU, the AfDB and African Regional Organisations; the Africa Partnership Forum; Multilateral organisations in the UN family, the OECD / DAC, and the WTO; and Emerging Country governments.

African governments should:

- Monitor trade, aid and FDI interactions with emerging countries;
- Analyse strategic objectives of emerging economies, and opportunities and threats arising from their entry;
- Develop strategic focus to maximise benefits – in the words of the Paris Declaration and the Accra Agenda for Action, to exercise “ownership” over these growing interactions;
- Interact with other African governments, AU, AfDB and regional groupings to maximise bargaining power and avoid wars of incentives.

Within their specific mandates, the AU, the AfDB, NEPAD and African Regional Organisations such as COMESA, ECOWAS and SADC should:

- ❖ Provide support for individual African governments in the monitoring of trade, aid and FDI interactions with emerging countries;
- ❖ Coordinate strategic analysis where action is appropriate at continental or regional level;
- ❖ Facilitate coordinated bargaining where this is appropriate to include the interests not just of commodity exporting economies, but also non-exporting economies;
- The AU, the AfDB and the ECA should establish dialogue which provides for a coordinated review of relations with the emerging economies, and where relevant (as in the forthcoming UN High Level Conference on South-South Cooperation), involve other relevant multilateral organisations in this dialogue.
- The ECA should provide assistance with the compilation of relevant statistics and through its flagship publication *The Economic Report on Africa*, monitor the trajectory of aid, Trade and FDI relations between Africa and the emerging country partners;
- A specific challenge arises for the AfDB in how to leverage emerging economy support for the financing and co-financing of regional infrastructure;

- The Africa Partnership Forum should be widened to include participation by non-OECD emerging economies .

Multilateral organisations in the UN family, the OECD/DAC, and the WTO should:

- Provide support for individual African governments in the monitoring of trade, aid and FDI interactions with emerging countries;
- Coordinate strategic analysis where action is appropriate at continental or regional level;
- Facilitate coordinated bargaining where it is appropriate;
- Help build capabilities in recipient countries to develop an adequate strategic response to relations with emerging economies ;
- Provide support to the World Bank's call for Sovereign Wealth Funds to invest in the development of Africa's infrastructure.

Emerging country governments should :

- Recognise that flows of finance to Africa – both development aid and FDI – will entail future repayments, and that every effort should be made to avoid Africa entering a new realm and era of debt dependency;
- Recognise that their long-term access to Africa's natural resources depends on developing a non-exploitative relationship which provides for win-win outcomes. Thus resource rents should be shared equitably and maximum efforts should be placed on developing downstream and upstream linkages from the resource sector;
- Complementary investments in infrastructure, designed to facilitate access to Africa's resources, should also address the needs of the non-resource sectors of the economies, of promoting regional infrastructure and of also addressing the needs of countries with no, or poor resources;
- Market access should be provided for the preferential entry of African products into their markets. However, given poor production capabilities in Africa, complementary assistance is required to assist in the building of effective production capabilities, particularly in local firms and SMEs;
- Tolerance should be displayed when African governments seek special and differential treatment in third-country markets;
- Every attempt should be made to include African firms and farms in their global value chains producing for global product markets ;

- In the absence of participation in the Accra Agenda for Action, attention should be given to addressing some of its principles, not least the objective of ensuring country ownership of aid-inflows and addressing the needs of transparency and legitimacy design to prevent corruption and the misuse of aid.

ANNEX I: COUNTRY PROFILES

A1. Brazil

Brazil is reaching out to its immediate neighbours in Latin America and to the developing countries in general as it defines its place in the global arena. Its foreign policy objectives provide for growing opportunities for South-South Corporation. Both in economic and political circles, Brazil is seeking to expand its influence; from ambitions to head the WTO to securing a permanent seat at the UN Security Council. The votes of the African countries are important in this regard, and accordingly Brazil is seeking to expand its diplomatic and economic relations with its African counterparts.

Box A1: Brazil – Opportunities for Africa

Brazil and Africa share many common characteristics. Both are exporters of primary materials, both have large tracts of land, and they also share common problems (e.g. HIV/AIDS).

Brazil “lacks a strategy for Africa”. Similarly, there are few signs of a coordinated approach towards Brazil from any individual African countries, or from groups of African countries, with the exception of South Africa which actively cultivates its links with Brazil through a loosely defined BRICS consortium in global political arenas and the IBSA comprising India, Brazil and South Africa.

Brazil’s interest in Africa reflects its needs for energy (although in recent years Brazil has discovered significant oil deposits of its own) and commodities, and to some extent a market for its technology and exports. Brazil also sees Africa as a major partner in its desire to increase its influence in global economic and political fora.

Trade: The major opportunities for Africa in trade are in regard to a market for commodities. However, value added in commodity exports to Brazil have fallen, and only South Africa shows signs of exporting a wider range of products to Brazil. There is thus scope for export diversification. On the import side, Africa has the capacity to benefit from Brazilian expertise in biofuels and pharma products (including AIDS related products and services). For food-deficit African countries, Brazil may also be a source of animal feeds.

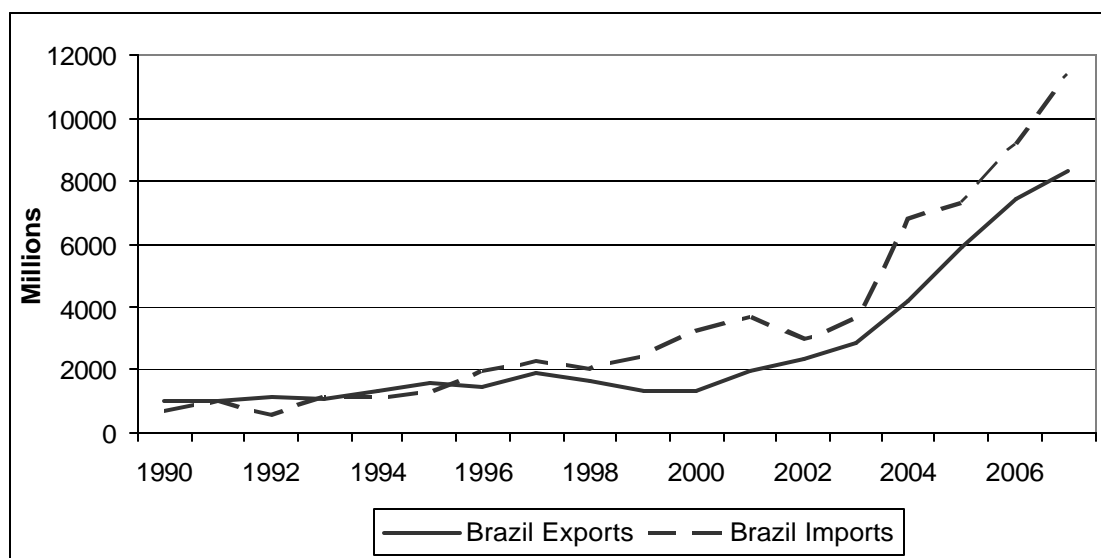
FDI: In mining and construction, Africa has many opportunities to gain from the expertise and market access provided by large Brazilian commodities firms, particularly in iron ore. Brazilian firms also have expertise in infrastructure, although (as in Angola), they find it hard to compete with Chinese firms.

Aid: There are many opportunities for African economies to benefit from Brazilian assistance in health care, agriculture, especially in the biofuels sector, and in low cost technology.

A1.1 Trade

From a position of balanced trade in the 1990s, Brazil had moved into a trade deficit in the 2000s. In 1995, Brazil's exports to Africa totalled US\$1.6bn, but began to rise rapidly after 2003, to reach US\$8.3bn by 2007. Imports accelerated in 2003, moving from US\$3.2bn in 2000 to US\$11.4bn by 2007. As a result the trade deficit with Africa increased from US\$1.9bn in 2000 to US\$3.05bn in 2007 (Figure A1.1).

Figure A1.1 : Brazil's Trade with Africa, 1990-2007 (US\$m)



Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; March 2009.

Brazil's trade with Africa is concentrated on a handful of countries (Table A1.1). Four countries dominate in both its imports and exports - South Africa, Nigeria, Angola and Algeria. Nigeria and Algeria together account for 71 per cent of Brazilian imports from Africa. Nigeria's share as importer has been increasing from 25 per cent in 2000 to 47 per cent by 2007.

Table A1.1: Percentage Share of Brazil's Top Five African Export and Import Partners, 2007

Exports	Per cent Share	Imports	Per cent Share
South Africa	19	Nigeria	47
Nigeria	19	Algeria	24
Egypt	18	Angola	6
Angola	11	South Africa	5
Algeria	7	Libya	5

Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; June 2008.

Brazil's exports to Africa are agricultural materials (mainly sugar and meat products), accounting for 34 per cent of exports in 2006 (Table A1.2). Parts and accessories of motor vehicles accounted for 5 per cent of exports to Africa in 2006, mainly South Africa. Refined petroleum products (9 per cent) and Iron ore concentrates (5 per cent) were the other major products.

Table A1.2: Percentage Share of Brazil's Top Five Exports to Africa, 1995-2006

Product Name	1995	2000	2006
Sugar and honey	44	23	23
Meat and edible meat offal, fresh, chilled or frozen	0	3	11
Petroleum products, refined	2	2	9
Iron ore and concentrates	4	9	5
Parts & accessories of Motor Vehicles and Tractors	3	4	5

Source: Calculated from COMTRADE, accessed via WITS May 2008.

The import category is dominated by petroleum products; imports of which from Nigeria and Algeria together valued at US\$0.46bn in 2006. As Table A1.3 indicates, the share of processed petroleum products has decreased significantly over the past decade, while that of crude oil has increased.

Table A1.3: Percentage Share of Brazil's Top Five Imports from Africa, 1995-2006

Product Name	1995	2000	2006
Crude petroleum and oils obtained from bituminous minerals	6	22	80
Petroleum products, refined	50	50	8
Fertilizers, manufactured	1	2	3
Gas, natural and manufactured	6	11	1
Inorganic chemical elements, oxides and halogen salts	2	1	1

Source: Calculated from COMTRADE, accessed via WITS May 2008.

The largest component of Brazilian exports has remained resource based commodities (49 per cent). This is led by sugar and honey, followed by refined petroleum products and iron ore concentrates. The share of medium technology products has increased in the past decade, largely made up by inputs for tractors and motor vehicles, and motor vehicles themselves. On the import side, primary and resource based sectors account for almost all of the Brazil's imports from Africa (94 per cent).

A1.2 FDI

Brazil's total FDI flows increased from US\$624m in 1990 to US\$2.28bn in 2000, rising further to US\$28bn by 2006.¹³ FDI flows from Brazil to Africa are concentrated in the few MNC's associated with mining. Petrobras S.A invested US\$1.9bn in Nigeria in coal, oil and natural gas sectors in 2005 and in 2007 made further investments in the alternative energy sector. The other major investor in 2007 was Companhia Vale do Rio Doce (CVRD), in the coal, oil and natural gas sector in Mozambique, valued at around US\$700m.

Following the mining companies are other Brazilian firms investing in the non mining sectors. For example in Angola, Brazilian companies are exploring the telecommunication equipment as well as urban transport and the wood/timber sector. Brazilian firms were awarded a US\$150m water supply project in 2003. In Mozambique, the agriculture, livestock and forestry sectors are also attracting interest from Brazilian firms.

As many other investors head to Africa in search of oil and mineral resources, the infrastructure sector has taken on renewed importance. Increasing incomes in urban centres are opening up construction opportunities for FDI. Odebrecht; a Brazilian firm has projects (ongoing and concluded) in seven African countries, namely Angola, Botswana, Congo, Djibouti, Gabon, South Africa and Mozambique.

A1.3 Aid

Brazil's major focus of technical cooperation and development assistance is focused on South American countries, who received over half of the total aid budget. But aid to Africa, particularly Lusophone Africa, features strongly.

Since the mid 1970's, Brazil's efforts have been concentrated on the Portuguese speaking countries in Africa, namely Angola, Cape Verde, Guinea-Bissau, Mozambique and Sao Tome and Principe. Coincidentally, most of these economies are oil exporters, or have the potential to become oil exporters. Lusophone Africa received 34 per cent of total aid in 2003 (Schläger, 2007). Angola (45 per cent of African aid) and Sao Tome and Principe (32 per cent of African aid) were the major beneficiaries. Of the 54 bilateral projects initiated by the *Agência Brasileira de Cooperação* (ABC), (the main monitoring body of technical cooperation projects and programs) in 2005, 35 were located in these countries. Between 2000 and 2005 Brazil's debt cancellation under the HIPC

¹³ WIR data accessed in June 2008

initiative for African countries assisted Mozambique (US\$369m), Tanzania (US\$10m), Mauritania (US\$9m) and Guinea-Bissau (US\$5m)¹⁴.

In 2003, Brazil agreed with Mozambique and Namibia to plan for the manufacture of generic anti-retroviral drugs; building from its own experience and success in the area. Table A1.4 lists some of the recent development assistance programs in Africa.

Table A1.4: Brazil's Development Assistance to Africa (various years)

Country	Brazilian Assistance	Amount (US\$)
Angola	Vocational training centres for ex-combatants	
	Vocal agricultural research institute	
	Institute to Fight Aids - through the Angolan Ministry of Health with assistance from Brazilian technicians and doctors	
	Regional centre for business development	
	Programme for Export Financing	US\$750m total up to 2006
Botswana	HIV/AIDS	
Burundi	HIV/AIDS	
Burkina Faso	HIV/AIDS	
Cape Verde	HIV/AIDS	
Equatorial Guinea	HIV/AIDS	
Guinea-Bissau	Vocational training centres for ex-combatants	
	Agricultural technology and know-how transfer	
	HIV/AIDS	
	Humanitarian assistance	US\$120,170
	Debt cancellation	US\$5m
Ghana	Agricultural technology and know-how transfer	
	Emergency thermal energy plant	
Mauritania	Debt cancellation	US\$9m
Mozambique	Vocational training centres for ex-combatants	
	Local agricultural research institute	
	HIV/AIDS	
	Regional centre for public administration	
	Creation of pharmaceutical plants to manufacture generic anti-retroviral (ARV) medicines	
	95 per cent debt relief from Brazil	US\$369m

¹⁴ (Schläger, 2007)

	Humanitarian assistance	US\$120,170
Namibia	Agricultural technology and know-how transfer	
	Creation of pharmaceutical plants to manufacture generic anti-retroviral (ARV) medicines	
	Training of marine and air force personnel	
Sao Tome and Principe	Agricultural technical cooperation (research institutes and farming techniques)	
	HIV/AIDS	
Senegal	Agricultural support (airplane to spray deterrent during the locust invasion)	
South Africa	Cooperation in the development of air-to-air missile technology	US\$52m
Tanzania	Debt cancellation	US\$10m
Unspecified	Transfer of 'biodiesel' technology	
	"Bolsa-Escola" programme	
	Global Fund to Fight HIV/AIDS, Malaria and Tuberculosis	

Source: Own compilation from (Schläger, 2007), (Harsch, 2004), and (Zanin & Sorbara, 2007)

A1.4: Integration of Vectors

There are few signs of integrated trade, FDI and aid activities in Brazil's links with Africa. The major feature of these links is that imports are dominated by oil, exports by market access, FDI by opportunities in commodities and infrastructure and aid by cultural ties. Countries receiving the majority of aid are not the same as those receiving FDI, nor are there commonalities between major trade and FDI partners.

Firms in resource based African economies can look towards establishing FDI and business ventures with their Brazilian counterparts. Brazil's economic growth is linked to its own natural resources, and it shares the advantages of the commodity boom with many of the resource rich African countries. Although oil and petroleum products are the largest African exports, metal and mineral ores and concentrates are a close second. Brazil has experience in being a commodity dependent economy and African partners can gain from these experiences.

Efforts also need to be made to offer a coherent forum for Africa to discuss business and trade relations with Brazil. In 2008, the Commonwealth Business Council, with UNCTAD, organised the Africa Americas Asia Business Summit in Mauritius (formerly known as the China-India-Brazil-Africa (CIBA) conference). Other efforts include an Africa-South America Summit held in Nairobi in 2006, with the objective of increasing cooperation between the two regions. Further to

this summit, an African-South America Cooperative Forum was set up, with Brazil and Nigeria set to coordinate its activities. The second summit is set to be held in Venezuela in 2009.

The non resource rich economies also have much to gain from increased relations with Brazil. The technical corporation and assistance provided to some African countries often involve agricultural projects. Brazil is also one of the leading countries in bio-fuel research, and is already providing assistance to some African countries in technology transfer. Efforts to increase such technical cooperation would be of benefit for African nations facing rising fuel costs.

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A2. China

Of the seven emerging economies considered in this report, China engages with the most number of countries in Africa, often funding investment in regions that are considered politically risky by others. In terms of both trade and FDI, China's main endeavours have been in the oil and mineral sectors and in infrastructure. But the range of activities is growing rapidly, including small scale businesses such as trading, restaurants, beauty salons and Chinese medicine centres. China's assistance to the continent has taken several shapes and forms, from health and education projects to the construction of official buildings, stadiums and roads. Trade is dominated by oil imports for China, and low to medium technology exports to Africa.

There has been a significant strategic integration by China in its approach to the African continent. FDI and aid have been concentrated in economies which either have large oil and commodity sectors (Angola, Nigeria and South Africa), or which offer potential as raw material suppliers in the future (DRC). In these and other African economies, aid and FDI are closely integrated making it difficult to disentangle these two vectors as separate realms of activity.

China's strategic participation in Africa is to some extent coordinated by Beijing central government, particularly with regard to trade, aid and FDI credits. However, the drivers of active economic participation in Africa are often Provincial Governments in China, with their linked state-owned enterprises.

A distinctive feature of China's presence in Africa is its reluctance to exert pressure on African governments with regard to patterns of governance (refusal to participate in Paris Club transparency initiative in Angola), internal politics (Darfur and Zimbabwe) or process standards in production (ethical trade, environmental standards). However, there are signs that this hands-off approach is changing, with China providing an increasing number of peace-keeping troops in Africa. China is also very sensitive to criticism of its profile in Africa, to some extent reflected in its recent Aid-FDI-Trade venture in the DRC which answers some of the criticisms made of its approach towards exploiting Africa's abundant resources.

China has initiated a number of fora to enhance China-Africa relationships. The largest of these was the Forum on China-Africa Cooperation (FOCAC). The first ministerial meeting for the Forum was held in Beijing in 2000, followed by the second in Addis Ababa in 2003. The third forum was held in 2006, also referred to as the China-Africa Summit, which was widely seen as China's attempt to shift up gears in its engagement with Africa.

Non resource rich countries have opportunities to gain from engagement with Africa as well. The spread of Chinese FDI has become more dispersed in 2005

as compared to 1990. Assistance projects cover a wide range of countries, including the non mineral economies. Fabric and telecommunication equipment are some of the largest Chinese exports to the continent and can be source of expansion of light manufacturing and the services sector. Apart from minerals and oil, China also imports cotton from Africa, which can help the agricultural sector gain from trade. From 1979 to 2000, China invested in 22 agriculture projects at a combined value of US\$48m. The challenge therefore is to build on these mineral and agricultural sectors and improve value addition for exports.

Of the emerging economies, China has the most resources at its disposal and is actively seeking markets and opportunities for engagement. Africa provides such a base, and well designed policies can help both regions gain from the experience.

Box A2: China – Opportunities for Africa

Perhaps more than any other external actor in Africa, China's approach to the continent reflects the strategic integration of trade, FDI and aid. This is driven by two major objectives:

- the need for resources to fuel China's sustained growth
- the need for political support as China seeks to enhance its global profile in economic and political fora

Trade: A large market for resource exports from Africa. China is a source of cheap consumption and intermediate goods, and cheap and appropriate capital goods, potential for growth in the agricultural sectors.

FDI: Hitherto, most Chinese FDI has been large projects in the oil and minerals sectors. This is changing rapidly and there are increasing FDI flows to Africa in manufacturing and services.

Aid: China offers abundant aid to Africa, often bundled with FDI in order to secure long term access to materials. This aid takes a variety of forms, including finance, concessional market entry, funds and technology for infrastructure, technical assistance and training.

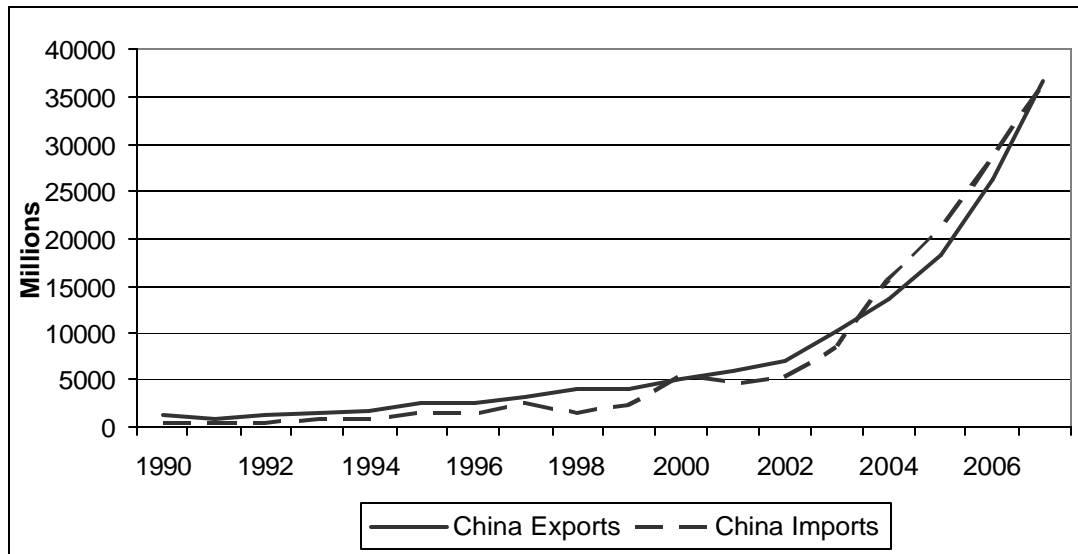
Integration: China has developed a "strategy for Africa". There is little sign of Africa responding with a "strategy for China" at the national, regional or continental level.

A2.1 Trade

China's exports to Africa increased from US\$2.4bn in 1995 to US\$36.7bn in 2007. Imports also saw a significant rise from US\$1.4bn to US\$36.1bn over the

same period. China's US\$1bn trade surplus with Africa in 1995 changed to a trade deficit of around US\$2.7bn in 2005, moving back to a surplus of US\$0.58bn in 2007. Trade grew rapidly after 2001, as China increasingly ran out of its own natural resources.

Figure A2.1 : China's trade with Africa, 1990-2007 (US\$m)



Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; March 2009.

In 2007 China's largest export destination within Africa was South Africa (20 per cent), followed by Egypt (12 per cent) and Nigeria (10 per cent). However both South Africa and Egypt having been losing share in Chinese exports; decreasing from 26 per cent to 20 per cent and 18 per cent to 12 per cent respectively over 1995-2007. Algeria and Nigeria on the other hand have been increasing their share of Chinese exports, rising from 2 per cent to 7 per cent and 6 per cent to 10 per cent respectively over 1995 to 2007.

With regard to China's imports, Angola is emerging as the substantial partner for African exports to China, increasing its share from 10 per cent in 1995 to 33 per cent in 2007. South Africa on the other hand has lost substantial share, falling from 49 per cent in 1995 to just 19 per cent by 2007. Sudan (13 per cent), Republic of Congo (8 per cent) and Equatorial Guinea (6 per cent) are all emerging exporters to China.

Table A2.1 : Percentage Share of China's Top Five African Export and Import Partners, 2007

Exports		Imports	
South Africa	20	Angola	33
Egypt	12	South Africa	19
Nigeria	10	Sudan	13
Algeria	7	Republic of Congo	8
Morocco	6	Equatorial Guinea	6

Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; June 2008.

China's exports to Africa are fairly diverse products as Table A2.2 shows. The top five products account for only 22 per cent of its total exports to Africa. Telecommunication equipment (6 per cent), cotton fabric and garments (13 per cent) were the major top Chinese exports in 2006. The fabrics and apparel exports are related to the use of African countries as a base to produce for the US under the AGOA preferential treatment.

Table A2.2: Percentage Share of China's Top Five Exports to Africa, 1995-2006

	1995	2000	2006
Telecommunication equipment, parts and accessories	1	1	6
Cotton fabrics, woven	10	6	5
Fabrics, woven, of man-made fibres	3	7	4
Outerwear knitted or crocheted	1	3	4
Motor vehicle parts and accessories	2	2	3

Source: Calculated from COMTRADE, accessed via WITS May 2008.

By contrast, China's imports from Africa are much more concentrated by product (Table A2.3). Oil is the largest import from Africa, rising from 22 per cent in 1995 to 78 per cent by 2006. Ores and concentrates of base metals are the second largest and although their share has decreased from 11 per cent in 1995 to just 5 per cent in 2006, their value has increased from US\$0.12bn to US\$1.28bn over the same time.

Table A2.3: Percentage Share of China's Top Five Imports from Africa, 1995-2006

	1995	2000	2006
Crude petroleum and oils obtained from bituminous minerals	22	68	74
Ores and concentrates of base metal	11	2	5
Iron ore and concentrates	11	4	3
Pearl, precious and semi-precious stones, un-worked or worked	4	3	3
Cotton	14	0	3

Source: Calculated from COMTRADE, accessed via WITS May 2008.

In 1995, most of the Chinese exports to Africa were in the Low technology (47 per cent) and Medium technology sectors (26 per cent). By 2006, High technology products were taking a larger share of the exports (16 per cent) as well as an increase in the Medium technology products (33 per cent). Low technology products lost share and now account for 39 per cent of Chinese exports to the continent.

On the import side, China's imports from Africa were biased towards the primary (42 per cent) and resource based (39 per cent) sectors, in 1995. Over time this bias has been accentuated with these two categories accounting for 96 per cent of total imports in 2006. China has granted GSP status to African exports; although it remains unclear how this will affect processed goods. As can be seen from Table A2.4, Chinese tariffs on African products are a little below its tariffs on global imports. It is significant that tariffs on ores and metal imports are considerably below those on manufactures and agricultural products. And although there has been a large increase in the number of product lines imports from Africa which are free from tariffs – much trumpeted “special concession to Africa”, this increase in tariff-free product lines is reflected in China's total trade. In fact, in the manufacturing sectors, the number of dutiable trade lines on African exports increased sharply between 2000 and 2007.

Table A2.4: China's Average Tariff Rate and No. of Tariff Lines for World and SSA, 2000-2007

Trade Year	Simple Average Tariff Rate		No. of Free Lines		No of Dutiable Lines		No of Total Lines	
	World	SSA	World	SSA	World	SSA	World	SSA
Total Trade								
2000	17.0	15.2	160	45	6,852	1,373	7,012	1,418
2007	10.0	9.2	500	257	6,582	1,856	7,129	2,114
Agricultural Materials								
2000	23.5	22.2	85	17	1,128	270	1,213	287
2007	14.0	12.6	162	63	1,163	315	1,332	379
Manufactures								
2000	16.5	14.9	31	14	5,396	998	5,427	1,012
2007	9.6	9.2	269	152	5,090	1,447	5,399	1,599
Ores and Metals								
2000	5.3	4.8	40	14	269	79	309	93
2007	3.7	2.9	60	40	269	83	329	123

Source: Data from UNCTAD Trains database, accessed via WITS July 2008.

A2.2. FDI

As China began to emerge in the international global scene, its outward FDI flows remained small; equivalent to just US\$916m in 2000, not much higher than the US\$830m in 1990¹⁵. However, post 2000, FDI outflows have been rising, reaching US\$17.8bn in 2006. The flows are expected to continue to increase, and reach an impressive US\$72bn by 2011¹⁶.

UNCTAD estimates that China's FDI in Africa has been increasing, rising from just US\$1.5m in 1991 to US\$60.8m by 2003. Besada, Wang and Whalley (2008) using various sources estimated Chinese FDI flows into Africa to be just above US\$500m in 2006, rising from US\$400m in 2005.

¹⁵ The reporting mechanism for FDI may have also changed after 2000, and therefore may account for change in reported figures.

¹⁶ EIU (2007)

Table A2.5: China's FDI flows to Africa, 1991-2003 (US\$m)

YEAR	Total	Africa	Per cent Share
1991	913	1.5	0.16
1992	4,000	7.7	0.19
1993	4,400	14.5	0.33
1994	2,000	28.0	1.40
1995	2,000	17.7	0.89
1996	2,114	..	..
1997	2,563	..	..
1998	2,634	..	..
1999	1,774	42.3	2.38
2000	916	85.0	9.28
2001	6,885	24.5	0.36
2002	2,518	30.1	1.20
2003	2,855	60.8	2.13

Source: UNCTAD (2007)

In 1995, Africa's share of China's FDI outflows was 0.89 per cent, rising to 9.28 per cent in 2000. But the continent's importance has continued to fluctuate since then. Cheng and Ma (2007) estimate Africa's share in Chinese FDI flows rose from 2.6 per cent in 2003 to 5.8 per cent in 2004, falling back to 3.2 per cent in 2005. The large recent investment in the DRC, as well as in other African countries, is likely to increase both the absolute magnitude of FDI flows to Africa, and Africa's share in total outward Chinese FDI.

In 2005 Chinese FDI stock in 48 African countries reached a value of US\$1.6bn (Table A2.6). Although China's FDI in Africa is geographically dispersed, five countries (Sudan, Algeria, Zambia, Nigeria and South Africa) accounted for 56 per cent of the FDI stock in 2005.

Table A2.6: Distribution of China's Outward FDI Stock in Africa, 1990 and 2005

Country	1990	Country	2005
Zaire	18	Sudan	22
Nigeria	15	Algeria	11
Mauritius	14	Zambia	10
Guinea Bissau	9	South Africa	7
Zambia	7	Nigeria	6
Gabon	6	Tanzania	4
Rwanda	6	Kenya	4
Zimbabwe	6	Madagascar	3
Egypt	4	Guinea	3
Tanzania	4	Zimbabwe	3
Madagascar	4	Others	27
Central African Republic	3		
Sierra Leone	2		
Libya	2		

Source: UNCTAD (2007)

China's investment in Africa is fairly well divided over different sectors. Between 1979-2000, 46 per cent of investment was in the manufacturing sector, textiles being the main category. Much of this manufacturing investment was in the clothing sector, taking advantage of Africa's preferential access to US markets under the AGOA scheme. Services, mainly construction, accounted for 18 per cent of the FDI inflows, with resource extraction accounting for 28 per cent.¹⁷ This is a dynamic picture however, and in 2007 the State-owned Industrial and Commercial Bank of China invested US\$5.4bn to acquire a 20 per cent stake in Standard Bank, a South Africa based bank with extensive operations across the continent¹⁸.

China's FDI in oil and gas exploration has been in Nigeria, Angola, Equatorial Guinea, Sudan and Gabon. Investments worth US\$757m in Sudanese Oil and US\$2.7bn in Nigerian oilfields have been made in the past few years by China.

The first Sino-African Business Conference in 2003 in Ethiopia resulted in agreements on 20 projects with a total value of US\$680m. The centre provides business consultation services, special funds, and simplified approval procedures. Today, about 700 Chinese enterprises are operating in Africa. China established three of its first eight overseas economic and trade cooperation

¹⁷ UNCTAD (2007a)

¹⁸ <http://www.moneymorning.com/2007/12/04/china-drills-into-africa-with-54-billion-investment/>

zones in Africa: Nigeria, Mauritius and Zambia¹⁹. A further US\$5bn were made available under the China-Africa Development Fund to assist with development and investment related work in Africa.

A2.3 Aid

China has extensive foreign economic cooperation programmes in Africa. The total value of these projects exceeds Chinese FDI flows into Africa; US\$18bn have been invested in project finance from 2000 to 2006. These projects are more concentrated than Chinese FDI flows (Sudan 19 per cent, Algeria 15 per cent and Nigeria 11 per cent), representing overseas projects financed by its government through the foreign cooperation programme, but also includes civil engineering projects financed by foreign investors.

Chinese assistance to Africa is coordinated by the State Council and three main ministries: The Ministry of Finance, the Ministry of Commerce, and the Ministry of Foreign Affairs. Other institutions such as the Export-Import Bank of China (EXIM Bank) and Chinese embassies in African countries also assist in finding and funding projects. EXIM Bank is key to the major infrastructural investments in Africa, providing a large fund for projects in Africa, but for which only pre-qualified Chinese firms can bid.

Between 2007 and 2009, the Forums on China-Africa Cooperation (FOCAC) aimed to provide preferential loans of US\$3bn and trade credits of US\$2bn. They also promised to double aid to Africa by 2009. The China-Africa Development Fund amounting to US\$5bn has also been established to support Chinese firms investing in Africa. In 2006, FOCAC also announced the establishment of three to five Special Economic Zones for focused Chinese investment in Africa. The zones are being set up in Zambia, Mauritius, Nigeria, Egypt and possibly Tanzania.

Other financial assistance includes debt cancellation usually taking the form of loans being turned into grants. Between 2000 and 2003, an estimated US\$1.27 to \$1.38bn were converted to grants. In 2005, a further commitment to reduce debts by US\$1.3bn was made. Broadman (2008) reports concessional loans to Africa reached US\$800m in 2005, covering 55 projects in 22 countries.

Between 1949-2006, Chinese aid to Africa was around US\$5.6bn. Some of this aid takes the form of small or medium projects, such as a US\$8.6m loan to construct administration buildings in Burkina Faso. Agricultural projects are also a favoured form of assistance with projects being funded in Niger, Nigeria, Uganda and Rwanda amongst others. Sugar refineries, paper mills, grain mills, forestry and irrigation have been common themes in projects²⁰. A number of projects related to health, education, agriculture and sports are also supported in

¹⁹ UNCTAD (2007)

²⁰ Brautigam (1998)

Africa. Table A2.7 lists some of the projects carried out with financial assistance from the Chinese Export Import Bank and the China Africa Development Fund.

Table A2.7: Major Projects in Africa with assistance from China's EX-IM Bank and China Africa Development Fund

Year	Country	Main Project	Amount	Type of Funding	Financier
2000	Congo	Cement	US\$24.15m	Concessional Loan	EXIM
2000	DRC	Telecommunications	US\$9.66m	Concessional Loan	EXIM
2000	Mali	Cement	US\$18.12m	Concessional Loan	EXIM
2000	Mauritius	Sewage	US\$18.12m	Concessional Loan	EXIM
2001	Sudan	Power	US\$110m	Loan	EXIM
2001	Zimbabwe	Infrastructure	US\$7.45m	Concessional Loan	EXIM
2002	Mauritius	Housing Dam	US\$12.07m	Concessional Loan	EXIM
2002	Morocco	Infrastructure	US\$6.03m	Concessional Loan	EXIM
2002	Sudan	Power	US\$150m	Loan	EXIM
2003	Congo	Dam Infrastructure	US\$280m	Concessional Loan	EXIM
2003	Djibouti	Telecommunications	US\$12m	Concessional Loan	EXIM
2003	Ethiopia	Dam Infrastructure	US\$224m (total)	Loan	EXIM
2003	Zambia	Infrastructure	US\$600m	Concessional Loan	EXIM
2004	Angola	Transport Infrastructure	US\$2bn	Credit Line	EXIM
2004	Botswana	Housing	US\$24.13m	Concessional Loan	EXIM
2004	Sudan	Dam Infrastructure	US\$1.8bn	Loan	EXIM
2004	Togo	-	-	Concessional Loan	EXIM
2004	Tunisia	Telecommunications	US\$16.89m	Concessional Loan	EXIM
2005	Angola	Energy	US\$1-3bn	Loan	EXIM
2005	Botswana	Road	US\$18.29m	Concessional Loan	EXIM
2005	Egypt	Plant Repair and Conference Repair	US\$16.3m and US\$20m	Soft Loans	EXIM
2005	Egypt	Textiles	US\$15.85m	Concessional Loan	EXIM
2005	Kenya	-	-	Concessional Loan	EXIM
2005/6	Mozambique	Dam and Plant Infrastructure	US\$2.3bn	Loan	EXIM
2005/6	Mozambique	Dam Infrastructure	US\$300m	Loan	EXIM

2005	Namibia	Transport	N\$204m	Loan	EXIM
2005	Togo	-	-	Concessional Loan	EXIM
2006	Benin	Economic and Technological Cooperation	-	Concessional Loan	EXIM
2006	Cameroon	Military	US\$1.1bn	Material Assistance	EXIM
2006	DRC	-	-	Concessional Loan	EXIM
2006	Eritrea	Telecommunications	US\$20.8m	Concessional Loan	EXIM
2006	Kenya	Electricity	US\$20.17m	Concessional Loan	EXIM
2006	Kenya	Telecommunications	US\$29.94m	Concessional Loan	EXIM
2006	Nigeria	Dam and Power Infrastructure	US\$2.5bn	Loan	EXIM
2006	Tunisia	Telecommunications	US\$6.26m	Concessional Loan	EXIM
2006	Zambia	Tanzania-Zambia Railway	-	Concessional Loan	EXIM
2006	Zimbabwe	Agricultural Equipment	US\$25.06m	Loan	EXIM
2007	Angola	Safe Drinking Water Project	US\$230m	Concessional Loan	EXIM
2007	DRC	Infrastructure and Mining	US\$8.5bn	Loan	EXIM
2007	Eritrea	Mining	US\$60m	Loan	EXIM
2007	Eritrea	Cement	US\$45.28m	Concessional Loan	EXIM
2007	Ethiopia	Hydropower/Irrigation and Expansion of Cement Factory	US\$208m	Concessional Loan	EXIM
2007	Ghana	Dam Infrastructure	US\$292m (total committed over US\$600m)	Export Credits	EXIM
2007	Ghana	Power	US\$137.2m (total cost)		CADF
2007	Mozambique	Infrastructure	US\$40m	Soft Loan	EXIM
2007	Namibia	Electronics	N\$1bn	Concessional Loan	EXIM
2007	Nigeria	Communications and Education Programme	US\$100m	Loan	EXIM
2007	Uganda	ICT Backbone	US\$106m	Loan	EXIM
2007	Zambia	Plant Infrastructure	US\$206.55m	Loan	EXIM
2007	Zimbabwe	Agriculture	US\$200m	Buyer's Credit	EXIM
2008	DRC	Fiber Optic	US\$33.6m	Preferential Loan	EXIM
2008	Ethiopia	Glass Factory	Part of a		CADF

			US\$90m contribution to projects in 3 African countries		
2008	Zimbabwe	Mining	Part of a US\$90m contribution to projects in 3 African countries		CADF

Source: Davies, Edinger, Tay, & Naidu, 2008

A2.4 Integration of Vectors

China has a clearly developed strategic approach towards Africa, involving multiple parties on the Chinese side. Aid and FDI are coordinated so closely that it is not clear what components of interaction with African countries can be classified as aid or FDI. The strategic objectives are twofold - to obtain long-term access to Africa's abundant resources (oil and minerals) and to obtain Africa's support in the global arena. Chinese aid to Africa is free of conditionality (subject to a proviso that recipient countries do not recognise Taiwan), although there have been recent signs that it is more willing to consider the quality of internal governance in some African countries (for example, providing peace-keeping forces, gentle pressure on Sudan with regard to Darfur). Insecurity in many parts of Africa is both a problem for Chinese operations and an opportunity. The opportunities are perhaps more evident, since it is the very insecurity of oil and mineral extraction in Africa (Sudan, Nigeria and the DRC) which provides the space for Chinese firms to enhance their presence.

There have been a wide range of forums designed to strengthen China Africa relationships. The largest of these was the Forum on China-Africa Cooperation (FOCAC). The first ministerial meeting for the Forum was held in Beijing in 2000, followed by the second in Addis Ababa in 2003. The third Forum was held in 2006, also referred to as the China-Africa Summit, which was widely seen as China's attempt to shift up gears in its engagement with Africa.

In its engagement with Africa, China has used the three vectors of aid, trade and FDI effectively to establish relationships with governments. Chinese firms, aided by funding from the State, especially when they are investing in aid-recipient countries is just one example of how China effects relations using two vectors simultaneously.

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A3. India

India's presence in Africa is distinctively different from that of its giant Asian neighbour. On the one hand, India's presence in Africa has been built on an active diaspora community, particularly in East Africa, and the Indian Government has utilised this historical relationship to engage with Africa. On the other hand, it is only recently that India has begun to wake up to the impending shortage of many key minerals and to the energy, which it requires for its sustained future economic progress.

It is one of the few countries in our case studies, which has a coherent, focused strategy for key states in Africa. Financial assistance is often coupled with FDI, trade agreements, accessing markets and securing energy supplies.

The Indian government unveiled the "Indian Development Assistance Scheme" in 2003. In seeking engagement with other developing companies, the promotion of Indian exports and strategic interests were given a priority. Development assistance would therefore be linked to the opening of new markets, and lines of credit would be extended where products from India are being used in the projects. India does still pursue "tied" aid, but these are not tied to political or governance conditionality such as democracy or transparency, but to other FDI and Trade vectors.

Box A3: India – Opportunities for Africa

By comparison with China, India has reacted late to the resource potential of Africa and its role as a market for Indian products. In recent years this has been rectified and India is now developing a concerted programme towards Africa, but concentrating on those countries with which it has clearly identifiable bilateral interests. This has led to a change in focus of India's relations with Africa, away from a historic link with East Africa (with its Indian diaspora) towards West Africa and Sudan. It is now striving to integrate activities in the three vectors of trade, FDI and aid. This provides Africa with the opportunity to respond in kind, with its own focused and strategic integration of activities in these three vectors.

Trade: India is a source of demand for African products, particularly for oil and minerals, but also for some agricultural commodities such as nuts and fruit. India has the capacity to provide important inputs for Africa, including capital goods, low-price consumer goods and business services. Low cost pharmaceuticals, perhaps linked to incoming Indian FDI, represent a particular trading opportunity.

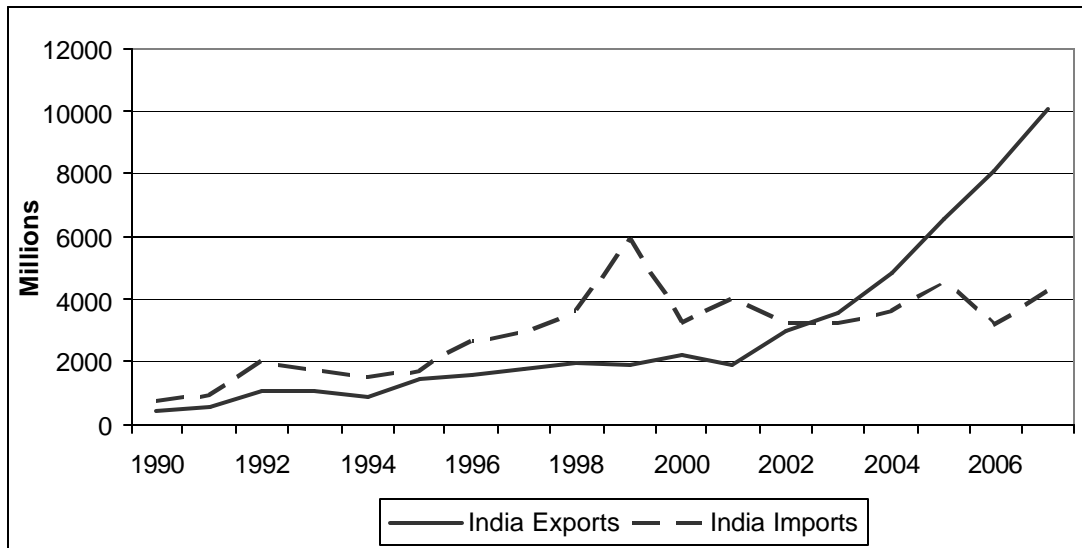
FDI: Indian firms have the capacity to assist Africa in the commodities sector, in agriculture and in the pharmaceuticals and telecommunications sectors.

Aid: Indian aid, linked to incoming FDI might contribute to enhancing infrastructure, developing mineral and oil deposits and particularly in health and pharmaceutical sectors. Technical assistance and training are also key areas for Indian technical assistance.

A3.1 Trade

India's exports to Africa rose from US\$1.4bn in 1995 to US\$10bn by 2007. In 1995 imports stood at US\$1.7bn rising to US\$4.23bn by 2007. India moved from a trade deficit to a trade surplus in 2003 and has expanded that surplus to US\$5.8bn by 2007. India's exports to Africa grew during the 1990s, but its imports from Africa only expanded rapidly after 2001 (Figure A3.1).

Figure A3.1 : India's trade with Africa, 1990-2007 (US\$m)



Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; March 2009

The top five export destinations in Africa, accounted for 58 per cent of Indian export to the continent in 2007 (Table A3.1). South Africa (20 per cent) was the major destination followed by Nigeria (14 per cent). South Africa, Nigeria and Egypt's share in Indian exports has been more or less consistent over the past decade, showing little diversification into other African countries. Kenya on the other hand has lost half of its share, falling from 16 per cent in 1995 to 8 per cent by 2007.

Table A3.1: Percentage Share of India's Top Five African Export and Import Partners, 2007

Exports		Imports	
South Africa	20	South Africa	28
Nigeria	14	Morocco	17
Egypt	10	Egypt	8
Kenya	8	Tanzania	5
Mauritius	6	Tunisia	4

Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; June 2008.

South Africa is also the largest exporter in Africa to India, increasing its share from 10 per cent to 28 per cent between 1995 to 2007. Morocco (18-17 per cent) and Egypt (5-8 per cent) have held around the same share in Indian exports between 1995-2007.

Refined petroleum products were the largest Indian exports to Africa in 2006, even though their values were virtually non-existent in 2000 and before. Medication, motor vehicles and products of iron showed a modest increase over the decade, while rice exports fell from 20 per cent in 1995 to 5 per cent by 2006. Table A3.2 shows the share of these products over 1995-2006.

Table A3.2: Percentage Share of India's Top Five Exports to Africa, 1995-2006

Product Name	1995	2000	2006
Petroleum products, refined	0.01	0.01	25
Medicinal and pharmaceutical products	6	10	8
Rice	20	1	5
Passenger motor cars, for transport	1	0.4	4
Universals, plates, and sheets, of iron or steel	2	4	4

Source: Calculated from COMTRADE, accessed via WITS May 2008.

On the import side, as shown in table 3.5, crude petroleum and refined petroleum products were by far the largest imports from Africa, accounting for 66 per cent of the imports in 2006. Gold is also an important import, worth nearly US\$1.5bn (10 per cent) in 2006.

Table A3.3: Percentage Share of India's Top Five Imports from Africa, 1995-2006

Product Name	1995	2000	2006
Crude petroleum and oils obtained from bituminous minerals	38	-	58
Gold, non-monetary (excluding gold ores and concentrates)	0	29	10
Petroleum products, refined	0	0	8
Inorganic chemical elements, oxides and halogen salts	21	23	5
Fruit and nuts, fresh, dried	10	10	2

Source: Calculated from COMTRADE, accessed via WITS May 2008.

India has seen significant rise in its exports to Africa of resource based goods. The share of primary, low technology products exports has fallen over 1995-2006. The largest increase was seen in the resource based sector, with exports rising from 8 per cent of total trade to 32 per cent over 1995-2006.

The Southern African Customs Union (SACU) in 2004 began negotiating a trade agreement with India and in 2006 then Indian Prime Minister, Manmohan Singh, stated that the Indian cabinet had approved negotiations for a Preferential Trade Area (PTA)²¹. The PTA was planned in two stages, the first beginning with specific tariff concessions on a limited list of products. The second stage would look at full free trade access. The Indian government in 2008 offered duty-free tariff preferences under the LDC preferences to 34 African nations. These preferences covered 94 per cent of India's tariff lines and include products such as cotton, ready-made garments, cocoa, cashew nuts, and aluminium ore.²²

A3.2 FDI

India's outward bound FDI flows rose from \$6m in 1990 to \$1.4bn in 2002. Since then FDI outflows increased to \$9.7bn by 2006. Indian FDI flows are expected to average around \$13bn between 2007 and 2011, reaching \$16bn by 2011.²³ Africa's share in Indian total outward FDI flows is very volatile; the share of outbound Indian FDI flows to Africa was 47.8 per cent in 2000, but just one per cent in 2004²⁴. Between 1996 and 2003, Mauritius and Sudan accounted for 9.2 per cent of total FDI flows each, and were ranked 3rd and 4th for Indian FDI flow destinations respectively.

²¹ Mandigora (2006)

²² Vijian, P (2008)

²³ EIU (2007)

²⁴ UNCTAD FDI statistics

India FDI in Africa is concentrated in just a few countries, mainly in the East African region. However, there has been major restructuring in the past decade. In 1996, three quarters of India's FDI stock in Africa was in Mauritius, followed by Morocco (11 per cent), Senegal (7.5 per cent) and South Africa (6.8 per cent). In 2004 the absolute level of FDI stock in Senegal, South Africa and Morocco changed little, but their shares dropped to below two per cent. Investment stock had moved into Sudan 46.3 per cent (US\$912m), and Mauritius 48.2 per cent (US\$948m).

Within Africa, between 2000 and 2004 Mauritius (US\$0.7bn), Sudan (US\$0.9bn), and Libya (US\$30m) were the major receivers of Indian FDI flows. Investment in Côte d'Ivoire is expected to grow to US\$1bn by 2011, which represents 10 per cent of all Indian foreign investments over the past decade²⁵. In the case of Mauritius, it is possible that a significant proportion of this is round-tipping, encouraged further by the signing of double taxation avoidance treaty between the two countries (UNCTAD 2004).

India's engagement strategy also seeks the creation of public-private partnerships to jointly bid for projects in Africa. In April 2008 the state run export house MMTC Enterprises India announced that it would enter into a 26-74 joint venture with Tata Steel to bid for mining projects in Africa, and explore opportunities in diamond, gold, iron ore and coal mining²⁶.

Other Indian MNCs also having a growing presence in a number of African countries and sectors. KET International won two contracts in 2008 in Algeria (US\$61m) and in Namibia (US\$25m) for power transmission projects. Jyoti Structures, also in the power transmission sector has investments worth US\$24m (South Africa) and US\$40m (Uganda) in place²⁷.

In Sudan, Indian Oil and Natural Gas Corporation (ONGC) has invested US\$200m since 2007 for an oil pipeline project. In 2008 India agreed to establish a refinery in Nigeria, while buying stakes in Kenyan refineries. Furthermore Bharat Petroleum is currently investing US\$50m in the natural gas sector in Kenya.

One of India's investment strategies in Africa has been the proposal of cutting out the "Western Middlemen". Projects with Angola and Namibia in diamonds have agreed to trade directly with Indian companies, in return India has promised to set up upstream diamond facilities in the two countries.

India's is currently looking at a US\$70bn merger between India's Reliance Communications and South Africa's MTN in the telecommunications sector.

²⁵ India Frontier Advisory May 2008

²⁶ India Frontier Advisory May 2008

²⁷ India Frontier Advisory May 2008

ONGC has already invested US\$162m in the petroleum sector. A further US\$200m investment was made in 2006 in the Sudan Pipeline project. In 2005 the Indian government pledged US\$10m in subsidies and US\$100m in loans for Sudan. ONGC Videsh also operates in Libya, Egypt, and Congo.

A3.3 Aid

There are a variety of conflicting estimates of Indian aid to Africa. In February 2008, India announced it would increase its aid to Africa by 60 per cent, amounting to US\$20m for 2008-09 (Bajpaee, 2008) On the other hand, the EU estimates a higher figure of around US\$100m per year (Altenburg and Weikert 2006:24). Others, such as Jobelius (2007), suggest even higher aid flows; around US\$300m per year and rising in the future. Broadman (2008) identifies US\$558m extended as line of credit to African countries by the Export-Import Bank of India in 2006.

In May 2008, the Indian Prime Minister at the Africa-India Summit pledged a very substantial increase in aid to the continent. This included over US\$500m in the next five to six years, as medium term assistance including the provision of development grants. India has already doubled the lines of credit it offers to African nations from US\$2.25bn to US\$5.4bn in the last five years. In 2004 India, together with eight energy and resource rich West African countries (including Senegal, Mali, Guinea-Bissau, Côte d'Ivoire, Ghana, and Burkina Faso) launched the Techno-Economic Approach for Africa-India Movement (TEAM-9). The aim was to provide assistance in low-cost technology together with investment related to infrastructure. A credit line of US\$500m was established under the initiative. However the utilisation of this credit by African partners is unclear.

India pledged US\$200m to the NEPAD process, as well as writing off debt to the value of US\$24m as part of the HIPC initiative. This included Mozambique, Tanzania, Uganda, Ghana and Zambia²⁸.

Much of Indian assistance takes the form of lines of credit, tied in some part to the use of Indian exports. Table A3.4 shows some of these projects in recent years and purchase of equipment from India is a common purpose of credit. The lines of credit are offered to governments and conditionalities involve supply contracts and project exports.

²⁸ Jobelius (2007)

Table A3.4: Lines of Credit Extended through the Export Import Bank of India to African Countries in Recent Years

Sr.	Borrower	Amount of Credit (US\$ Million)	Opening Date of Line of Credit	Tenure (No. of Years)
1	Sudan	350	-	12
2	Ethiopia	122		20
3	Ethiopia	65	-	20
4	Ghana	60		20
5	Sudan	52		12
6	Sudan	50	2008	11
7	Chad	50	-	20
8	Sudan	48	-	20
9	Mali	45		20
10	Sudan	42		13
11	Angola	40	2006	20
12	D. R. Congo	34		20
13	Burkina Faso	31	-	20
14	Mali	30	-	20
15	Malawi	30	To be made effective	20
16	Senegal & Mali (combined)	28		20
19	Ghana	27	2007	20
17	Cote d'Ivoire	27	-	20
18	Mali	27	-	20
20	Senegal	27	-	20
21	Cote d'Ivoire	26	To be made effective	20
22	Guinea Bissau	25	-	20
23	Mozambique	20	2008	20
24	Mozambique	20	-	20
25	Rwanda	20	To be made effective	20
26	Mozambique	20	To be made effective	20
27	Senegal	18	2007	20
28	Niger	17	-	20
29	Ghana	15	2006	7
30	Senegal	15	2007	20
31	Gabon	15	To be made effective	12
32	Equatorial Guinea	15	To be made effective	15
33	Angola	13	2010	5
34	Senegal	11	-	20
35	Central Bank of Djibouti.	10	2007	10
38	BMCE Bank, Morocco	10	2007	7
36	Zambia	10	2008	5
37	Mauritius	10	2008	10
39	Angola	10	2008	6
41	Djibouti	10	To be made effective	10

40	Senegal	10		20
42	Seychelles	8	2013	8
43	Gambia	7		20
47	Nigerian Exim Bank	5	2005	5
44	Seychelles Marketing Board	5	2006	5
45	Angola	5	2006	5
46	Lesotho	5	2007	15

Source: Adapted from <http://www.eximbankindia.com/loc.asp>, accessed July 2008.

In addition to financial assistance through lines of credit, India also provides technical assistance and training. Technical training in India has been provided to 1,000 African citizens. An estimated 15,000 students of African origin are currently studying in India (Thakurta, 2008). Technical assistance and expertise are also provided for projects and planning to many African countries. Table A3.5 lists some of the recent projects being carried out in Africa with assistance from India.

Table A3.5: African Projects Undertaken with Indian Assistance

Country	Project
Mozambique, Ethiopia	Rural Electrification
Senegal, Mali	Railways
Congo	Cement
Lesotho	Computer Training
Ghana	National Assembly Building
Sierra Leone	Military Barracks
Nigeria	Nigeria Machine Tools
Senegal	Entrepreneurship Development Centre
Ghana	Kofi Annan IT Centre for Excellence
Mauritius	Ebene Cyber City Project
Namibia	Plastic Technology Centre
Burkina Faso	India Farmers Project
Senegal	Village Electrification Projects
Ethiopia	Gandhi Memorial Hospital
Malawi	Lilongwe Water Supply System

Source: Thakurta (2008) and India Ministry of External Affairs (2006)

A3.4 Integration of Vectors

India's forays into the continent have not received the same attention as those of China, but nonetheless India is fairly active in the continent. Benefitting from an Indian immigrant population that settled in Africa generations ago, the Diaspora effect on trade aid and FDI is likely to be strong.

Historically, there has been little integration of trade, FDI and aid by India in Africa. However, in very recent years this has changed significantly. As part of a broad strategic agenda, India has diversified outside of its diaspora base in East Africa and moved decisively into the oil and iron ore producing regions of West Africa, Sudan and Libya, and in transport in Sudan and Senegal. In each case, aid and FDI have been bundled together in a package, and the Indian state has also played a role as an investor in collaboration with one of its largest firms. Indian firms, too, show a growing interest in Africa, in telecommunications in South Africa and in pharmaceuticals in Uganda, Kenya and Tanzania.

The use of the three vectors of aid, FDI and trade together is seen in the case of Senegal. The Indian automobile giant Tata has benefited from contracts arising from the restructuring of public transport facilities there. At the same time India is also one of the largest non western donors and the largest export destination for Senegal.²⁹ The Indian state-controlled oil company ONGC Videsh is also an example of the three vectors being used strategically by India. The company is a permanent participant in all interactions concerning Indian overseas petroleum business and the Joint Working Groups of the Government of India.³⁰ Therefore it has direct input in all policy matters related to trade and aid with Africa.

India also tends to have a more focused approach towards the countries it chooses to pursue than does China. For example, when India held its first India-Africa Forum summit in 2008, only 14 key countries were invited from Africa to New Delhi. This was the first summit of its nature in India-Africa relations, but is expected to become a regular feature in times ahead, as India attempts to increase its access and engagement with the continent.

One of India's concerns is the growing influence of China on the continent and some of the measures, such as the India-Africa forum, are widely seen as an attempt to counteract that influence. Until 2003, India's Foreign Ministry had a single African division. It has now expanded to one division each for West and Central Africa, East and Southern Africa and West Asia and North Africa. In 2008, Indian diplomatic missions will open in Burkina Faso, Gabon, Mali and Niger³¹.

²⁹ Jobelius(2007)

³⁰ Company websites and Reuters

³¹ India Frontier Advisory May 2008

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A4. Malaysia

Malaysia's engagement with Africa has largely been under the umbrella of South-South cooperation. Malaysia believes it can help others, especially those who share a colonial past, where cooperation can work for the benefit of both.

Most of the assistance provided to Africa has been on a technical level and has taken the form of training and guidance with matters of planning and finance. Bilateral engagement is now emerging – previously, engagement was mainly in multilateral fora.

Malaysia, traditionally a large oil producer is now seeking oil resources elsewhere as well. Its main engagement with Africa has been through FDI, and the main interest has remained oil. On the export side Malaysia is increasingly exporting medium technology products to Africa, to tap into the growing market.

Box A4 : Malaysia – Opportunities for Africa

Malaysia is not a significant player in the African context, with historical links confined to Mauritius and South Africa. The major strategic opportunity for Africa is to use the Malaysian state-owned oil company as a bargaining chip in relations with oil firms from other countries, and to take advantage of Malaysian expertise in vegetable oils and timber.

Trade: Market opportunities for export diversification in sectors other than mineral resource based products.

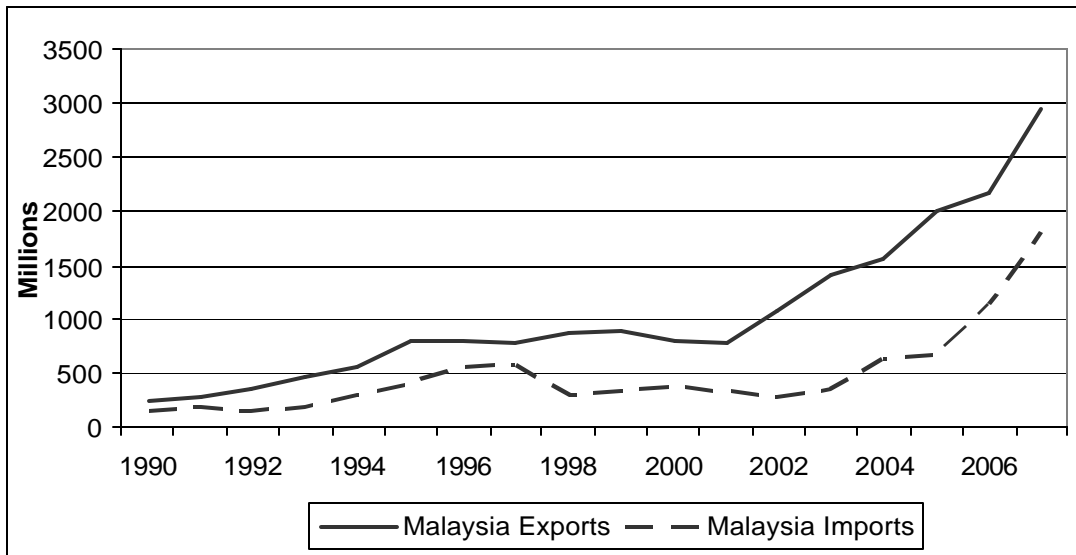
FDI: Learning and finance in the oil, palm-oil and timber sectors.

Aid: Malaysia has competences in sectors which provide an opportunity for Africa to learn from, notably oil-extraction, palm-oil and timber. The uplifting of formerly disadvantaged groups has been an important role-model for South Africa and lends itself as an exemplar for other African countries.

A4.1. Trade

Malaysia's exports to Africa grew from US\$0.8bn in 1995 to US\$2.9bn by 2007. Imports rose to a lesser degree, from US\$0.4bn to US\$1.8bn over 1995-2007. Increasing exports to Africa began in 2001, followed by an increase in imports from 2003. Malaysia's trade surplus with Africa increased from \$0.38bn in 1995 to US\$1.4bn by 2007.

Figure A4.1: Malaysia's trade with Africa, 1990-2007 (US\$m)



Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; March 2009.

South Africa is the largest African trading partner for Malaysia both in terms of exports and imports (Table A4.1). South Africa and Egypt, Malaysia's primary markets in Africa have seen a declining share in its share in Malaysian exports, falling from 32 per cent to 28 per cent, and from 29 per cent to 17 per cent respectively between 2000 to 2007. Exports to South Africa are primarily manufactures and machinery and transport equipment, while those to Egypt are manufactures and agricultural materials. Malaysia's exports to other African countries cover a diverse range of products (Table A4.2), within which palm oil (27 per cent) has retained its share and position as the top export commodity over the decade. Apart from vegetable oils, there is no single product which has a significant share of exports, showing a diverse product structure for Malaysian exports to Africa. Benin has seen a recent increase, from having no share in 2000 to accounting for seven per cent of Malaysian exports to Africa in 2007.

Table A4.1: Percentage Share of Malaysia's Top Five African Export and Import Partners, 2007

Exports		Imports	
South Africa	28	South Africa	27
Egypt	17	Gabon	23
Benin	7	Ghana	7
Tanzania	4	Egypt	5
Ghana	4	Côte d'Ivoire	4

Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; June 2008.

In 2007, South Africa (27 per cent) and Gabon (23 per cent) together accounted for half of Malaysia's imports from Africa (Table A4.1). The bulk of Malaysian exports in 2006 were in the resource based sector (44 per cent); which in this case comprises mainly of vegetable oil and wood related products (Table A4.2). Medium technology products are the second largest category, rising from 14 per cent of exports in 1995 to 21 per cent in 2006. Low technology products have also increased their share from 9 per cent to 15 per cent (1995-2006).

Table: A4.2: Percentage Share of Malaysia's Top Five Exports to Africa, 1995-2006

Product Name	1995	2000	2006
Other fixed vegetable oils, fluid or solid, crude, refined	29	27	27
Animal and vegetable oils and fats, processed, and waxes	15	10	7
Ships, boats and floating structures	3	0	3
Polymerization and copolymerization products	0	1	3
Furniture and parts thereof	0	2	3

Source: Calculated from COMTRADE, accessed via WITS May 2008.

There has been a significant change in the nature of Malaysia's imports from Africa and four of the top five commodity imports from Africa in 2006 were not evident in the earlier half of the last decade (Table A4.3). Cocoa, aluminium, oil and iron products rose from a minimal amount in 1995 to 24 per cent, 11 per cent, 11 per cent and 8 per cent of African exports to Malaysia respectively in 2006. Copper imports on the other hand have decreased, dropping from 16 per cent in 1995 to 8 per cent in 2006. For South Africa, ores and metals account for nearly half of Malaysia's imports from the country.

Table A4.3: Percentage Share of Malaysia's Top Five Imports from Africa, 1995-2006

Product Name	1995	2000	2006
Cocoa	1	1	24
Aluminium	0	22	11
Crude petroleum and oils obtained from bituminous minerals	0	0	11
Universals, plates, and sheets, of iron or steel	0	1	8
Copper	16	7	8

Source: Calculated from COMTRADE, accessed via WITS May 2008.

4.2 FDI

In 2004, total Malaysian outward FDI stocks was valued at US\$12.8bn; US\$1.9bn (14.7 per cent) of this was in Africa (Table A4.4). The main destinations of these stocks were Mauritius (33 per cent) and South Africa (24 per cent).

Table A4.4: Distribution of Malaysian Outward FDI Stock in Africa by Country, 2004

Country	Per cent Share
Mauritius	33
South Africa	24
Sudan	17
Chad	10
Egypt	5
Namibia	5
Ghana	3
Other	3

Source: UNCTAD (2007)

Malaysia's global FDI flows rose from US\$129m in 1990 to US\$1.9bn in 2000 and to US\$6bn in 2006, but are expected to average around US\$3.4bn per year between 2007 and 2011³². Africa's share in outbound Malaysian FDI flows is relatively high, rising from US\$1.1m (0.6 per cent of the total) in 1991 to US\$176m (8.5 per cent of the total) in 2004 (Table A4.5).

³² EIU (2007)

**Table A4.5: Africa's Share in Malaysia Outward FDI Flows, 1991-2006
(US\$m and per cent)**

Year	Total US\$million	Africa US\$million	Per cent Share
1991	175	1.1	0.6
1995	2,488	72.3	2.9
2000	2,026	77.7	3.8
2004	2,061	175.6	8.5
2005	2,972	..	..
2006	6,041	..	..

Source: UNCTAD FDI Statistics Online accessed June 2008

In 1991, Malaysia's main FDI stock holding was in Mauritius. However, as much as 43 per cent of total Malaysian outward FDI from 1999 to 2005 was in the services sector, mainly in financial sector, or round tripping.³³ It is reasonable to presume that at least a substantial part of Malaysian FDI in Mauritius is round-tripping rather than actual investment. However, the recent increase in FDI is dominated by the oil and gas, and energy and power generation sectors.

Petronas, the State-owned oil company has been active in South Africa since 1996. From there it has moved to the rest of the continent, based on exploration rights, extracting and producing oil and natural gas as well as moving into retailing petroleum. The main Petronas upstream operations are based in Algeria, Benin, Cameroon, Chad, Egypt, Equatorial Guinea, Ethiopia, Mauritania, Morocco, Mozambique and Sudan, and downstream operations in Chad, Cameroon, Egypt, South Africa and Sudan.

Palm oil is one of the other sectors that private firms are exploring in Africa. This includes palm oil plantations and refineries. Malaysian IOI Group invested in palm oil refining (and property and trading) in Mauritius, while Malaysian Sime Darby also invested in a palm oil refinery in Egypt, Tanzania and Tunisia. The Bidco Group recently invested over US\$25m in a new 400 tons/day edible oil processing facility in Tanzania. They have also invested US\$130m, with other partners, in an integrated palm oil project in Uganda. The project will involve developing a 40,000 hectare palm plantation, an edible oils refinery and a soap plant to process raw materials from the plantation.

Malaysia held its first Malaysia-Africa Palm Oil Trade Fair & Seminar, South Africa, in 2007. The major aim was to explore business and trade links for palm oil.

³³ Ariff and Lopaz (2006)

A4.3 Aid

Most of the Malaysian assistance provided to the continent takes the form of technical training and expertise usually provided through the Malaysian Technical Cooperation Programme (MTCP). The MTCP provided special training courses in capital market development and privatisation management for Egypt and Nigeria in 1999-2001. Namibia and South Africa received assistance from Malaysian experts in micro credit and income generating activities. Malawi benefited from a two year integrated agricultural project in 2000 with expertise help from the Malaysian Agriculture Research Institute (MARDI). Development planning assistance by way of experts has been provided to Ghana and Kenya in 1997, Algeria in 2000 and Sudan in 2001/02.

A4.4 Integration of Vectors

Malaysian integration with Africa has been limited in the past decades. South Africa alone can account for a major share of trade and FDI. Malaysia's engagement with African countries has usually been through multilateral forums, such as the Asia-Africa summit, held in 2005. Malaysia has also initiated the Southern African International Dialogue in 2005, which focuses on building one-to-one relationships and networks under the wider SMART umbrella. SMART dialogues are an initiative of the Commonwealth focusing on approaches and innovations related to development. Such forums are important to allow for progress towards the formation of bilateral relations.

On the trade and FDI side, Malaysia and Africa share many commodities where the latter can learn from experiences of the former. For example, Malaysia is an oil producer and already has investments related to the oil sector in Africa, and Malaysia possesses a well-developed timber and associated products sector. The Malaysian MNC presence in Africa is by a state owned company, which may offer a different management perspective to the stock listed /private MNC's operating in the oil sector in Africa.

Business relations can be explored and strengthened through forums such as the Malaysian South-South Corporation. Established in 1992, as a consortium comprising 85 Malaysian shareholders, it has established Malaysia-South Africa Business Council in Malaysia as well as the Malaysian Business Centre in Kampala, Uganda in August 2001. The organisation's main aim is to explore and promote trade and investment opportunities in new markets, particularly the emerging markets. It also acts as a vehicle for trade promotions, exports and investments as well as the transfer of technical and management expertise to the host countries.

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A5. The Russian Federation

The former Soviet Union's relationship with the continent goes back to the Cold War days, when aid and trade were often in conjunction with political ideologies. With the collapse of the Soviet Union the Russian Federation's focus was directed inwards. However, in the 2000's Russia began to engage with a number of regions, including Africa. State visits in both directions have taken place to explore and promote political ties in the last few years.

Box A5: The Russian Federation – Opportunities for Africa

The former Soviet Union's relationship with Africa goes back to the Cold War, where aid and trade were often used as a means of political influence. With the collapse of the Soviet Union, the Russian Federation was facing economic recession and recovering from the loss of satellite states; Africa was largely ignored. However, in the 2000s Russia began to emerge, engage and reinforce its political influence.

As Russia moves towards regaining its status, Africa again has come into focus. Increasing its influence, to balance power not only with the West, but the rising powers of China and India, Russia is again looking for allies to realize its Super Power status.

Trade: There is scope for Africa to expand commodity exports to Russia, including both tropical agricultural commodities and minerals. Russia is one of the world's major grain producers, and is a potential source of supply for Africa.

FDI: Russian firms are keen to develop links with new producers in order to provide new power-bases against the major global resources MNCs. They are open to alliances with African partners, as occurs in the case of the global diamond cartel.

Aid: Hitherto, Russia has mostly been a source of aid to Africa through multilateral agencies. There may be some scope for leveraging bilateral aid by resource-rich countries.

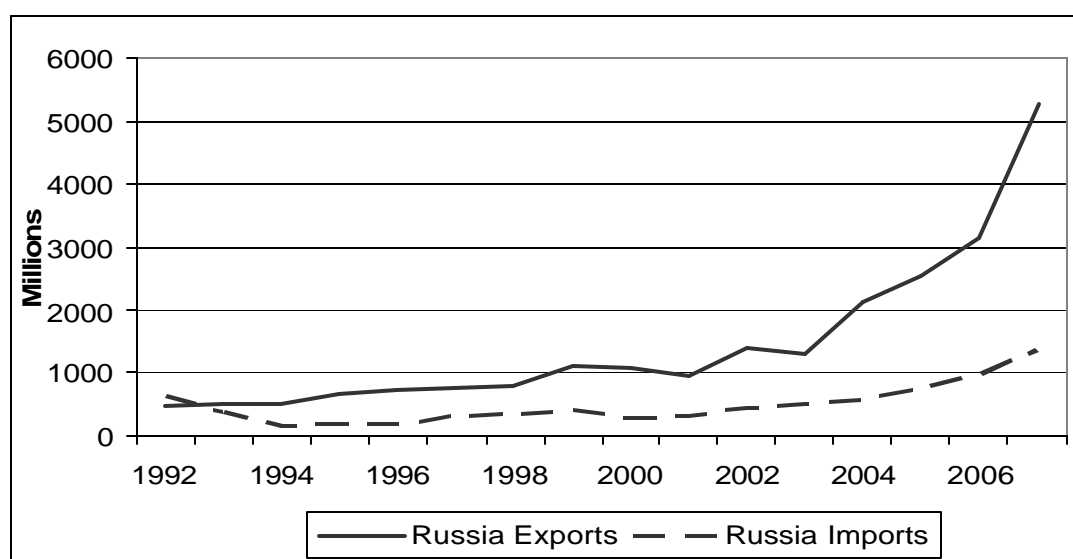
A5.1 Trade

Historically, in the period of the Soviet Union, trade was directed by the state. There were bilateral trade contracts between the Union and the countries, often

based on barter trade. Since the emergence of Russian Federation, trade has moved more decisively towards firm and individual trade contracts. Russia's exports and imports from Africa were fairly low until 2001, whereafter exports started to rise, with imports taking a little longer (2003) to follow suit.

Exports from Russia to the African continent have increased US\$0.67bn in 1995 to US\$5.27bn by 2007. Imports have risen from US\$0.18bn to US\$1.4bn over the same period. Russia's trade surplus has grown over the years, increasing from US\$0.48bn in 1995 to US\$3.9bn in 2007 (Figure A5.1). Russia's exports to Africa grew steadily during the 1990s, and then expanded rapidly after 2001. Imports from Africa have only begun to grow in recent years.

Figure A5.1: Russia's trade with Africa, 1990-2007 (US\$m)



Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; March 2009.

Russia's exports and imports from Africa have tended to remain concentrated in particular countries over the past decade, mostly in North Africa (Table A5.1). Egypt has been Russia's largest export partner on the continent since 1997, and accounts for the majority of Russia's exports to Africa in 2007 (37 per cent). Most of the exports to Egypt are agricultural materials and food. On the other hand Algeria (24 per cent), Tunisia (10 per cent) and Morocco (9 per cent) are all seeing increasing shares with manufactures as the major components of Russian exports.

Table A5.1: Percentage Share of Russia's Top Five African Export and Import Partners, 2007

Exports		Imports	
Egypt	37	Morocco	22
Algeria	24	Guinea	14
Tunisia	10	South Africa	13
Morocco	9	Côte d'Ivoire	12
Nigeria	5	Egypt	11

Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; June 2008.

On the import side, the stronger partners in 1995, Egypt (20 per cent) and South Africa (37 per cent), have been losing share over the past decade. By 2007, they accounted for 11 per cent and 13 per cent respectively, of Russian imports from Africa. Morocco now accounts for the largest share, rising from just 3 per cent in 1995 to 22 per cent by 2007.

Russian exports to Africa cover a wide range of product as shown in Table A5.2. The top five products are all resource-based goods, a similar (albeit somewhat more processed) export structure to that of Africa. In 2006 iron ingots (18 per cent), wheat (18 per cent) and wood products (11 per cent) form nearly half of Russian exports to the continent.

Table A5.2: Percentage Share of Russia's Top Five Exports to Africa, 1995-2006

Product Name	2000	2003	2006
Ingots and other primary forms, of iron or steel	21	13	18
Wheat and meslin, un-milled	0	15	18
Wood, simply worked, and railway sleepers of wood	9	12	11
Petroleum products refined	3	5	6
Crude petroleum and oils obtained from bituminous minerals	1	5	5

Source: Calculated from COMTRADE, accessed via WITS May 2008.

Table 5.3 shows the major products imported from Africa by Russia. Ores and concentrates of base metals were one of the largest categories of product to be imported into Russia. However their share has decreased from 26 per cent in 2000 to 15 per cent in 2006. Fruits and nuts on the other hand have increased their share (from 16 per cent to 29 per cent) over the same time to become the largest imported product from Africa by 2006. Cocoa's share has fallen from 24

per cent to 14 per cent in imports, while tobacco (9 per cent) has remained fairly stable over the 2000's.

Table A5.3: Percentage Share of Russia's Top Five Imports from Africa, 1995-2006

Product Name	2000	2003	2006
Ores and concentrates of base metal	26	13	15
Fruit and nuts, fresh, dried	16	25	29
Cocoa	24	24	14
Tobacco unmanufactured; tobacco refuse	10	11	9
Inorganic chemical elements, oxides and halogen salts	0	0	2

Source: Calculated from COMTRADE, accessed via WITS May 2008.

A5.2 FDI

Russia's outward FDI flows increased from US\$606m in 1995 to US\$3.2bn in 2000. In 2006 they were valued at US\$18bn and are expected to rise further to US\$26bn. by 2011³⁴. However it is widely recognised (Kalotay, 2005) that much of the initial outflow of funds during the 1990s reported as FDI was in fact capital flight. It is towards the 2000's that capital flight declined and private investment flows abroad took the form of productive assets.

The majority of private FDI flows are from Russian mining and oil companies, and therefore most of the Russian-African ventures are also in the mining and exploration fields. This is supported by the instances of Russian FDI in Africa, which appear to be exclusively in these sectors (Table A5.4). Marks (2008) reports on Russian metal companies investment to be over US\$5bn in Africa over the last three years. Russian oil companies have also signed contracts in Algeria, Nigeria, Angola and Egypt valued above US\$3bn.

³⁴ EIU (2007)

Table A5.4: Russian MNC Activity by Sectors in Africa, 2003-2006

Year	Country	Sector
2003	Angola, DR Congo	Diamonds
2004	South Africa	Mining
2004	South Africa, Gabon	Metals
2006	Nigeria	Aluminium
2006	Guinea, Nigeria	Aluminium
2006	South Africa	Steel Vanadium
2006	South Africa	Vanadium
2006	South Africa	Metals
2006	Namibia	Oil and Gas

Source: Kuncinas (2006), Nestmann and Orlova (2008), Kuncinas (2007) and company websites

In 2006, various trade and economic agendas were pursued in South Africa. This included the establishment of a Business Council by the Chambers of Commerce and Industry between the two countries. A number of mining related investment cooperation was also on the agenda. Oil and gas, the energy sector, the automobile industry and chemical production were just some of the other sectors where Russia and South Africa are looking to work together in.

In 2006, Russia was also looking to establish closer relations with Angola, and apart from training assistance, was also seeking to advance cooperation in diamond mining, the energy sector and transport and communication.

The major Russian FDI investment projects are focused on mining. Norilsk Nickel is the world's largest producer of nickel and palladium. Norilsk started investing in South Africa in 2004. It now holds 50 per cent of the Nkomati nickel mines (South Africa) and acquired a 85 per cent stake in Tati Nickel (Botswana) in 2007. Nkomati is South Africa's only primary nickel producer, also producing copper, platinum group metals and chrome.

United Company Rusal is the world's largest aluminium and alumina producer. In Africa, its Aluminium Division, Alscor is based in Nigeria. Alscor was commissioned in 1997 and acquired by Rusal in 2006. Alscor also has Alumina Division in Guinea.

Alrosa is Russia's largest diamond company engaged in the exploration, mining, manufacture and sales of diamonds, producing about 20 per cent of the world's rough diamonds. In 2005, Alrosa signed a pact with South Africa's De Beers. In Angola, Alrosa is involved in three projects: the Catoca and LUO-Camatchia-Camagico Joint Ventures and a hydroelectric power station on the Chicapa River. It is also constructing internal power supply lines for the provincial capital.

Alrosa and the Angolan state diamond miner Endiama signed a contract for exploration activities; intending to invest about US\$14m in the project. It is also finalizing agreements for petroleum prospecting, exploration and development in on and offshore areas with Sonangol, Angola's state-owned petroleum company.

A5.3 Aid

The nature of aid provided by the Soviet Union was based on economic credits, military in-kind deliveries and technical assistance; for example often trucks or grain were used to assist African countries. Most of Russian aid still takes the form of technical assistance, humanitarian aid and debt relief, rather than financial transfers. For example, in 2005, Russia established a joint aircraft building venture with Egypt, as well as plans for a Russian Egypt University in Cairo.

Evidence of direct bilateral assistance is weak. It is in humanitarian assistance that we find evidence of direct transfers to African states, with Algeria receiving US\$7.6m in 2002, and Ethiopia and Eritrea receiving US\$5.3m in 2003. Libya benefited from a US\$4.5bn debt cancellation in 2006.

The majority of aid and assistance to Africa is provided through international organisations and funds including the UN. Russia cancelled US\$20bn of African debt through the HIPC initiative. Assistance for health care was provided through a contribution of US\$30m to the Global Fund to fight AIDS, Tuberculosis and Malaria in 2001-2006. In 2007 further contributions of nearly US\$86m were made. In 2005, US\$8m were pledged to the World Initiative to Liquidate Polio. As Table A5.5 shows, the majority of aid was through multilateral agencies.

Table A5.5: Russian ODA to Africa, 1996-2008 (US\$m)

Year	Type of ODA	Amount in US\$	Remark
1996	Training national humanitarian and rescue staff at Kavumu Polytechnic Centre (Rwanda)	1m	until 2000
1998	Debt-relief	7.8bn	until 2001
2001	Global Health Fund	20m	
2002	Training of 10 peacekeepers from Nigeria	n.a.	
	Training of 4 peacekeepers from Rwanda	n.a.	
	Global Fund for Aids Tuberculosis and Malaria	20m	until 2006
	Humanitarian aid for emergency relief to Algeria	7.6m	
	Debt-relief	3.4bn	

2003	Shipment of automotive spare parts to Kavumu Polytechnic Centre (Rwanda)		
	HIPC trust contribution	10m	
	IMF AFRITAC programme (regional technical assistance centres)	0.25m	until 2005
	Humanitarian aid for emergency relief to Ethiopia and Eritrea	5.3m	
	Humanitarian aid for emergency relief to Angola (WFP)	1m	
	UNHCR for Africa	2m	
2004	Humanitarian aid for emergency relief to Morocco	0.5m	
2005	Global Fund contribution	40m	
	220 Russian peacekeeping staff are deployed in UN operations in Africa		
	HIPC Initiative	2.2bn	
	Debt-relief	9.1bn	
	HIPC trust contribution	15m	
	Global Fund for Aids Tuberculosis and Malaria	20m	until 2008
	World Initiative to Liquidate Polio	8m	
	Regular contributions to UN WFP		
2006	Global Fund reimbursement	270m	until 2010
	Global Polio Eradication Initiative	18m	
	Advance Market Commitments	45m	
	IDA (49 per cent to Africa)	60m	until 2014
2007	Russia-World Bank-WHO initiative: World Bank Booster Program	15m	
	Russia-World Bank-WHO initiative: WHO Global Malaria Program	4m	
	Russia-World Bank-WHO initiative: Staff Development Program	1m	
2008	Development assistance to Africa	500m	unknown
	World Bank Malaria Booster Program	n.a.	until 2010

Sources: Vasiliev, (2005), Ministry of Foreign Affairs of the Russian Federation and The Kremlin (accessed 2008)

A5.4 Integration of Vectors

The Soviet Union's relations with Africa were conditioned by the Cold War but as Russia's re-emergence slowly gains momentum, the relationship with Africa is based on new directions and motivations.

There are few signs of integration between trade, FDI and aid vectors in Russia's relations with Africa. Russia's association with Africa has initially been negligible in aid, FDI and trade, though it is now beginning to change. Russian exports to

the continent are focused primarily on the North African countries, and comprise mainly hard and soft commodities. FDI has been focused on the resource rich countries, and are all in the mining sector. Aid is mostly being directed through multilateral organisations, and Technical Corporation is being used to form bilateral relationships. There are few signs of integration between trade, FDI and aid vectors in Russia's relations with Africa.

There are numerous opportunities for African countries that can be exploited. Given that Russia is an oil and metal rich country, its imports from Africa comprise mainly agricultural products. This provides an opportunity for the non-resource rich African countries to tap and expand into a larger Russian market. Whereas other countries have concentrated on the oil rich African countries, the non oil sector can gain from focusing on the Russian market.

The resource-rich African countries also have favourable opportunities. Russia is a large mineral economy itself and is looking to establish its presence as an energy and mineral resource leader in the world. Russian MNCs emerging from a centrally controlled business environment are now looking to secure their long-term access to inputs. Heavy investment in the mining sector in Africa is largely seen as an attempt to secure such supply lines.

Russian Mining FDI is motivated by two major factors. Firstly, Russian firms are now moving from a centrally planned economy where supply security was virtually guaranteed, to one where they have to secure their own production chain. Secondly, in a global environment of consolidation, the Russians are looking to expand their own business ventures to avoid being "eaten up" by other larger firms.

Both these motivations can work in favour of the resource rich countries. Russian firms bring with them management experience of working in harsh environments, business and otherwise. This allows them to move into smaller African countries that other westerns companies may deem as too risky. The oil and metal price boom also allows them to bring much needed liquidity into their ventures. Small and medium mining firms in Africa can benefit from this; becoming part of larger and more resourceful firms.

However, much remains to be done on the Africa-Russia front. President Putin's state visits to South Africa and Morocco in 2006, were steps in the right direction. Russia has recently granted GSP status to African imports. African goods are being exempted from quota limitations as well as anti-dumping, countervailing and special protective measures. This should encourage increased exports for Africa. FDI needs to diversify in non mining sectors, and attempts are already underway between South Africa and Russia to invest in the automobile sector.

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A6. South Korea

South Korea is the fifth largest consumer of oil in the world. Having no oil of its own, it completely relies on the international economy for oil supplies. Korea is also a major producer and exporter of manufactures, and requires sustained access to a variety of minerals, particularly ferrous metals and coal. With rising resource security issues, with regard to energy, Korea is strategically engaging with oil producing countries, and has focused on the North African and Middle East oil producing countries.

The Korea-Arab Society launched in 2008 included Morocco, Sudan, Djibouti, Algeria and the Middle East Arab countries, all major oil exporters.

Box A6: South Korea – Opportunities for Africa

Korea is the fifth largest consumer of oil in the world and has no oil resources of its own. Its dependency on oil imports defines its relationship with Africa. Access to minerals is of growing concern to Korea.

Historically, Korea has lacked an integrated strategy towards Africa. In recent years this has begun to change, and Korean aid and FDI are increasingly being oriented towards countries who are potential suppliers of oil and minerals.

Trade: African exports to Korea are primarily in energy-related products. There is scope to diversify these exports into a wider range of products

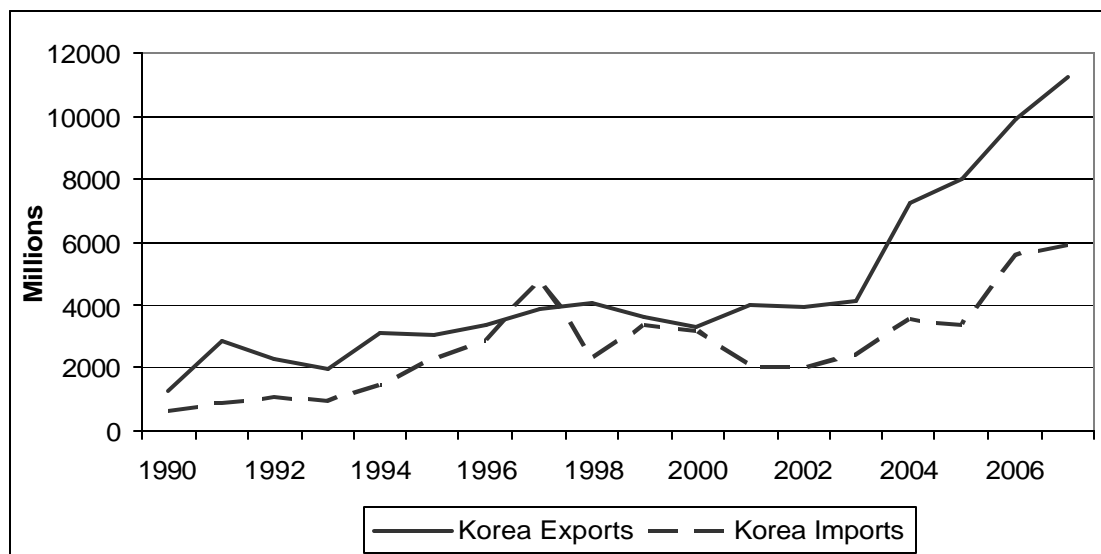
FDI: Much incoming FDI has been in manufacturing and tourism. These remain important destinations for Korean FDI, but there is scope to attract Korean FDI into the commodities and infrastructure sectors.

Aid: Korea provides a combination of developmental aid, and aid to countries and sectors which provide energy and mineral inputs. There are opportunities to expand these activities, as well as to encourage aid in the infrastructure and industries required to exploit these primary commodities.

A6.1 Trade

South Korea's exports to Africa stood at US\$3bn in 1995, rising to US\$11bn by 2007. On the import side, 1995 imports rose from US\$2.3bn to US\$5.9bn in 2007. Korea has maintained a trade surplus with Africa, rising from US\$0.77bn in 1995 to US\$5.3bn in 2007 (Figure A6.1).

Figure A6.1: Korea's trade with Africa, 1990-2007 (US\$m)



Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; March 2009.

Most of Korea's "exports" to Africa comprise shipping products, and its largest export market in Africa is Liberia (Table A6.1), a flag of convenience for much of the world's shipping fleet. Next to shipping in importance are exports of automobiles. South Africa was its second largest export partner in 2007 (18 per cent), with the bulk of trade in machinery and transport equipment. Angola has increased its importance as a market, from one per cent to 11 per cent of exports, while Egypt has lost share from 16 per cent to 6 per cent over 2000 and 2007.

Table A6.1: Percentage Share of Korea's Top Five African Export and Import Partners, 2007

Exports		Imports	
Liberia	31	South Africa	25
South Africa	18	Congo, Republic of	14
Angola	11	Nigeria	11
Egypt	8	Algeria	10
Nigeria	8	Egypt	8

Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; June 2008.

Although South Africa remains the largest African exporter to Korea, its share has decreased from 54 per cent in 1995 to 25 per cent in 2007 (Table A6.1). Ores and metals are the largest category of exports from South Africa. In the case of the Congo (14 per cent), although ores and minerals form a small part of Korean imports, the majority of the value is accounted for by oil related products. Algeria (10 per cent) and Nigeria (11 per cent) were the other important African exporters to South Korea in 2007.

Ships and boats are the largest category of exports to Africa, valued at US\$4.2bn in 2006. The share of this product has been rising over the decade from 35 per cent in 1995 to 42 per cent in 2006. The share of the other four products is shown in table A6.2, and can be seen to have few improvements over the decade.

Table A6.2: Percentage Share of Korea's Top Five Exports to Africa, 1995-2006

Product Name	1995	2000	2006
Ships boats and floating structures	35	33	42
Passenger motor cars, for transport	12	9	13
Polymerization and copolymerization products	3	7	5
Telecommunication equipment, parts and accessories	2	3	4
Lorries and special purposes motor vehicles	1	2	3

Source: Calculated from COMTRADE, accessed via WITS May 2008.

Korea's primary imports from Africa are oil and commodities, with petroleum products accounting for nearly half the imports for South Korea (Table A6.3). The fuel category has also been rising, from 30 per cent in 1995 to 48 per cent in 2006. Silver and platinum has been the other star category, rising from almost nothing in 1995 to take 9 per cent of the share in 2006.

Table A6.3: Percentage Share of Korea's Top Five Imports from Africa, 1995-2006

Product Name	1995	2000	2006
Crude petroleum and oils obtained from bituminous minerals	30	59	48
Pig and sponge iron, spiegeleisen, etc, and Ferro-alloys	3	3	4
Copper	3	1	9
Ores and concentrates of base metal	1	1	2
Silver, platinum and other metals of the platinum group	0	4	9

Source: Calculated from COMTRADE, accessed via WITS May 2008.

The majority of South Korean exports to Africa in 2006 were in the Medium technology category (77 per cent). Low technology imports have fallen from 13 per cent in 1995 to 6 per cent in 2006, while high technology products have sustained their shares (8-9 per cent).

A6.2 FDI

South Korea's FDI outflows increased from US\$1bn in 1990 to nearly US\$5bn in 2000 and US\$7bn in 2006. FDI outflows are expected to increase at an annual average by the same amount from 2007 to 2011³⁵.

Korean FDI flows to Africa rose from US\$84m in 1993 to US\$249m in 2005. Africa's share in Korean FDI flows has fluctuated over the years, from 4.2 per cent in 1993 to 2.7 per cent in 2005. In 2002, of the Korean FDI stock in Africa (US\$265m), the major shares were in Sudan (22 per cent), Algeria (21 per cent), Egypt (21 per cent), South Africa (15 per cent), Morocco (8 per cent) and Cote d'Ivoire (7.6 per cent)³⁶. Despite Korea's focus on securing energy, most of Korean FDI into Africa in recent years has been in the minerals and tourism sectors. In 2006, the mining sector received 32 per cent of Korean FDI in Africa, followed by the hotel and restaurant sector (27 per cent), manufacturing (20 per cent) and wholesale and retail (12 per cent) were the other major sectors. Construction FDI amounted to just 2.3 per cent of total South Korean FDI in Africa. Table A6.4 shows the sectoral distribution of Korean FDI in Africa in 2006.

Between 2002 and 2005, Korea undertook 11 greenfield projects in Africa³⁷. Merger and acquisition activity between Korean and African firms has occurred in Egypt, Morocco, Tanzania, Sudan and South Africa³⁸.

³⁵ EIU (2007)

³⁶ UNCTAD FDI Statistics

³⁷ UNCTAD (2007)

³⁸ UNCTAD M&A Statistics

Table A6.4: Korean FDI in Africa by Sector, 2006 (Number and Value US\$m)

Category		Total FDI	FDI in Africa	Share of Africa (per cent)
Mining	Number	247	15	6.07
	Value	8,543	488	5.71
Hotel and Restaurant	Number	1710	8	0.47
	Value	2,479	412	16.62
Manufacturing	Number	19500	87	0.45
	Value	47,985	297	0.62
Wholesale/Retail	Number	4873	43	0.88
	Value	15,728	185	1.18
Telecommunications	Number	238	4	1.68
	Value	2,458	61	2.48
Construction	Number	710	16	2.25
	Value	1,943	35	1.80
Agriculture	Number	645	32	4.96
	Value	957	12	1.25
Other Services	Number	3570	20	0.56
	Value	4,675	13	0.28
Others Sectors	Number	901	6	0.67
	Value	4,774	11	0.23
Total in Africa	Number	32394	231	0.71
	Value	89,634	1515	1.69

Source: The Korea Imports and Exports Bank quoted in Kim (2006)

A6.3 Aid

Most of the Korean aid is focused on its Asian neighbours. Aid to Africa was less than 10 per cent of overall Korean ODA for the 2000-2006 period; increasing from US\$15.2m in 1995 to nearly US\$50m by 2006. As Table A6.5 shows, Kenya and Angola were the major recipients in 2005 and 2006.

Table 6.5: Korean ODA to Africa (US\$m, net disbursements)

	1995	2000	2005	2006
Total; Africa	15.2	24.27	39.14	47.83
Kenya	3.37	-0.58	10.93	15.47
Angola	0.14	8.61	0.02	10.09
Egypt	0.23	0.66	4.40	5.64
Tanzania	0.34	0.26	2.37	3.84

Morocco	0.46	0.04	1.40	2.40
Ethiopia	0.53	0.49	2.37	2.29
Algeria	0.08	0.03	0.34	1.82
Cote d'Ivoire	0.47	..	0.26	1.03

Source: www.oecd.org/dac accessed in July 2008.

Korea classifies aid to Africa into two categories; the Development Cooperation Countries (DCC) and the Strategic Cooperation Countries (SCC). The DCC category focuses on the low income poorest African nations who are offered assistance in rural development, capacity building, training and skill development, basic infrastructure, health and education. Countries classified in this category are also likely to receive loans with a higher grant element than others. The SCC category is for countries that are resource rich and already have a significant trade value with Korea. The nature of assistance here takes the lines of cooperation in the development of energy and natural resources, promotion of export manufacturing and the expansion of ICT and infrastructure. Most of the project initiatives have been in resource rich countries such as Egypt, Nigeria, Algeria and Morocco.

2006 saw the first visit by a Korean president to Africa in 25 years and it was here that plans for the Korea Initiative for African Development (KIAD) were announced. The proposal sought to increase ODA from US\$39.1m in 2005, to US\$100m by 2008.

A6.4 Integration of Vectors

Historically there has been little integration of the trade-FDI and aid vectors in Africa. With the exception of South Africa, the overlap between trade (Korea's imports of energy are key) and FDI (in minerals and hotels/tourism) has been weak, and much aid has gone to countries with which Korea has weak trading links. However, in recent years this pattern has begun to change and Korea is beginning to seek for a closer integration of the trade-FDI-aid vectors. Aid is being focused on key strategic partners, and the mining sector is becoming a key sector for Korean FDI in Africa.

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A7. Turkey

Turkey has strong historical ties with the North African countries dating back to the Ottoman Empire. However, recently Turkey has made attempts to engage with Sub-Saharan Africa, and in this regard initiated an 'Africa Policy' in 1998.

Box A7: Turkey – Opportunities for Africa

Turkey predominantly sees Africa as a market for its final products rather than as a source of energy and other primary materials. After many years of contact with North Africa, in recent years it has begun to develop a coordinated strategy to enter Africa.

Trade: A source for export diversification. Imports of textiles may assist Africa's clothing sector

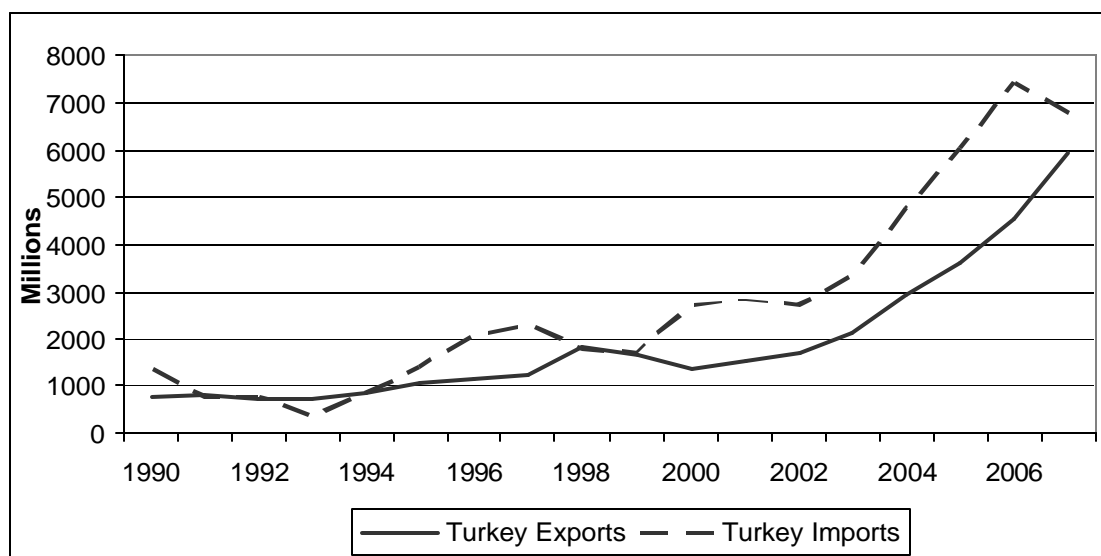
FDI: There is scope for joint ventures in small and medium sized ventures,

Aid: Aid may provide support for small scale business ventures, and in the construction and clothing and textile sectors where Turkey has distinct competences.

A7.1 Trade

Exports from Turkey to Africa rose from US\$1.06bn in 1995 to US\$5.95bn in 2007. Imports rose from US\$1.38bn to US\$6.78bn over the same period. Turkey has a trade deficit of US\$0.83bn with Africa in 2007. (Figure A7.1)

Figure A7.1: Turkey's trade with Africa, 1990-2007 (US\$m)



Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; June 2008.

Turkey's trade with Africa is heavily concentrated. Five countries (Algeria, Egypt, Morocco, South Africa and Libya) account for 70 per cent of its exports, and three countries (South Africa, Algeria and Egypt) for 74 per cent of all its imports from Africa (Table A7.1). In recent years the importance of South Africa as an export market has fallen, and that of Morocco has increased. The share of Libya as a source of imports into Turkey has fallen sharply, from 29 per cent to 6 per cent between 2000 and 2007.

Table A7.1: Percentage Share of Turkey's Top Five African Export and Import Partners, 2007

Exports		Imports	
Algeria	21	South Africa	32
Egypt	15	Algeria	31
Morocco	12	Egypt	10
South Africa	11	Nigeria	7
Libya	11	Libya	6

Source: Calculated from Direction of Trade Statistics (IMF) database accessed via ESDS; June 2008.

Although no sector dominates Turkey's exports to Africa, the largest items are metal products used in the construction sector. In recent years, there has been a rise in the significance of clothing exports to Africa (Table A7.2). Gold accounted for 42 per cent of all Turkish imports from Africa in 2006, with natural gas following in importance in 2006 (23 per cent) (Table A7.3). This explains the importance of South Africa (gold) and the North African economies (gas) as suppliers to Turkey.

Table A7.2: Percentage Share of Turkey's Top Five Exports to Africa, 1995-2006

Product Name	1995	2000	2006
Iron and steel bars, rods, shapes and sections	10	8	10
Tube, pipes and fittings, of iron or steel	3	2	10
Ingots and other primary forms, of iron or steel	2	1	5
Outerwear knitted or crocheted, not elastic nor rubberized garments	1	3	4
Household type electric and non-electric equipment	5	2	4

Source: Calculated from COMTRADE, accessed via WITS May 2008.

On the import side, non monetary gold accounted for 42 per cent of all Turkish imports from Africa while natural gas took the second largest chunk in 2006 (23 per cent). The rest of the products in the top five list tend to have fairly low shares and are listed in table A7.3.

Table A7.3: Percentage Share of Turkey's Top Five Imports from Africa, 1995-2006

Product Name	1995	2000	2006
Gold, non-monetary (excluding gold ores and concentrates)	-	-	42
Gas natural and manufactured	15	30	23
Coal, lignite and peat	4	4	6
Waste and scrap metal of iron or steel	0	0	6
Fertilizers manufactured	1	2	4
Cocoa	2	2	3

Source: Calculated from COMTRADE, accessed via WITS May 2008.

A7.2 FDI

Turkish outward FDI increased from US\$0.11bn in 1995 to US\$0.87bn in 2000. Thereafter it stabilised, and in 2006 (US\$0.93bn) there was little change over the

flows for 2000. An outflow of US\$1bn on average per year is expected for 2007-2011.³⁹

Other sources indicate the value of private investment flows to be much higher. According to Zaman (2005) the total value of investment projects undertaken in Africa rose from just US\$578m in 2003, to US\$652m in 2004, rising by one third to US\$942m in 2005⁴⁰. The Turkey Africa Trade Bridge estimates the value of private FDI for 2006 at US\$2.3bn⁴¹.

Historically, Turkish FDI has been concentrated in North Africa, predominantly in Libya, Algeria and Egypt. However with the establishment of the Turkish African Trade Bridge Summits organised annually since 2006, new investment opportunities have materialised in other African countries. In May 2008, the third Turkey-Africa Foreign Trade Bridge Summit was held in Istanbul. A private venture supported by the Turkish government, the organisers announced ambitions to undertake new projects to the value of US\$10bn in the African continent in the next three years.

In recent years, Turkish firms have invested in Ethiopia, Guinea, Burkina Faso, Benin, the Central African Republic, Angola and Malawi for the first time. Currently around 150 Turkish investors are to be found in 23 African countries, compared to only 73 prior to the establishment of the first Turkey-Africa Foreign Trade Bridge Summit. Many of these are small investors and firms taking on small projects; such as a US\$2m project in crushed rock production for road construction in Malawi. In addition, a number of small investments can be found in construction and building material businesses.

A7.3. Aid

Turkey's aid covers a range of activities, providing assistance in health, education, transportation, infrastructure and post conflict rebuilding. Its ODA to Africa has increased steadily but from a small base. Most of its aid is directed towards Asia (Table A7.4).

³⁹ EIU (2007)

⁴⁰ Today's Zaman (2005)

⁴¹ www.tuskonafrica.com

Table A7.4: Turkish ODA to regions (US\$m, net disbursements)

	2000	2002	2004	2005	2006
Asia	16.91	14.61	195.46	422.49	536.06
Europe	4.02	10.65	30.19	96.59	81.64
Africa	0.45	0.1	3.84	11.76	24.86

Source: www.oecd.org/dac accessed in May 2008

In 2008 Turkey became the 25th Non-Regional Member of the African Development Bank. The Turkish International Cooperation and Development Agency (TIKA), the main Turkish agency coordinating assistance projects has opened offices in Addis Ababa in 2005 and later in Khartoum and Dakar in the years of 2006 and 2007 respectively. Turkey has also provided 300 scholarships for African students to study in Turkey in 2007-2008.

In recent years Turkey has signed various technical assistance and cooperation agreements with Kenya, Ethiopia, Nigeria, Senegal, Sudan and South Africa. According to the Ministry of Foreign Affairs, Turkey has offered assistance to Africa in the DRC, Ethiopia, Kenya, Nigeria, and Sudan in various sectors from security to technical cooperation in agriculture, health, education and infrastructure.

In 2006, most of Turkey's aid has been concentrated in Sudan (58 per cent) and Somalia (13 per cent) (Table A7.5).

Table A7.5: Turkish ODA to Africa (US\$m, net disbursements)

	1995	2000	2005	2006
Total Africa	1.96	0.45	11.76	24.86
Sudan	1.93	-	0.69	14.4
Somalia	0	-	0	3.27
Libya	0.01	-	3.77	1.05
Ethiopia	-	0.04	2.49	0.88
Algeria	-	0.03	1.05	0.75
Egypt	-	0.04	1.2	0.62
Comoros	-	-	-	0.6
Congo, Rep.	-	-	0.01	0.59
Tunisia	0.01	0.04	1.29	0.56
Gambia	-	0.01	0	0.39
Morocco	-	-	1.06	0.35

Source: www.oecd.org/dac accessed in July 2008

A7.4 Integration of Vectors

Turkey has only very recently made efforts to engage with Africa strategically. Historically, most trade, FDI and aid have been with North African countries.

Turkey's "Open up to Africa" policy in 1998 became much more effective when it was supported by the efforts of the Confederation of Businessmen and Industrialists of Turkey (TUSKON) in 2006. By organising Annual Trade Bridge Summits, individual and private investors are now finding opportunities and partners to expand business further than the traditional partners. Africa is primarily seen as a market for Turkish goods rather than as a source of supply for energy and commodities.

Turkey's ambition to eventually join the EU may also work in favour of African countries; if they are able to create trade and investment relations with Turkey at the moment, may benefit from greater opportunities if and when Turkey joins the EU.

The signing of bilateral trade agreements with a number of African Countries; including FTA's with Egypt and Syria (separately) in 2007 and with Morocco and Tunisia in 2005 evidence Turkey's willingness to increase such opportunities with Africa. Although the agreements have not as yet become operational they are a step in the right direction.

Further advancement of integration on the government level can also be seen by Turkey's observer status at the African Union granted in 2005 and it being declared as "strategic partner" by the organisation in 2008. Turkey organised a "Turkey-Africa Cooperation Summit" in Istanbul with high level participants from African countries in August 2008. Turkey's approach towards Africa is a positive one, and as engagement deepens, investment and trade opportunities are likely to increase in the coming years.

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ANNEX II: EXPERT GROUP MEETING

“Africa's Cooperation with New and Emerging Development Partners: Options for Africa's Development”

10-11 February 2009, Addis Ababa, Ethiopia

SUMMARY

Background

The Office of the Special Adviser on Africa (OSAA) organized an Expert Group Meeting on Africa's Cooperation with New and Emerging Development Partners: Options for Africa's Development on 10-11 February 2009 in Addis Ababa, Ethiopia, as part of its programme of work in the context of its mandate to assist in Member States' debates on new and emerging issues regarding Africa's development, including the implementation of the AU/NEPAD programme. The Expert Group Meeting benefited from the support and cooperation of the United Nations Economic Commission for Africa (ECA) and the African Union Commission.

The global development landscape for Africa is drastically changing with the emergence of new development partners such as Brazil, China, India and the Republic of Korea. By rapidly increasing their aid and other development assistance to African countries, emerging development partners have greatly scaled up their cooperation with Africa in recent years, within the context of various initiatives, such as, the Africa-China Summit in November 2006 and the India-Africa Forum Summit held in New Delhi in April 2008.

The activities of emerging development partners are broadening the options for growth in Africa and present real and significant opportunities for African countries' development, including the implementation of the AU/NEPAD programme. Moreover, much of the dynamism of current South-South cooperation is fuelled by these new and emerging development partners.

At the same time, and in the wake of intensifying relationship between emerging development partners and Africa, traditional development partners such as the G8 countries increasingly express their interest in engaging new development partners for ongoing efforts in harmonization and coordinated support for Africa. For example, at the G8 summit in June 2007, G8 countries adopted the *Summit Declaration for Growth and Responsibility in Africa*, urging emerging development partners “to improve transparency of their aid and to follow internationally shared principles”.

Objectives

The objective of the Expert Group Meeting was to examine the nature and scope of the emerging countries' recent engagement with Africa; discuss how these development partners' increasing activities impact on African countries' development by creating new challenges as well as opportunities; and examine the response by African countries, including identifying possible policy options for harnessing this potential. The Expert Group Meeting also sought to suggest concrete ways of forging and constructing effective partnerships of all development partners, including between traditional and emerging development partners, so as to help broaden the options for Africa's development, with a view to support the efforts of African countries towards the achievement of their development objectives, as envisaged in the Millennium Development Goals and NEPAD.

Participation and Thematic Focus

The meeting was attended by participants drawn from various fields of expertise, such as the African Union Commission, NEPAD Secretariat, African Development Bank (AfDB), UNECA, UNDP, European Commission, OECD and the academia (please see Annex for the list of participants). This allowed for different perspectives on the impact of the engagement of the new and emerging development partners in Africa, as well as on the response by African countries and institutions, which helped enrich the discussion.

The background study which formed the basis of the meeting examined the scope of the activities of the new and emerging development partners in Africa, as well as the response by African countries. The study is contained in the current publication.

Upon the presentation of the study's major findings by Professor Raphael Kaplinsky, the main author of the background study, participants reviewed, made detailed comments and held an interactive debate on the study.

Opening Session

Welcoming remarks were made by the representatives of the ECA, the AU Commission and OSAA.

Session I: Presence of the Emerging Economies in Africa

The session was chaired by Mr. Abdalla Hamdok (ECA).

Presentation:

Professor Kaplinsky introduced the report on “Africa’s Cooperation with New and Emerging Development Partners: Options for Africa’s Development”. He explained that the arrival of the emerging economies in Africa had disrupted Africa in many ways and brought significant opportunities as well as challenges. According to Prof. Kaplinsky, this leads to the question, how can African economies make the most of the opportunities offered by these new participants on the global economic stage, and how can African economies minimise the potentially negative impacts posed by their growing presence.

In his study, Prof. Kaplinsky dealt with three vectors of interaction between the emerging economies and Africa: aid, trade and foreign direct investment (FDI). While these vectors have traditionally been separated by Africa’s traditional development partners, it is important to note that emerging economies do not separate them, often leading to strategic integration between the three vectors.

Discussion:

In the ensuing discussion on the presence of the emerging economies in Africa, participants commented on the nature of the new partnerships and the opportunities and challenges created by them. Experts agreed on the relevance and timeliness of the subject and commended Prof. Kaplinsky on the excellent report. The experts made the following observations:

There is a need for empirical studies and better information: The experts underlined the need for additional empirical studies on the various activities of the emerging development partners in Africa, including on the impact of these activities on good governance and the manufacturing sector in Africa. Furthermore, participants pointed to the lack of reliable and consistent data on the assistance provided by the new development partners to African countries.

This new cooperation creates both opportunities and challenges: The experts emphasized that the costs and benefits of such cooperation for Africa should be clearly articulated.

Participants felt that the increasing cooperation with emerging economies provided a window of opportunity for Africa to have a new type of relationship with its development partners. It was suggested that African countries should use the cooperation with emerging economies to build their productive capacity rather than as another source of aid. Experts underlined that instead of just extracting natural resources, the new cooperation should help African economies grow. In this regard, it is important to build internal capacity and expertise in Africa so as to increase their bargaining power in negotiations with the new development partners. At the same time, it was felt that cooperation with new development partners was creating challenges, such as those related to environmental impacts and labour standards.

What is driving this new cooperation? It was suggested that new development partners are driven mainly by profits and less by development impacts in Africa. However, it is important for African countries to benefit from this cooperation.

China is not one single factor: Participants emphasized that China should not be seen as a single actor, since there are many different actors from China involved in Africa. Lack of coordination between the different ministries and development and financial agencies in China was cited as a problem. It was thus suggested that China needed to improve coordination in the delivery of its Africa policy, including improved coordination between the Ministry of Commerce, the Ministry of Economic Affairs and the State Council.

Africa is not one single factor: Similarly, experts acknowledged that Africa should not be seen as a single actor. Each African country has individual characteristics and emerging development partners have bilateral relations with different African countries. Thus, it was suggested that African governments and regional organizations should interact with each other to maximize their bargaining power.

It was questioned whether it was feasible for Africa to have a continental strategy towards new development partners, especially taking into account the special conditions and differences between African countries and the impact of the emerging economies' activities on them. On the other hand, it was also questioned whether Africa should have one strategy for all emerging economies, considering the fact that the emerging economies differ in their approach and engagement.

One option suggested was to limit the list of issues to be agreed collectively to 2-3 strategic issues (such as, for example, environmental impact). The other relevant issues could be left to national governments.

African ownership: Experts underlined the importance of African ownership. It was agreed that Africa's strategy towards the new development partners can only be defined by Africans, to ensure their buy-in and implementation.

Dynamic picture: Participants emphasized the need to look at the dynamic picture and how the relations with new development partners changed over time. In particular, the current global financial and economic crisis had created new challenges and opportunities for Africa.

Indirect impacts: Participants pointed out that the indirect impacts of the engagement of emerging economies also deserve attention (for example, competition for scarce global resources).

Relations with traditional development partners: Experts alluded to the need to consider how Africa's relations with new development partners fit into the

already existing landscape of networks. It was suggested that, in addition to a strategic approach towards the new development partners, Africa also needed a strategic approach towards traditional development partners who have expressed some concerns regarding the engagement of new partners in Africa. Some felt that the activities of both group of partners complement each other, with traditional partners placing more emphasis on the social side and new partners on the productive side. Experts also underlined the need for African ownership in defining the framework for trilateral approach.

Session II: Africa's Strategic Response to the Emerging Economies

The session was chaired by Mr. Festus Fajana (AU Commission).

Presentations:

Professor Kaplinsky made a presentation on “The rise of China and the challenge to development strategy in Sub-Saharan Africa”. In his presentation, Prof. Kaplinsky focused on the changing global terms of trade resulting from the entry of Asian economies into the global economy. For example, the presence of Asian economies has resulted in growing price competition in manufactured goods. At the same time, the expansion of Asian economies has contributed to spikes in commodity prices. These changes in global terms of trade pose major strategic implications for African countries. Thus, it is particularly important to consider the indirect impacts of the presence of emerging economies on African countries.

Mr. Festus Fajana (AU Commission) focused his presentation on the AU common position on Africa's partnership with emerging powers. He explained that the role of the AU was clearly stated in its Constitutive Act – to provide a common platform. Mr. Fajana explained that the common position was based on the principle of co-development and envisaged a partnership instead of donor-recipient relations. The common position had also identified a number of priorities, such as industrialization, infrastructure development, agricultural development, human capital development, market access and development of modern services sector. Mr. Fajana further explained that a comprehensive global review was prepared every five years to Heads of State on partnerships with traditional and emerging partners, in addition to the review conducted every two years with each partner.

Mr. Fajana emphasized that emerging partners were very different in terms of what they wanted and what they offered – a differentiated approach was thus warranted. Similarly, since Africa is a continent of many heterogeneous countries in terms of resource requirements or bargaining power, each country should define their own opportunities and challenges within the guidelines and priorities set by the Heads of State within the common framework.

Mr. Fajana then turned to industrial development as a number one priority for Africa. In this regard, he stressed the need to tie the search for mineral resources to the goal of industrial development. According to Mr. Fajana, if a country is endowed with natural resources, they should be used to develop the infrastructure and human capital. Thus, any agreements between Africa and emerging economies need to include a component on industrial development. In addition to national governments, Mr. Fajana mentioned the need to involve the private sector and civil society who are important stakeholders in the partnership.

Mr. Abdalla Hamdok (ECA) focused his presentation on the support accorded by ECA to African countries in their relations with new development partners. He explained that ECA's primary mandate related to Africa's development at the regional and subregional levels. While ECA can help African countries define the strategic framework, Mr. Hamdok suggested that policies are better owned if they are crafted by people who will implement them. He added that ECA can help fill knowledge and capacity gap. For example, ECA could support African countries through research, policy analysis and monitoring, advocacy, technical assistance, as well as enhance partnerships through its convening power. Mr. Hamdok emphasized the role of industrial development and the creation of forward and backward linkages, explaining that as long as Africa continues to export primary commodities, terms of trade will remain adverse.

Ms. Chioma Onukogu (AfDB) started by suggesting that the experience of North Africa should be included in the report and that key action recommendations be specified for each stakeholder. Ms. Onukogu then spoke on the AfDB Medium-Term Strategy 2008-2012. She explained that the operational focus of the strategy was on infrastructure, governance, private sector and higher education. Furthermore, AfDB's Regional Integration Strategy focuses on increased competitiveness and enhanced trade, as well as strengthening Africa's competitive position in the global economy. Regional infrastructure and regional integration were highlighted as key to economic growth and competitiveness in Africa. AfDB also emphasizes strategic partnerships with both traditional donors and emerging economies. According to Ms. Onukogu, AfDB is engaged in bilateral cooperation with a number of emerging economies.

Discussion:

The ensuing discussion focused on Africa's response to the engagement of emerging development partners. Participants made the following observations:

Implementation of the common position of the African Union: Experts emphasized the importance of implementing the common strategy of the AU on partnerships with emerging economies. It was reiterated that there were "winners" and "losers" in this relationship, which made it difficult to reconcile their various interests. It is especially important to take into account the interests of

non-resource-producer African countries. However, the outcome of this relationship will depend on a strong unified response from Africa.

New policy space: Several participants noted that the emergence of new development partners has created policy space for African countries which they have been lacking for decades. Therefore, it is important to take advantage of that policy space.

Capacity building and natural resource management: Experts underlined the need to build the capacity of African countries in a number of areas, including, in particular, the management of natural resources. In this regard, there is a need for an institution that African countries trust and which can provide relevant expertise. For example, in Europe the European Commission has the clearing house function that can strengthen the bargaining power of different countries. In Africa, ECA has tried fulfilling the clearing house function in the mining industry, organizing meetings at ministerial level and conducting an ongoing review of mining codes. In addition, there is a need to build country-level expertise beyond trade.

Industrialization and diversification: Participants emphasized the need to ensure that the relationship with new and emerging development partners helps African countries in their industrialization and diversification efforts. It was pointed out that, if African countries had used the revenues from commodity boom to industrialize and build human capacity, it would be much easier for them to deal with the impact of the financial and economic crisis. Innovation was highlighted as another important priority. Furthermore, participants pointed to the need for an integrated cross-discipline approach, i.e. policies should be designed in all areas, not only trade.

Commodity prices: Several participants expressed concern at the long term impact of emerging economies on commodity prices. Volatility in interest rates, instability of capital flows, and shift in relative prices have an impact on Africa's development strategy. It was suggested that there was a need for mechanisms that would allow African countries to react quickly to a drop in commodity prices. It was also suggested that Africa's voice would be more visible if the presidency of the African Union had a seat at the G20.

AERC study: Participants were informed that the African Economic Research Consortium (AERC) was conducting a study on the impact of China-Africa economic relations in 22 African countries which would be published soon. This process could be further strengthened and used to help African countries in defining their response to the presence of emerging economies.

Private sector and other stakeholders: Experts underlined the important role played by the private sector and suggested that new models and capacity building were needed for private-public partnerships. In this regard, the examples

of other regions could be helpful. In particular, innovation systems need to tie together governments, private sector and universities. The Regional Economic Communities were also highlighted as important stakeholders.

Session III: Role of the Multilateral Community

The session was chaired by Mr. Mehdi HAMAM, Officer-in Charge, Policy Analysis and Monitoring Unit (OSAA).

Presentations:

Mr. Uwe Wissenbach (European Commission) made a presentation on the European Union's (EU) approach to Africa and emerging economies. He explained that the EU had a strategic triangular partnership with both China and Africa. The first round of EU-China consultations held in 2005 has been followed by a regular dialogue. Mr. Wissenbach explained that African partners have also been involved in these discussions since 2006. The focus of the debate is on constructive dialogue and cooperation, trying to identify areas where mutual benefits could be realized between the three partners – EU, Africa and China. The consultation process between all partners has identified four priorities which are in line with the priorities of AU/NEPAD: peace and security in Africa; Support for African infrastructure; Sustainable management of environment and natural resources; and Agriculture and food security. According to Mr. Wissenbach, the EU is ready to promote effective multilateralism which would result in a win-win situation for all stakeholders.

Mr. Bankole Adeoye (NEPAD Secretariat) emphasized the principle of “one Africa” in his presentation, adding that the integration of NEPAD into the AU structures was expected to be finalized at the AU Summit in July 2009. He underscored that the partnership between Africa and emerging economies must be based on common understanding and common framework. In his view, the partnership process must be driven by an Africa-owned and Africa-led initiative. In this process, NEPAD core principles can be used as a guide. Mr. Adeoye added that Africa's relations with emerging economies should not be confined to multilateral forums.

Mr. Andrew Mold (OECD) informed the participants of the recent and ongoing changes in the nature of OECD. A number of emerging economies have become members of OECD, for example, Mexico, Republic of Korea and Turkey. Dialogue is continuing with other emerging economies with a view to possible membership. Furthermore, OECD acknowledges the need to have a legitimate policy dialogue with emerging economies. The OECD Development Centre has its own membership and structure, including 11 developing country members. Mr. Mold emphasized that the policy research undertaken by the Development Centre does not require governing council consensus. He added that triangular cooperation was an important aspect of the work of the Development centre.

Mr. Cosmas Gitta (UNDP) focused his presentation on South-South cooperation. Mr. Gitta pointed out that a big part of the impact of the emerging economies was transnational in nature, including issues such as migration and trade, for example. Thus, it is necessary to address such impacts through a multilateral framework. Furthermore, there is a need for a coordinated approach in order to avoid 'donor darlings' and 'donor orphans' in Africa.

Mr. Gitta referred to the Global Development Forum as a relatively new process which looked at new realities and emerging economies with a view to improve coordination and develop South-South cooperation. He suggested that OSAA could play a role in encouraging the Forum to look at important issues such as FDI, trade, migration and remittances.

Mr. Gitta further reported that the United Nations High-Level Conference on South-South cooperation was likely to be held in June 2009 in Kenya. In preparation for the High-Level Conference, it might be useful to bring to the attention of the African Group the report to be published by OSAA on Africa's cooperation with new and emerging development partners.

Discussion:

Discussion focused on the role of the international community in the partnership between Africa and emerging economies. Participants made the following observations:

Importance of African ownership: It was pointed out that Africa's objectives for various partners were already clearly stated in the AU policy document. Africa is well aware of both the opportunities and challenges posed by the new partnerships with emerging economies. While the international community can contribute by supporting African initiatives, it was emphasized that the development process must be owned by Africans. Some concerns were expressed that Africa would be denied ownership in the trilateral cooperation framework. It was also reiterated that the cooperation should be guided by AU/NEPAD core principles such as partnership and mutual accountability. Multilateral support should be aimed at helping Africa in implementing its own initiatives.

Multilateral approach: At the same time, participants identified a number of issues which would be better dealt with at the multilateral level, including, for example, FDI and the emergence of 'donor darlings' and 'donor orphans'.

New type of partnership: Concern was expressed over the fact that Africa's relationship with traditional development partners had not helped Africa integrate into the global economy or industrialize. Experts underlined the importance of

ensuring that new development partners invest resources into building infrastructure and capacity in Africa.

Implementation is crucial: Participants emphasized the importance of translating statements, recommendations and strategies into action, moving forward in a structured way. In this regard, the AU Task Force recommendations need to be publicized. It was suggested that the recommendations resulting from the work conducted by OSAA on Africa's cooperation with emerging economies could feed into political processes through the AU.

South-South cooperation: It was suggested that the existence of South-South cooperation gave African countries negotiating power with traditional development partners. ASEAN was suggested as a good example of successful South-South cooperation. In this regard, Africa could learn from their experience.

African think-tank: It was proposed that it would be helpful for Africa to have an entity similar to OECD-DAC to constantly look at pressing issues in Africa. Some participants expressed concern that the various studies prepared by the United Nations, World Bank or other institutions do not always reach policy makers in Africa. It was suggested that AERC, which has a programme of 22 studies on Africa-China relations, would be well suited to fill the role of an African think-tank. AERC works on issues such as trade financing, economic growth, poverty and labour markets, and Asian drivers.

Empower national governments: Participants underlined the need to empower national governments and build their capacity. In this regard, national governments should be encouraged to look inwards and invest into building capacity and financing African policies. In particular, the need to develop the capacity and regulatory frameworks for natural resource management was highlighted. At the same time, participants emphasized the need for greater regional integration in Africa.

CONCLUSIONS AND RECOMMENDATIONS

The following key points emerged from the discussions at the meeting:

- The engagement of new and emerging development partners in Africa has created both opportunities and challenges for Africa.
- In addition to the direct impacts, it is also important to consider the indirect impacts created by the increasing presence of emerging economies in the world markets.
- Africa needs to ensure that it benefits from the new opportunities created and minimizes the negative impacts.
- In particular, it is necessary to ensure that cooperation with emerging economies leads to industrial development and diversification in Africa.

- The importance of African ownership is crucial.
- At the same time, multilateral support should focus on helping Africa implement its priorities.

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