AFRICA 2050

Global Interaction: Transforming Relations with Africa's Partners

Emerging Markets Forum

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Overview

Although China and India have long had contacts with Africa, over the past 40 years Africa's external relationships have been dominated by ties with the OECD countries. For the most part relations were asymmetrical, reflecting past colonial links, Western economic dominance, and cemented by the use of English, French and Portuguese as official languages and by migration. Over this period the overwhelming majority of development assistance, humanitarian and emergency assistance, investment and preferential trade arrangements came from the OECD countries. The terms were largely set by richer countries. The international financial institutions were dominated by the majority shareholders from OECD countries. UN development agencies too had to respond to the policy positions taken by the major contributors. African voices were raised, but core decisions were taken elsewhere.

This has begun to change with the rise of China, India and other emerging economies and their increasing, albeit heavily concentrated, engagement with the continent of Africa. High levels of growth in emerging economies have fuelled an almost insatiable demand for oil, gas and other raw materials from Africa. This has provided higher returns from commodity exports and greater availability of affordable consumer goods and has enabled some African countries to diversify and improve their infrastructure and productive capacity, leading to impressive growth in resource-rich African countries and beyond. Sustained growth in many African countries has changed perceptions of the continent, both as a prospective customer and as a reliable partner in which to invest. A new generation of African leaders has begun to emerge; regional and continental institutions are being strengthened.

The rebalancing of relations continues: The centre of gravity has shifted. Whilst economic relations between Africa and its "old partners" remain substantial, Africa's relationship with the emerging economies is almost as important economically. Going forward there will be more points of convergence than divergence between East and West. Significantly, there are signs that Africa is beginning to take a pragmatic approach to all its relations, taking less at face value, less for granted. It is recognizing that its partners are engaged with Africa in pursuit of their own interests; Africa must do likewise.

In a multipolar world where more than half of global GDP comes from developing and emerging economies, new opportunities will open up for Africa. Africa will have the policy space to drive the development process on its own terms. Trade and investment will predominate in relations with the rest of the world; development aid will become less important and be replaced by cooperation, knowledge exchange and technical know-how, much of it in furtherance of global initiatives.

By 2050 Africa could become a pole of growth, taking an important place on the global stage. Under the "convergence" scenario developed in *Africa 2050: Realizing the Continent's Full Potential,* it would no longer be just a supplier of raw materials but a source of manufactured and capital goods. It would be economically integrated, energy and food secure, with a sound infrastructure. Its sizeable middle class and young population would provide a burgeoning consumer market. Brain drain would be a thing of the past; talent would still be highly mobile, but increasingly attracted to Africa. Africa would have taken responsibility for its own security, for promoting peace, and for managing and preventing conflicts.

However none of this can be taken for granted: Africa would still be a relatively minor economic partner for both the OECD and emerging market economies. There will be few free rides, and global competition will be intense, including with the emerging market countries. Africa will continue to be buffeted by events outside the continent, including global business and financial cycles. The current economic crisis and introspection in much of the developed world and the slowdown in China and India underline the uncertainties that lie ahead and the risks that have to be managed. Africa cannot assume that it will receive preferential treatment. But it can move from being essentially a passive onlooker, having to react to events elsewhere, to being an active participant in global councils. It would be able to articulate an African view and to have it taken into account; it could help set the agenda.

To achieve this potential, Africa will have to be proactive, take the initiative and show leadership. Countries will have to work together and manage multiple relationships. Notwithstanding the rhetoric of respect for African-led priorities, of non-interference, and of mutual benefit, it is evident that much of the motivation of Africa's partners, old and new, has come from the pursuit of their own national interests. Economic and political differences will remain, but through dialogue African countries will be able to form partnerships on a more equal footing based on mutual economic interests. Bilateral relationships will be secondary to multilateral engagement. Most economic exchange will be market rather than state-determined.

This paper provides first a brief introduction to Africa's external economic relationships over the past 40 years, seen through the prisms of aid, trade and investment. It then considers the likely evolution of these relations and the implications for Africa. The concluding section offers some recommendations on action that should be taken if Africa is to realise its potential.

How Africa's Partnerships Have Developed to Date

Development aid: a donor led agenda

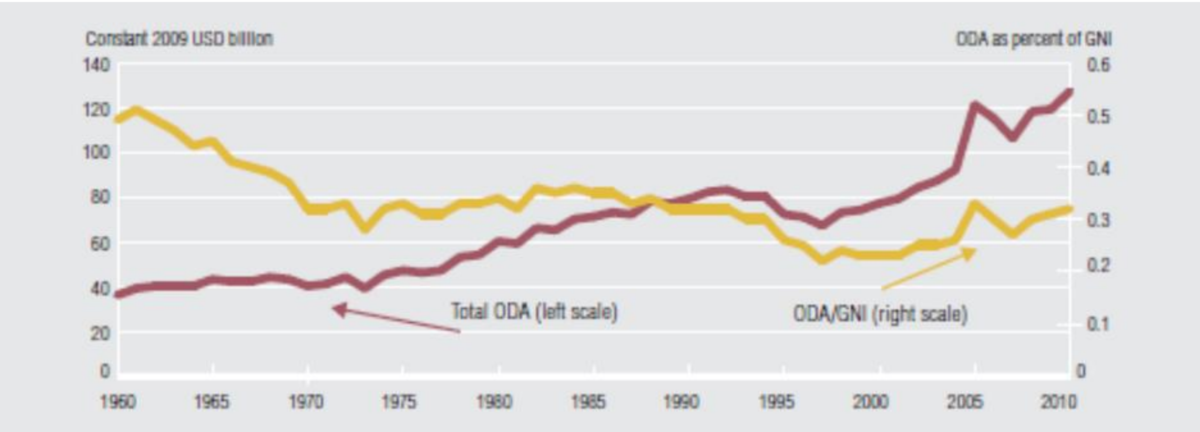
As noted above, much of the motivation of Africa's partners, old and new, has come from the pursuit of their own national interests. The preferred mode of engagement for most of the partners has been bilateral, almost exclusively so in the case of China which has adopted basically a turnkey approach to aid delivery. Whilst major donors have established fora for dialogue with Africa on the continental level, holding regular meetings at Head of State or Ministerial level, these have all been donor initiated and funded. Throughout the past 40 years it has been donor governments that have set the policy agenda.

For some OECD countries trade, investment and aid policies have at times been separated, each with their own objectives, the product of shifting and at times competing policy priorities. But the political dimension, previously evident in rivalries between Western countries and the former Soviet Union, has re-emerged in the past decade in response to conflicts in Iraq, Afghanistan and elsewhere, and as the economic crisis puts donor budgets under greater scrutiny. For the emerging market countries aid has always been subsidiary to foreign policy considerations.

In the decade up to the mid-1960s, more than 30 countries in Africa and another handful in South-East Asia gained independence. The challenges facing these new countries, especially those in Africa, were great. Many were landlocked; infrastructure was minimal and designed to serve colonial interests; education and health services were sparse, resources were poorly used and institutions nascent. The OECD countries in particular felt a moral and political commitment to assist.

From 1960 to 1990, flows of official development assistance (ODA) from DAC countries to developing countries rose steadily in nominal terms. The allocation of aid reflected Cold War rivalries and the former colonial powers naturally gave priority to their ex-colonies. However as a percentage of DAC countries' combined gross national income (GNI), aid fell between 1960 and 1970. Early optimism about the impact of aid faded in the 1970s— both in Africa as progress stalled and as oil price shocks put pressure on donor budgets. Overall the aid level then oscillated between 0.27% and 0.36% of GNI for a little over 20 years.

Figure 1: Total aid flows to Africa



In the 1980s central banks in Western countries raised interest rates in an attempt to bring down inflation, which had risen dramatically in the aftermath of the oil crisis of 1973-1974. Oil producers recycled their surpluses, and borrowing by poorer countries increased. As a result, the debts of many developing countries exploded. The focus of development assistance shifted toward policy reform, specifically reducing the role of the state and expanding the space for market forces to tackle both social and economic issues.

The World Bank and IMF led this thinking. The main barriers for development were now detected in unhealthy macroeconomic policies in developing countries and in laws and policies that prohibited markets from evolving: too much government and not enough market.   The solutions for developing countries were thought to be the same as for developed countries. They should live up to strict financial regulations, open up their markets for trade, create internal markets and reduce state bureaucracies. This neo-liberal consensus did not work well. African governments reluctantly acceded to conditions imposed but could not implement the reforms on which there was no domestic political consensus and which often harmed vested interests. The move towards recipient developed Poverty Reduction Strategies provided some corrective measures and a basis to implement some of the same policy prescriptions, including reductions in the role of the state and state enterprises.

When it became evident that market-oriented policy reforms were not reducing poverty as expected—and had not necessarily led to better health or education—trickle-down theories gave way to more development assistance targeted on the poor. It had become clear that the dominant view on development focused too much on economic growth while inequality, unemployment and poverty persisted. The conclusion that economic growth is a necessary but not a sufficient condition for human development was also drawn internationally when the United Nations evaluated what it had called the "first development decade" of the 1960s. It was recognized that the state had to gain a stronger role, especially for investments in human capital via health and education and in agriculture.

The collapse of the Soviet bloc at the end of the 1980s also had a marked impact on development, in particular by reducing the geopolitical motivations for aid, the desire to keep developing countries on one or other side of the East-West divide. Coming at the same time as fiscal retrenchment in many donor countries, real net ODA fell by nearly a third across the decade, having risen in real terms throughout much of the 1980s. In Latin America and Asia, much of the loss was more than countered by a rise in private flows, but this was not generally the case in Africa. New recipients also entered as significant assistance was diverted to countries in Central and Eastern Europe.

In nominal terms aid started to rise in real terms in 1998, but was still at its historic low as a share of GNI (0.22%) in 2001. Since then, a series of high-profile international conferences have boosted ODA flows. In 2002, the International Conference on Financing for Development held in Monterrey, Mexico, set firm targets for each donor and marked the upturn of ODA after a decade of decline. An increasing amount of aid began to be directed to the social sectors and to responses to humanitarian and emergency needs, with many bilateral donors reducing their allocations to agriculture and infrastructure.

For Africa, aid levels showed a dramatic increase from 2001 onwards. Africa has been put on the agenda of each G8 Summit since 2002; Action Plans have been adopted, with progress reviewed and the Action Plan updated at the subsequent Summit. The inclusion of quantifiable targets in Summit documents (above all that from Gleneagles in 2005) has maintained some momentum and brought a degree of accountability. Results are published; commitments are monitored by a Progress Panel headed by Kofi Annan as well as a number of international NGOs. In 2005—following a request from African heads of state—the United Nations Economic Commission for Africa and the DAC developed a Mutual Review of Development Effectiveness. Through this biennial consultation, African leaders and policy makers engage with OECD counterparts to assess commitments, monitor performance and identify good practice on the continent.

The 2010 G20 Summit in Seoul marked an important paradigm shift. Previously it was felt that "the constituency for aid is suspicious of growth, and the constituency for growth is suspicious of aid" (Collier 2007). Growth was now highlighted as the policy objective, with priority given to supporting the drivers of growth. There was recognition that progress depends on a wide range of factors and must be underpinned by wider coherence of trade, investment, aid, migration and domestic policy.

Debates within the DAC continue to absorb donors, including on definitions of what can be declared as ODA: some feel that it is too large (many things can be declared as ODA even if their relation to development is tiny), others that it is too narrow (many innovative instruments and conflict-related assistance, are not captured by the current system). It is difficult to determine what are the real costs to the taxpayer of concessional loans, debt restructuring and cancellation; administrative expenditure is also very roughly tracked. "A review of ODA accounting is a priority if we are to eliminate perverse behaviour and clearly distinguish between budget costs incurred by the taxpayer and the total volume of financial commitments of any kind undertaken to achieve specific results" (Severino 2011).

This is not the place to detail the twists and turns of changing donor priorities or to reach a judgement of the value or impact of aid. The dilemmas of aid were evident throughout: what worked, why and under what circumstances. How could donor concerns for good governance and human rights be reconciled with the needs of the poorest, of working with undemocratic regimes? Suffice it to say here that the shifting policy priorities: rural development; agriculture and food security; gender; primary education; conflict; environment etc., were the product of deliberations between donors and with the multilaterals, not initiated by recipients themselves. In many African countries aid became part of the political fabric, operating in the interface between national plans and the more immediate jostling between local interest groups. The formalization of targets, of donor dialogue, and of set-piece bilateral meetings conveyed an illusion of order and coherence.

The beginning of new partnerships

Over the past decade new partnerships have begun with emerging market countries. Engagement has expanded rapidly and substantially over the past decade, driven by a changed perception of Africa as a continent of potential, but much more by the need to secure energy and other mineral resources to support the high rates of growth in their own economies. This resulted initially in a concentration of engagement with, investment in, and trade with a limited number of resource-rich and, in particular, oil exporting countries.

From the start there have been obvious differences in the conceptualization and execution of development assistance between the OECD countries and the emerging market partners. The latter do not consider themselves as providing traditional aid. They prefer to use the language of solidarity, mutually beneficial development and south-south cooperation.

First, assistance is very clearly part of an integrated external policy, driven primarily by domestic concerns rather than by development results or MDG targets. Interventions are directed and managed almost exclusively on a government-to-government level. Emerging countries feel no compulsion to observe DAC best practice guidelines or to participate in donor coordination or harmonization. They have not imposed any policy conditions when providing aid, although non-policy conditions are a regular feature of trade and investment agreements.

Second, the major part of assistance is in the form of concessional loans not grants (with the exception of Turkey), much of which is channeled through their Export-Import (EXIM) Banks, alongside export credits, and executed by State-owned or selected enterprises. Much of the assistance is directed to infrastructure and the productive sectors, and very little has gone to the social sectors.

Third, almost all of the aid is for discrete projects. There is little or no budget or sector support—indeed this is explicitly forbidden by law in Brazil. Fourth, there is explicitly no macro-economic policy or other conditionality attached to loans. However this distinction is blurred by the close association of development assistance and investments in, or access to, natural resources.

The OECD partners have questioned the approach adopted by emerging countries, arguing that it risks increasing debt levels by financing unproductive projects or by extending loans to countries unable to pay and that China and India are in effect free riders on HIPC. The evidence has not supported these concerns (Reisen and Ndoye 2008; Berthelemy 2009). Western donors have been concerned also that DAC norms and standards relating to democracy, human rights and good governance are not being observed. However recent assessments found no convincing evidence that the availability of aid from the emerging economies encourages poor governance in Africa (Woods 2008; Brautigam 2008).

The composition and flow of resources

The volume of assistance from emerging economies which qualifies as "ODA" is difficult to estimate, as figures are not reported in the common format used by DAC. Headlines focus on commitments rather than disbursements. In addition even when figures become available, it is difficult to distinguish between export credits, concessional aid and technical assistance. Available id figures therefore are predominantly those from OECD donors.

External financial flows to Africa and tax receipts have trebled over the past decade as shown in the table below. In 2011, external finances recovered to pre-crisis levels with foreign investment, official development assistance and remittances estimated at USD 152.2 billion. As a share of Africa's gross domestic product, external flows doubled from 6.8% in 2000 to 12.3% in 2006 but were still down at an estimated 8.2% in 2011. In 2010, OECD countries still accounted for about 40% of total foreign direct investment (FDI) to Africa. External and tax revenue resources available for development in Africa have trebled over the decade to 2008. For sub-Saharan Africa, FDI and ODA remain the key sources of finance.

Table 1: Summary of external financial flows and tax receipts in Africa (2000-12), $ billion

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ODA	16.8	21.4	27.4	30	35.8	44.6	39.6	45.2	47.8	47.9	48.4	48.9
Portfolio investment	-3.3	-0.1	-0.4	6.8	5.8	22.2	12.8	-27	-2.1	12.2	7.7	16.2
FDI	20.9	16.1	20.4	21.7	38.2	46.3	63.1	73.4	60.2	55	54.4	53.1
Remittances	12.6	13.2	15.8	19.8	22.7	26.8	37	41.5	37.7	39.3	41.6	45
Total External flows (1+2+3+4)	47.1	50.6	63.3	78.3	102	140	152	133	143	154	152	163
Tax revenues	132	125	160	205	263	312	358	457	341	416	…	…
North Africa	14.2	13.6	15	20.2	27.4	37.2	43.4	33.5	23.7	37.5	27.6	31.6
West Africa	8	9.6	10.7	13.9	23.6	34	32.2	33.6	37.6	37.7	42.4	45.2
Central Africa	2.8	4	8.8	5.1	6	6	8	4.6	7	9.5	8.4	8.6
East Africa	8.1	8.7	11.3	13.1	14.5	19	22.3	24.5	25.2	23.4	26.1	26.7
Southern Africa	12.5	13	14.9	23.3	28.2	40.5	42.5	31.9	44.2	41.2	39.1	45.9

Source: African Economic Outlook, 2012

Characteristic of the key players

As a general rule, altruistic concern and public support for traditional aid is stronger when the gap between income levels is greatest. Hence the explicit "poverty focus" of much DAC aid to least-developed countries and the fact that it was possible to agree to untie financial aid to this group and to the heavily indebted poor countries but not to middle-income or indeed to all low-income countries.

Generally, however, there is now a greater skepticism about aid in OECD countries. The sense of post-colonial moral obligation has dimmed. There has been a move away from the concept of a "third world" to one of increasing differentiation, with policy driven more directly by broader interests of foreign, trade and security interests. Although most OECD donors have espoused a needs-based approach to aid, examination of flows shows a rather different story. The result has been the emergence of so-called "donor darlings and orphans."

Table 2: Aid levels priority recipients of major OECD donors

2011	Total ODA $ billion	ODA/GNI percentage	Top 5 bilateral recipients	Top 5 African recipients	Bilateral aid as a % of total aid
France	$12,994	0.46%	Ivory Coast, DRC, Mayotte, China, Morocco	Ivory Coast, DRC, Congo, Morocco, Tunisia	65%
Germany	$14,533	0.40%	China, India, Afghanistan, Brazil, Egypt	Egypt, South Africa, Liberia, Ethiopia	61%
Japan	$10,604	0.18%	Indonesia, India, Vietnam, China, Philippines	DRC, Ethiopia, Sudan, Tanzania, Senegal	60%
United Kingdom	$13,739	0.56%	India, Ethiopia, Afghanistan, Pakistan, Nigeria	Ethiopia, Nigeria, DRC, Uganda, Ghana	58%
United States	$30,745	0.20%	Afghanistan, Iraq, Pakistan, Sudan, Ethiopia	Sudan, Ethiopia, Kenya, South Africa Tanzania	88%

Source: OECD DAC Development Co-operation Report 2012

Multilateral aid

In 2011 total aid to Africa amounted to $51.7 billion to which the contribution through the multilateral agencies was $18.5 billion. Of this, the EU Institutions and the World Bank both contributed just over $6 billion and the African Development Bank $2.4 billion. Intellectually, the World Bank has been a leading force; much of the aid policy debates described above have been centered around the World Bank and IMF Boards, both dominated by the major donors. The model of three-year replenishment cycles for the Multilateral Development Banks, accompanied by detailed policy prescriptions and conditions, have given donors additional leverage. Only in the smaller African Development Bank did regional member countries form a majority and have a decisive say in the election of the president. Despite its ostensible position as a global body, and rhetoric aside, the UN institutions have had much less influence; the exceptions are emergency and humanitarian assistance and peacekeeping.

Meanwhile there was a proliferation of channels as new institutions were established, often with a narrow remit, to focus on new priorities. The period also saw the rise of international NGOs (mainly Western) who played an increasing prominent role both as proponents of more aid but also as critics. By 2006, according to the Development Co-operation Report 2009, there were about 225 bilateral donor agencies and 242 multilateral agencies, of which 24 were development banks and about 40 UN agencies, working in development cooperation. The global aid architecture had become increasingly complex, making it ever harder for African countries to successfully manage relationships with their donors, including in country. The common rhetoric of "country ownership" was little reflected in practice.

The next section looks in more detail at the performance and direction of the largest national donors in financial terms: the EU, the US and Japan.

European Union (EU)

The European Union (the members states together with the European institutions) is the biggest player in global development, providing aid worth $69.7 billion in 2010, of which 48% was disbursed in Africa in 2010. The European Commission itself manages a large part of the aid ($12.7 billion grants, $8.3 billion loans and equity). EU aid delivered by the European Commission and other European institutions has for some time been rather more "contractual" than most bilateral assistance, subject to reasonably transparent rules and procedures and providing for a stated level of medium-term financing.

The policy framework reflects the fact that expenditure comes from a number of separate budgets each with their own objectives. As a result aid through the EC is less focused on low-income countries than most bilateral aid. Only about a third of total EC spending goes to the ACP; there are substantial sums for other, predominantly middle-income, countries (MICs) financed through the EU budget. Politics plays a big part: Proximity and conflict-related assistance have high priority as shown by amounts directed to Serbia, ex-Yugoslav states, Morocco, Bosnia-Herzegovina, Turkey, West Bank and Gaza, Afghanistan and DRC.

For most of Africa the main source is the 2000 Cotonou Partnership Agreement between the African, Caribbean and Pacific countries (ACP) and the European Union and its member states. The agreement provides a twenty-year framework covering trade and investment as well as aid. Assistance is financed from the European Development Fund (EDF), negotiated and agreed with member states on a regular cycle; the present 10th EDF runs from 2008-2013. It is underpinned by arrangements for consultations between the ACP States and the EU and for enhanced Parliamentary contacts. The Commission is required to inform the ACP Secretariat of planned policy proposals and the measures it intends to take.

North African countries benefit from bilateral agreements under the European Neighbourhood Policy (ENP) which build on earlier association agreements and are structured around a "privileged" relationship, offering political association, economic integration and increased mobility. They benefit also from the Union of the Mediterranean (formerly known as the Barcelona Process, re-launched in Paris in July 2008) which aims at economic integration and democratic reform in North Africa and the Middle East supported by regional and sub-regional projects.

Summits are held with Africa every three years, alternately in Africa and the EU. The EU has looked to the African Union Commission as a partner on continent-wide issues. The EU/Africa Strategy 2007 signed with the African Union Commission is intended to promote a stronger political dialogue around four key objectives: consultation on issues of common concern; promoting peace, security, democratic governance and human rights, gender equality, and sustainable economic development; jointly promoting a system of effective multilateralism; promoting a broad-based and wide-ranging people-centred partnership. Specific strategies and action plans are put in place, mostly financed by the EU. It has also provided financial and technical support to capacity building of the African Union Commission and, in particular, to support the peace and security operations.

The Lisbon Treaty, which came into force on December 1, 2009 has created new institutions and bodies to strengthen the consistency of EU external action and sets preserving peace, preventing conflicts and strengthening international security as one of the key goals for EU external action. It merged the two European Commission directorates-general dealing with development cooperation and initiated preparation of a new strategic framework for development cooperation, resulting in a proposed new "Agenda for Change."

United States

The US provides about a quarter of global development assistance and is by far the largest donor in financial terms, although 19th of the 23 DAC donors in terms of "effort"—aid in relation to the size of the economy. Both Republican and Democratic administrations over the last decade have increased the aid budget, reaching a high of $30 billion in 2010, increasing from 0.1% GNI in 2001 to 0.21% in 2010. 39% of US aid goes to Africa.

US assistance is driven by a national security strategy to advance US values and interests. It brings together diplomatic, security and development efforts. Of the 27 entities involved in US development cooperation, USAID and the State Department are the two key drivers; others engaged are the Department of Health and Human Services, the Treasury and the Millennium Challenge Corporation (MCC). Assistance from USAID is heavily "earmarked" by Congress. Allocations are guided by a combination of priorities, defined by the executive branch (40 presidential initiatives) and Congress (over 400 legislative development programs or objectives).

Security related assistance has been an important component, and the Department of Defense has become a significant player in delivering foreign assistance. In 2006, the US administration launched a set of reforms which strengthened collaboration between the State Department and USAID for strategic programming, budgeting and reporting.

The US Administration set out its new strategic orientations on development in two key documents published in 2010: the Presidential Policy Directive on Global Development, which for the first time provides policy guidance to all US government agencies, and the Quadrennial Diplomacy and Development Review, the first-ever analysis of how to rebuild civilian power to support sustainable development. Together, they outline an approach based on three elements: a policy targeted at sustainable development; an operational model focused on effectiveness and results, underscoring the importance of country ownership and promoting effective division of labor among donors; and a whole-of-government approach that harnesses development capabilities across government.

The national security strategy and the National Security Council together provide a framework and an institutional mechanism to ensure consistency across US policies. However, being driven by US national security interests, they do not aim primarily at making these policies coherent with partner countries' development aspirations. The policy directive now calls for the administration to look at the impact of US policies on developing countries. The nature of the US budgeting process and the fragmentation of the foreign aid budget has led to calls for a more strategic approach. The US administration is strengthening its approach to monitoring performance and results. This should enable it to report better on efforts made to promote coherence and their impact.

Balancing strategic national interests with development objectives when deciding country and sector aid allocations will continue to be challenging. While reducing poverty is not an explicit overarching objective of US development cooperation, some important US programs are oriented towards fighting poverty, as reflected by the two recent presidential initiatives focused on food security and health.

A budget deficit of 11% of GDP and the sluggish recovery of the US economy are putting pressure on the US foreign assistance budget. Rather than increasing the quantity of aid, the US plans to enhance aid quality by delivering development cooperation more effectively and efficiently, and by using other resources to reinforce the impact of development cooperation.

Japan

Japan's aid program started as economic reparations after WWII. It was and remains overwhelmingly focused on Asia. Eschewing a military or security role, Japan concentrated on economic relations. It is explicit that development cooperation is in its own interests in the long term. The stated aim in its revised ODA Charter of 2003 is "to contribute to the peace and development of the international community, and thereby help to ensure Japan's own security and prosperity." The MFA plays the key coordinating and policy; however the Japan International Cooperation Agency (JICA) manages most aid implementation.

Although there has been stability in Japan's approach, over time questions have been raised about whether Japan was playing a role consistent with its growing economic strength. The 2003 revisions to the ODA Charter helped to clarify policy priorities and now include a poverty dimension within the overall growth and self-help policy orientation, making it more consistent with the 2001 DAC guidelines on poverty reduction and easing cooperation with other donors. In comparison with its Western counterparts, the Japanese aid lobby has been comparatively muted, particularly recently with fiscal retrenchment and competing domestic requirements, although public support is thought to have increased after offers of assistance to Japan poured in from across the world after the 2011 tsunami.

Almost half of the aid has been in the form of loans reflecting its concerns about the visibility of Japanese aid and its role in foreign affairs. The rise of, and relations with, China remains sensitive; Japan only stopped providing yen loans to China in 2008. Japan seeks to promote synergies between its grants, technical cooperation and loans, providing mainly project financing. It has always emphasized state-to-state relations, channeling less than other OECD donors through NGOs or other in-country partners. Japan has a strong preference for bilateral aid (over 80%) and has pursued an independent rather than coordinated path. But based on a desire to assist self-help, Japan has been more technocratic and less engaged than Western donors with policy dialogue, and with policy conditionality.

Until 2000 Japan was the largest bilateral donor in financial terms; it has since slipped to fifth as the Japanese economy has stagnated. According to the DAC, in constant 2010 prices total Japanese aid declined from $12,079 million in 2002 to $10,039 million in 2011, the only major donor to show a decline over this period. At 0.18% ODA/GDP Japan is at the tail end of donors measured against the UN target.

From the early 1960s to the late 1980s, relations between Japan and sub-Saharan Africa were very low-key. This, Japanese policy-makers proclaimed, was because Japan had no history of colonial involvement in Africa and the lack of historical guilt exempted their country from participating in Africa's economic development.

Since the early 1990s, however, Japan has been reassessing its relations with the countries in the region and now seems to have decided on a more pro-active approach to African affairs, organized since 1993 through the Tokyo International Conference on African Development (TICAD). The meetings which attract heads of state and ministers from Africa are held every five years. The last, in Yokahoma in 2013, focused on boosting economic growth, achieving the MDGs, consolidating peace and good governance addressing environmental and climate change issues. Commitments are made and progress monitored.

Notwithstanding the overall decline in volume, the proportion of Japanese aid allocated to Africa has increased over the decade, and Japan has met the targets it has set itself under TICAD. Nonetheless, in 2011 only one African country (DRC) was amongst the top ten recipients of Japanese bilateral aid (the top four were India, Indonesia, Vietnam and China), and under 20% of Japanese aid is disbursed to Africa.

Japan has given a stronger push to global issues, tackling climate change, higher priority to human security and tackling terrorism. It has indicated it will take a more multilateral approach, and provide a strong role for the private sector. A driving force behind aid and the emphasis on human security is Japan’s long standing quest for a permanent seat on the UN Security Council.

Ahead of the June 2013 TICAD meeting Japan announced that it will provide $550 million in new aid to Africa to help foster peace and stability. The foreign minister said this was part of Japan’s efforts to combat terrorism in Africa following the deaths of ten Japanese who were taken hostage in Algeria in January.

China

China has had long historical, political and economic relations with Africa; in the 1970s, it funded and built the TAZARA railway linking Tanzania and Zambia, intended to reduce Zambian reliance on transport links through apartheid South Africa. From 1978 onwards, as part of a policy of economic restructuring to reorient the economy towards a market economy and opening up, China’s foreign policy objectives became more pragmatic, with increasing emphasis to economic reform to unleash the country’s productive potential. The initial gradualist approach was followed by a rapid acceleration of economic growth in the late 1990s. A series of measures were implemented after 1998 in order to make Chinese enterprises become internationally competitive. The policy cut red tape, and, overseen by the Ministry of Commerce, has provided Chinese companies with tax incentives, cheap loans, direct and indirect subsidies and diplomatic support.

China’s aid, trade and investment strategies are closely intertwined and promote national interests, in particular access to raw materials, while also benefiting Africa. While the renewed interest in Africa was very much influenced by China’s desire to enhance its global status as a rising power and to promote its “going out policy,” Africa’s abundant natural resources, such as oil and gas, that China needed to fuel its growing economy made it an attractive partner. In January 2006, the Chinese government issued an Africa Policy Paper, declaring its commitment to a new strategic partnership with Africa based on five principles: “peaceful coexistence; respect for African countries’ independent choice of development path; mutual benefit and reciprocity; interaction based on equality; and consultation and cooperation in global affairs"(PRC 2006).

Aid is almost exclusively bilateral; apart from acceptance of the "one China" policy, it is given without conditions relating to recipients' domestic policy or governance. Financial assistance is tied to the purchase of Chinese goods and services and is designed to benefit select Chinese companies, many of them state-owned. China has favored what it calls a "full form technical and managerial cooperation" including managing projects on behalf of beneficiaries, lease management and joint ventures—in effect "turnkey" projects: delivery for instance of roads, power plants, hospitals, schools and government offices as complete packages. Since these projects are not subject to international competitive bidding rules and often involve resource-for-infrastructure deals, Chinese construction companies have been the main beneficiaries.

The main instruments used are:

Loans to finance infrastructure development in exchange for oil or minerals

Concessional loans with 3.1% interest, a grace period of 4 years and maturity of 13 years. At least 50% of procurement must come from China.

Interest-free loans, mainly for infrastructure projects and usually written off as debt relief

Export buyer's credit, for Chinese equipment and construction services, as well as joint ventures, with interest rate based on LIBOR and a 50% domestic content requirement for exported goods

While providing aid almost exclusively on a bilateral basis, China has also sought to engage on a continental level, establishing in 2000 the Forum on China-Africa Cooperation (FOCAC) as a platform for dialogue on a "just and equitable" international order and cooperation between China and Africa. In each meeting, Beijing has set out a three year plan of engagement. Unlike the Western countries, China is able to make pronouncements on behalf of the business sector, to commit capital and direct banks to invest in Africa. For instance at the July 2012 FOCAC summit, the Chinese government announced that it would extend a $20 billion credit line for African countries over a three year period, train 30,000 professionals from Africa and provide 18,000 scholarships for African students. Commitments made are generally delivered, although not all projects have been successful.

This approach, including high level political attention and a more positive portrayal of the continent, is very attractive to African countries disenchanted with the Western approach, which many Africans consider to be paternalistic. China's own experience and spectacular growth appeared to offer an alternative model of a developmental state. They also appreciated China's focus on infrastructure and its ability to deliver projects cheaply and on time. It has also done so in a counter-cyclical manner, investing in infrastructure and increasing flows just as OECD donors were pulling back.

More recently, however, some Africans have started to query the value to Africa, noting the similarities it has with Western engagements in Africa, including during colonial times, and that China is as much a competitor as a partner. (See for instance the comments from Lamido Sanusi, Governor of the Central Bank of Nigeria reported in the Financial Times on 11 March). In his first visit to Africa this year as President, Xi Jinping showed that he was sensitive to these concerns, was keen to show that China's approach was different to that of the West and was interested in long term partnerships.

India

Politically, India has been at the heart of the non-aligned movement, and of south-south cooperation. A core foreign policy objective has been to seek support for a permanent seat on the UN Security Council; however, only in the last decade has aid had a higher priority in Indian foreign policy. Traditionally, Indian development assistance program has at best been a marginal component in the overall foreign policy framework. However, a new body for governing India's outgoing development assistance, called the Development Partnership Administration (DPA), was set up in 2012 under the Economic Relations Division of the Ministry of External Affairs (MEA).

Like China, aid trade and investment are closely coordinated, and the government provides significant support to investment and trade from Indian companies. Similarly, India is motivated to secure energy, raw materials and markets to fuel its growing economy, particularly since the shift to economic liberalization in the 1990s.

An important driver in India's Africa policy is energy security. It is projected that by 2030 India will become the world's third largest consumer of energy. Since India possesses few proven oil reserves, it seeks to diversify sources of energy supply away from the volatile Middle East, the current source of most supply, toward developing stronger economic ties with the African continent. This urgency is further elevated due to the growing scramble for African oil by both China and the developed countries. Currently around 24 percent of India's crude oil imports are sourced from Africa.

Figures on India's aid are difficult to obtain. However the share of India's official development assistance going to Africa is relatively small; total aid to Africa ($23m in 2009/10 according to a Parliamentary answer in December 2010) is less than that going to Bhutan or Afghanistan and of similar size to that to Nepal. 70% of grant aid has gone to India's immediate neighbors in South Asia. Most aid to Africa has been in the form of technical cooperation providing training in India, capacity building and project related consultancy services under the Indian Technical and Economic Cooperation Programme and the Special Commonwealth African Assistance Programme.

EXIMBANK has played a critical role in facilitating the entry of Indian private sector companies into Africa, including the financing of major capital projects in Africa. It has done this through its concessional lines of credit to African governments, parastatal boards, and regional Trade and Development Banks. It has also taken an equity stake in a number of regional development banks. As of mid-2012, close to 54% (or $4.2 billion) of total Exim lines of credit of $7.9 billion went to 24 African countries, more even than the 42% that went to Asian countries (Exim Bank 2012). There is also close coordination in the promotion of consultancy and other services from India.

India has consolidated its presence in Africa through the India-Africa Forum Summit (IAFS). The first official India-Africa Summit was held In April 2008, in New Delhi, indicating the coming age of India's relations with the African continent. Though modest by comparison with the Forum on China-Africa Cooperation the Summit demonstrated India's longer-term interest. Commitments were made to increase existing lines of credit from $2 billion to $4 billion; to provide duty free access for poorer countries; a target to double trade from $25 billion to $50 billion by 2011; expanded aid for capacity building and training; and a $200 million line of credit to AU/NEPAD to support regional integration.

The second India-Africa Summit (IAFS-2) took place in the spring of 2010. The Summit reviewed the implementation of the agreed upon goals of the first summit and announced additional trade, investment and aid initiatives to further strengthen India-Africa relations. Hard information on delivery of these commitments or differentiation between development aid and export credits is not easy to obtain.

Brazil

Under the presidency of Luis Ignacio Lula da Silva, Brazil's economic and political relationship with Africa was transformed. Though less active than Beijing and New Delhi, the Lula administration openly courted African countries in order to access Africa's large market and to access resources vital for Brazil's fast growing economy.

As a resource-rich country, Brazilian policy is less driven by resource seeking. Although oil constitutes a large part of Brazil's imports from Africa (mostly from Angola and Nigeria) at present, following the discovery of oil in Brazil in 2007, it has become clear that Brazil will no longer be dependent on imported oil. Demand for African oil will diminish in the coming years as Brazil becomes a major oil exporter.

Consequently in contrast to China and India, trade, investment and aid are less integrated. Led predominantly by state-owned corporations, Brazil's push into Africa is largely strategic; Brazilian policy-makers see Africa's biggest potential as providing a consumer market for their country's manufactured goods. The African countries that are destination for Brazilian investment are not necessarily the same ones that benefit from Brazilian aid and technical assistance programs. This disconnect has a lot do with the fact that aid and technical assistance are channeled to African countries in order to gain their support for Brazil's quest to secure a permanent seat on the UN Security Council. The recipients of Brazilian aid are often resource-poor countries but do possess ample unused land for agricultural production, including biofuel production.

Brazil's engagement in Africa is moving beyond commercial interests to embrace social development programs and knowledge transfer, particularly to the agricultural/biofuel sector, including sharing of tropical agriculture technologies and of policy expertise. The differences in scope and underlying economic model in these initiatives very much reflect Brazil's prevailing dual system of agriculture, in which a large-scale agribusiness sector mainly geared towards export coexist with a medium- to small-scale family farming sector that produces most of the food consumed by the national population. Cooperation in the field of biofuel and ethanol production has been notable, reflecting Brazil's leading role in the field. A structured support program in renewable energies (Pro-Renova) has promoted capacity building through research and technology transfers to African regional bodies such as SADC and ECOWAS.

While initial engagement focused on the Lusophone countries for historical reasons, Brazil's African engagement now extends to a wide range of countries throughout Africa. Managed by Brazil's Cooperation Agency, the number of technical cooperation projects has risen massively over the past decade, putting Brazil among the key players in south-south knowledge transfer. Africa received about half of Brazil's development budget of $90 million between 2003 and 2008.

Brazil is also a founding member of the trilateral partnership, the India, Brazil, South Africa Dialogue Forum (IBSA)—aimed at boosting these countries' influence on global issues, as well as promoting trilateral cooperation in areas such as agriculture, health, education, climate change and social development issues. IBSA has established a fund to support viable projects that can be replicated in developing countries. Burundi, Cape Verde and Guinea-Bissau have been beneficiaries from the IBSA Fund.

Turkey

Turkey's relations with the African continent have increased in the last decade since the AK Party (Justice and Development Party) came into power in 2002, influenced by Turkey's global ambition to become an influential player in world affairs and the shifting in perception seeing Africa as a potential area of growth. Official development assistance has become an integral part of Turkey's proactive foreign policy. Established in 1992, the Turkish International Cooperation and Development Agency (TIKA) is the key institution responsible for coordinating Turkey's development cooperation with national actors and international organizations.

According to information from the Turkish Ministry of foreign Affairs, total ODA grew from $85 million in 2002 to $738 million in 2010. Of this amount, 45% was allocated to countries in South and Central Asia, followed by Balkan and East European countries with a share of nearly 27%. Africa and the Middle Eastern countries, which are Turkey's relatively more recent partners, received a quarter of Turkish ODA. In the specific case of Africa, total aid delivered was $70 million in 2010. Turkey has also participated in six of the existing UN peacekeeping missions in Africa and hosted also the 2010 Istanbul UN Conference on Somalia.

The first Turkey-Africa Cooperation Summit held in Istanbul in August 2008 is considered as the beginning of a sustained cooperation process. The "Istanbul Declaration on Turkey-Africa Partnership" and the "Cooperation Framework for Turkey-Africa Partnership" laid out a series of measures to be implemented in the economic, political and diplomatic fields.

Though Turkey is a relative newcomer to Africa as a donor and investor, it has quickly expanded its engagement beyond its traditional North African enclave. It primary interest is trade and not resource-seeking like China and India. The Confederation of Businessmen and Industrialists of Turkey (TUSKON), in close collaboration with the government, plays a critical role in promoting Turkey's relations with Africa. Unlike China and India, the Turkish government provides little support to Africa in the form of loans.

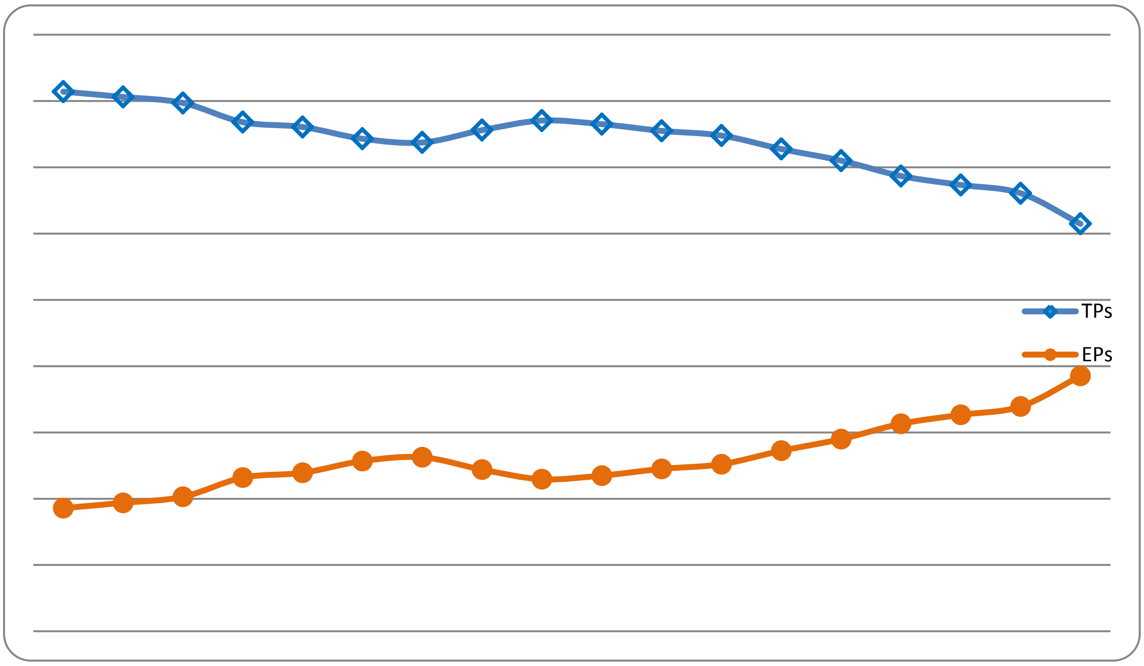
The Trade Dimension

Although trade with the emerging economies has increased rapidly over the past decade, OECD countries remain Africa's major market. Africa has three predominant trading partners: the EU, China and US; in volume terms they are all a multiple of the next largest market. There is still a significant imbalance also in so far as there is a relatively small group of major African exporters, a limited group of predominately primary products, with little value added or processing taking place in Africa. Intra-Africa trade remains under 10%; the main lines for imports and exports run to the coast, built to promote external rather than regional trade. Africa has benefited from preferential trade arrangements, particularly with OECD countries, but their value is being eroded as tariffs are reduced globally and as non-tariff constraints remain. In order to provide a basis for looking ahead, this section provides a brief overview of the main patterns of trade to date.

The reducing weight of trade with traditional partners

In 1980 about two-thirds of Africa's exports went to the advanced countries, and 72% of its imports came from them. This remained broadly the position for the next 20 years with relatively slow growth of around 200%. In 2000 some 68% of Africa's total exports went to the advanced economies. Since then, the picture has changed markedly as African economic activity has picked up, with some 370% growth in African exports this century. Although there has been very rapid growth in exports to emerging economies, there has also been growth in exports to advanced economies. OECD countries remain the largest market—and were the destination for 59% of African exports in 2011.

Figure 2: Share of emerging and traditional partners in Africa's trade from 1999 to 2009 (in percentage)



SOURCE: OECD Development Centre calculations based on ComTrade data. (StatLink: http://dx.doi.org/10.1787/888932403572

However, the headline numbers obscure the fact that only a handful of African countries account for the bulk of trade with both OECD countries and the emerging economies and that exports are heavily dominated by mineral fuel and lubricants and precious stones. Africa still exports mainly minerals and hydrocarbons. The top five hydrocarbon exporters—namely Algeria, Angola, Egypt, Libya and Nigeria—experienced an 89% increase between 2001 and 2010, mostly due to an increase of petroleum exports. Europe and the United States account for about a third of all oil exports from Africa, but this has been gradually decreasing in recent years as China and India increase their market share. Demand for non-oil commodities from Africa, such as gold, platinum, diamonds, iron and copper are also shifting from Europe and the United States mainly to China. By the end of 2010, 12.9% of Africa's non-oil exports went to China, almost five times more than 10 years earlier. This dependence on exports of natural resources makes Africa vulnerable to volatility of global commodity prices.

There had been a fivefold growth in imports in nominal values over the decade, but with a reduction in African imports from advanced countries—from 66% to some 48% (figures from Centennial database). The EU and US have been the dominant trading partners for Africa, with the EU significantly bigger: Africa exports almost twice as much to the EU as to the US and imports three times as much from EU compared to US. Although its relative importance has declined over the last two decades, the EU is still by far the largest single market for Africa's non-oil exports. Japan is a relatively small trading partner, the size of India, Turkey or Brazil.

As a share of overall trade, emerging countries grew from 23% in 2000 to 39% in 2009; in nominal terms, two-way trade grew from less than $247 billion in 2000 to $629 billion in 2009. During the same period, the share of traditional partners shrank from around 77% to 62%. For example, the US share of Africa's trade was more than three times China's in 2000 but China surpassed the US and as a country became Africa's main trading partner in 2009 (African Economic Outlook 2011).

Table 3: Percentage shares of traditional and emerging partners in trade with Africa, 2000 and 2009

	2009			**2000**		
	Trade	**Export**	**Import**	**Trade**	**Export**	**Import**
Total traditional partners	**63.5**	**67.6**	**59.0**	**77.0**	**78.3**	**75.4**
EU25	44.3	43.0	**45.6**	53.5	**51.3**	56.4
Other trading partners	6.1	6.1	**6.1**	7.5	**6.6**	8.8
United States	13.1	18.4	**7.3**	16.1	**20.4**	10.1
Total emerging partners	**36.5**	**32.4**	**41.0**	**23.0**	**21.7**	**24.6**
Brazil	2.5	2.4	2.7	1.7	**2.0**	1.3
China	13.9	13.1	14.7	4.7	**4.6**	4.9
India	5.1	6.0	4.0	2.3	**2.4**	2.1
Turkey	2.4	1.6	3.1	1.6	**1.9**	1.3
Total Value	673.4	350.8	322.5	246.4	**142.4**	104

Source: African Economic Outlook 2011, Africa Development Bank, Table 6.2, p. 67

Africa is still a minor trading partner

While most studies on the role of emerging countries in Africa have focused on China and India, a number of second-tier emerging countries are also playing a critical role in African economies and their position is expected to grow further in the coming years. China, India, Brazil and Turkey together accounted for 23.9% of Africa's trade with the rest of the world. At the beginning of 2000, China represented 5% of Africa's trade. This however tripled to nearly 14% by 2009, surpassing US trade with Africa.

An important perspective, however, is that from the point of view of the OECD countries, Africa is a small market. Africa as a whole provides just less than 9% of EU imports and exports but a good proportion of that is from North Africa. (ACP countries for example provide only 4.8% of EU imports and exports.) For the US, Africa is a marginal trading partner, providing just 2% of US exports and 4% of imports, although over three quarters of US imports are crude oil and conditions US strategic interests accordingly.

While China is the largest partner amongst the emerging economies, Africa's importance to China is as a strategic supplier of raw materials. In terms of the total volume of Chinese trade, Africa is a minor partner; if Africa were a single country its total trade would still be less than China's trade with the US, Japan, South Korea, Taiwan, Hong Kong or Germany.

A look at the composition of trade with Africa's main partners underlines the dominance in exports of a few countries and a few, mainly raw material, products.

Box 1: Composition of trade with Africa's main partners

EU

EU imports from Africa in 2012 amounted to Euro 186 billion, 10.4% of total imports. EU exports to Africa were worth Euro 152 billion, some 9% of total EU exports. The main categories of African exports to EU are: mineral fuels (58%), food and live animals (11%), manufactured goods (8%), machinery and transport (7%) and other manufactured (7%). EU exports to Africa are more varied: machinery and transport (43%), manufactured goods (17%), chemicals (12%), mineral fuels (9%), food and live animals (8%).

US

According to US Census Bureau, U.S. merchandise exports to Africa during 2011 were $32.8 billion, up 23% compared to 2010. Top U.S. export markets were South Africa, Nigeria, Angola, Ghana, and Ethiopia. U.S. imports from Africa in 2011 were $93 billion, up 14% compared to 2010. Top U.S. suppliers were Nigeria, Angola, South Africa, Gabon and Chad. Some two-thirds of imports are oil. AGOA imports (including GSP) during 2011 totalled $53.8 billion, up 21% compared to 2010.

Japan

Japanese trade with Africa was hit hard by the 2008/9 financial crisis and total trade between them dropped by 45%. This has recovered slightly since, and in 2010 Japanese exports to, and imports from, Africa were in rough balance: each about $12 billion. Imports are predominately primary products. South Africa accounted for over half of Japanese imports and nearly a third of Japanese exports.

China

China's trade with Africa leapt from a mere $6 billion in 1990 to $166 billion in 2011 and is predicted to top $200 billion in 2013. Energy and minerals represent around half of China's imports from Africa. Agricultural imports seem set to increase substantially in the future as China will not be able to meet its domestic food demand from local production. As with the OECD countries, China's trade is heavily concentrated in a few countries: imports from the oil producers; exports to Angola, Nigeria, Kenya, Egypt and South Africa.

China is also aggressively selling consumer goods as well as industrial goods. Growth in exports to Africa has been propelled by sales of industrial goods, like earthmovers, cranes, telecom network gear and construction material, often connected to concessional loans and investments by Chinese firms. This in effect squeezes out producers from mature economies as sellers move up the value chain to offset rising costs, as well as Africa's nascent manufacturing sector.

India

Africa's importance as a market for India has increased recently; Africa is currently a bigger export market than China, although both are less than a tenth of the size of the Asia/ASEAN market. Trade grew fivefold from $5.2 billion in 2003 to $26 billion in 2008, and the Indian government has suggested it could read $70 billion in 2015. India's imports from Africa are predominantly crude petroleum, gold and inorganic chemical products, reflecting India's high demand for energy resources and its position as the world's largest jewelry producer and a lead exporter of cut and polished diamonds. Energy demand is expected to double over the next 20 years in the face of the country's expanding economy and growing population. The export markets are Nigeria, South Africa, Egypt, Kenya and Tanzania which together account for more than half of exports.

Brazil

Trade between Brazil and Africa has increased substantially since 2002, with two-way trade growing from $4 billion in 2000 to over $27 billion in 2011, of which $17 billion was with Sub-Saharan Africa. Imports from Africa accounted for about $15 billion while exports were approximately $12 billion. Three countries account for 47% of total exports: Egypt (21%); South Africa (14%); and Algeria (12%). Meanwhile 80% of Brazil's imports are accounted by three countries: Nigeria (54%); Algeria (20%); and Morocco (8%), with oil dominant.

Turkey

Turkey's trade volume with African countries was only $5.4 billion dollars in 2003. In 2011, this has surpassed $17 billion dollars. Total Turkey-Africa trade is expected to reach $30 billion by 2015 (Open Society Institute of South Africa, 2012). Over two thirds of Turkey's trade has been with the North African countries although trade with sub-Saharan Africa is also growing rapidly.

Trade talks and the limits of Preferential Trade Arrangements

Debates on the comparative value of aid and trade, and on the use of mixed credits, linger but are no longer center stage. Evidence shows that there are positive links between openness to trade and economic growth—provided, of course, that there is the supply capacity. Unfortunately, successive rounds of multilateral trade negotiations have highlighted the difficulties that many low-income countries face in capturing the benefits from new market access and trading opportunities. More recently African countries have been urged to liberalize their imports, a sensitive issue for countries with a weak fiscal position reliant on trade taxes.

The stalemate on Doha has left Preferential Tariff Arrangements (PTAs) as the only market-opening mechanism. PTAs continue to evolve and of course are not confined to north–south trade. Strictly, preferential arrangements are incompatible with WTO rules— under the fundamental MFN clause a WTO member must extend to all WTO signatories the trade concessions given to any one member. There are nearly 300 PTAs operating.

Since the 1970s Africa has had preferential trade arrangements with both East and West. There are many similarities: lower or nil tariffs, higher quotas or quota free access.

Table 4: Africa's PTAs

EU	• EBA (everything-but-arms): duty free entry without quotas for all products although transitional arrangements were put in place for three sensitive products: bananas, sugar and rice. 48 Sub-Saharan countries have preferential access to EU markets under the Cotonou Agreements.
US	• AGOA: preferences enabled countries like Kenya, Lesotho and Swaziland to develop their clothing industries.
All OECD	• GSP (Generalized System of Preferences): provides the same level of preferences available under the EBA for those countries committed to implementing core international conventions on human rights, labor rights, environmental protection and good governance. To date, only Cape Verde is covered.
CHINA	• FOCAC 2: 190 commodities from 28 African countries fell under the tariff-free policy. • FOCAC 3: 478 commodities from 31 African countries enjoyed tariff preferences. • FOCAC 4: more than 4,700 items covering 95% of commodities from Africa enjoyed tariff-free policy.
INDIA	• duty free tariff preference scheme for 34 least develop African countries. The schemes covers 94% of total tariff lines, and include products such as cotton, cocoa, aluminum ores, copper ores, cashew nuts, cane sugar, clothing and non-industrial diamonds.

Their value has eroded as MFN rates are lowered. Given the already low MFN tariffs (about 40% of world trade is free under MFN tariffs) and the large number of PTAs, the improvement in preferential access is often slight in terms of tariff advantages and consequently has limited effects on trade.

However there is evidence that PTAs have generated benefits for Africa, although the extent is contested. A 2007 study (OECD, 2007) concluded that preferential access to Quad (US, EU, Japan and Canada) agricultural markets generated on average an additional $1.4 billion to the countries concerned—significant against the $90 billion of dutiable agricultural produce imported each year. The value of EU preferences is estimated to be some 4% of beneficiary country exports— rather higher than the benefits generated by United States or Japanese preferences. The difference arises from higher preference margins, greater commodity coverage and less stringent rules of origin. Benefits are not evenly distributed, depending on the composition of each country's exports; for instance, exports of sugar and bananas accounted for 73% of preferential receipts under Cotonou.

The EC argues that EBA has been effective in so far as LDC exports to Europe grew 25% faster than those from non-beneficiaries. However the value was less than its potential as countries have had difficulty in making full use of the preferences. A further dampening effect on agricultural exports is the substantial subsidies given to agricultural producers in the EU and by the US. Whilst there are supply-side issues that need to be addressed, provisions on rules of origin and on standards are restrictive and remain the most important limitation to market access.

The debate has now shifted, and it is useful to outline it briefly as a likely indicator of future trends. Despite strong opposition from developing countries the EU tried in the Doha discussions to establish WTO rules on how countries manage investment, government procurement, competition and trade facilitation (the Singapore issues). With the stalemate in the Doha round, the EU has switched its efforts to promote this agenda through the Economic Partnership Agreement (EPAs) providing for reciprocal liberalization of merchandise trade with each other intended to replace the Cotonou trade-preferences.

The EC argues that the Cotonou Agreement already contains provisions relating to investment and a mandate to negotiate further, that full EPAs could help accelerate regional trade integration by providing a dynamic stimulus and a coordinating mechanism for regions to undertake reforms. This would liberalize intra-Africa trade on an MFN basis, improve the business climate, competitiveness and enhance the credibility of regional integration by locking-in reforms in an international treaty.

However, Africa and other ACP countries say that Cotonou does not stipulate that an investment agreement should be part of an EPA, nor is there any WTO obligation to include investment provisions in a regional trade agreement. Moreover, they argue that such rules would have constrained their choices in crucial policy areas for managing their domestic economies and have continuously resisted proposals for reciprocity in agreements. The Economic Commission for Africa and some independent studies have argued that this approach would result in serious adverse consequences, such as job losses, closure of industries or deindustrialization and loss of revenue and would disorganize the economic integration process underway in the ACP regions.

The case is not clear cut. Deep integration with advanced economies creates advantages and disadvantages (Birdsall and Lawrence 1999). Potential advantages are that developing countries can import international regulatory systems that are “pre-tested” and represent “best practices” without having to pay the costs of developing them from scratch. The disadvantage is that developing countries may be pressured to adopt rules which are inappropriate for their level of development, such as certain environmental and labor standards. Such standards could also be used by advanced economies to protect vested interests and to close markets to poor countries. The political leverage of individual countries and regions varies, and the prospect of development assistance makes it harder to resist agreement. The weaker the bargaining powers of developing countries vis-à-vis their advanced trading partners, the greater the risk.

Agreements that require regulatory changes— such as investment agreements— demand technically trained personnel and significant institutional and financial capacity and carry potentially high costs for governments. They do not help governments to address the poor track record of investment in contributing to development. Rather, they risk acting as a hindrance by constraining a government’s ability to regulate investment, without helping them to better enforce standards of investor behavior.

The EC intention remains to conclude EPAs with regional groupings. In November-December 2007, the European Union and 18 African countries initialed interim EPAs but to date only one full EPA, which came into force in May 2012, has been signed with Mauritius, Seychelles, Zimbabwe and Madagascar.

Investment in Africa: Rapidly Growing but Too Concentrated

Given increased globalization it is important to put the increase in FDI in Africa into perspective. Reliable data on the volume and sectoral distribution of FDI in Africa from emerging economies are hard to come by. Nevertheless, based on available data from UNCTAD, important trends are discernible. According to UNCTAD, developing countries accounted for 45% of global FDI inflows in 2011, of which the share of East and South-East Asia was 22%. Africa's share was a miniscule 2%.

Over the last 10 years the BRICs have become major recipients of FDI as well as important outward investors. FDI inflows to BRICs have tripled to an estimated $263 billion in 2012 some 20% of the global total, up from 6% in 2000. BRIC-outward FDI has increased from $7 billion in 2000 to $126 billion in 2012. Significantly 42% of the BRIC FDI went to developed countries, of which 34% to the EU. A similar amount went to their respective neighborhoods. China itself had inflows of $124 billion and outflows of $65 billion.

Between 2005 and 2011, Africa attracted on the average $40 billion annually in FDI. In real terms, FDI to Africa in 2011 was $43 billion, much lower than the $53 billion reported in 2009 (UNCTAD 2012). The decline in FDI inflows to the continent in 2011 was caused largely by the fall in investment in North Africa, which has traditionally been the recipient of about a third of inward FDI to the continent. In particular, inflows to Egypt and Libya, which had been major recipients of FDI, came to a halt owing to their protracted political instability.

In contrast, inflows to sub-Saharan Africa recovered from $29 billion in 2010 to $37 billion in 2011, a level comparable with the peak in 2008. A rebound of FDI to South Africa accentuated the recovery. The continuing rise in commodity prices and a relatively positive economic outlook for Sub-Saharan Africa are among the factors contributing to the turnaround. In addition to traditional patterns of FDI to the extractive industries, the emergence of a middle class is fostering the growth of FDI in services such as banking, retail and telecommunications, as witnessed by an increase in the share of services FDI in 2011.

Econometric projections for the medium-term baseline scenario predict that FDI to Africa will grow annually between $75-100 billion in 2013 and 2014 (UNCTAD 2012).The most recent estimates of total FDI flows and stock to Africa countries (UNCTAD Global Investment Trends Monitor Special Edition 25 March 2013) are shown in Table 5 below.

Table 5: Estimated FDI flows and stock to African countries, 2010

Home region	Flows	Stock
Total world	$39,540m (100%)	$308,739m (100%)
Developed countries	$26,730m (68%)	$237,841m (77%)
Developing economies	$12,635m (32%)	$68,890m (22%)
European Union	$16,218m (41%)	$155 972m (51%)
North America	$9,281m (23%)	$53,412m (17%)
BRICS	$10,007m (25%)	$42,583m (14%)

The largest stock of FDI is held by investors in France, the US (each over $55 billion), and the UK (c$46 billion) then Malaysia (which has only one-third as much), closely followed by South Africa, China and India. Japan has a stock of some $8 billion. The flow figures however show an increasing trend of investment by the emerging economies. Another way of getting a good picture of the magnitude of FDI flows to Africa is the continent's share in the global distribution of "Greenfield" FDI projects: in 2003 some 80% came from developed countries, in 2012 their share was some 35% with the BRICS providing 25%.

Mining is the sector that has attracted the most FDI, but significantly only a quarter of the value of the BRIC investment in Africa was in the primary sector, the majority from state-owned enterprises in China and India. While labor costs in Africa are not yet very different from those in the BRICs, the duty-free, quota-free access provided by EU and the US have generated some manufacturing or efficiency-seeking investments. The destination of FDI within Africa is shown in the following table.

Table 6: Distribution of FDI flows, by range (2011)

RANGE	Above $3 billion	$2 to 2.9 billion	$1 to 2 billion	$500-900 million	$100-400 million	Below $100 million
Countries	Nigeria, South Africa, Ghana (4)	Congo, Algeria, Morocco, Mozambique, Zambia (5)	Sudan, Chad, DRC, Guinea, Tunisia, Tanzania, Niger (7)	Madagascar, Namibia, Uganda, Equatorial Guinea, Gabon, Botswana, Liberia (7)	Zimbabwe, Cameroon, Cote d'Ivoire, Kenya, Senegal, Mauritius, Ethiopia, Mali, Seychelles, Benin, Central African Republic, Rwanda, Somalia (13)	Swaziland, Cape Verde, Djibouti, Malawi, Togo, Lesotho, Sierra Leone, Mauritania, Gambia, Guinea-Bissau, Eritrea, Sao Tome and Principe, Burkina Faso, Cameroon, Burundi, Egypt, Angola (17)

Source: adapted from UNCTAD, 'World Investment Report 2012', Table A, p.39

The changing perceptions of partners

OECD

Although at various times encouragement has been given by Western governments and political muscle used to support nationally based companies, together with export credits, investment decisions are predominantly taken by the private sector and market driven—a stark difference from state-directed and financed investment by China. For many years, OECD investment in Africa was constrained by perceptions of political instability, weak public administration, unreliable legal frameworks, corruption, the low capacity of project promoters, bankability of projects, lack of long-term financing and insufficient resources for project preparation. The position was accentuated in fragile states.

Standard advice to developing countries from the multilaterals and many donors has been to pursue liberalization and deregulation to attract foreign investment. Investment agreements were deemed useful, as they help make these changes "predictable and transparent." This was the thinking behind the EU seeking investment provisions in EPAs. That is moot: For instance, a 2003 World Bank study concluded that investment treaties had little impact on investment decisions and warned that these could "expose policy makers to potentially large-scale liabilities and curtail the feasibility of different reform options."

Gradually perceptions began to change as macroeconomic reforms tamed inflation and opened economies to international trade. The regulatory environment facing international business also improved, although patchily across countries. Public ratings, such as the World Bank's Doing Business surveys, enabled African governments to benchmark their performance and began to put pressure on laggards. Lately several consultancies, such as McKinsey and KPMG, have begun to highlight the investment opportunities in Africa.

That upturn in national growth rates was mirrored in the increased profitability of companies operating in Africa. Returns on investment increased and in many cases now exceed those in other regions. Three examples: A comprehensive study of the publicly-traded companies operating in Africa for the period 2002–07, mostly in the manufacturing and services sectors, found that the average return on capital was around two-thirds higher than that of comparable companies in China, India, Indonesia and Vietnam. Another survey of FDI of US companies showed that they were getting a higher return on their African investments than on those in other regions. Finally, analysis of a series of surveys of several thousand manufacturing firms around the developing world found that, at the margin, capital investment had a higher return in Africa (Paul Collier and Jean-Louis Warnholz 2009).

However, the global crisis caused a setback. Its effect was to collapse commodity prices—for example, the price of oil initially tumbled by more than $100 per barrel. The international appetite for risk collapsed, and, as Africa is still generally viewed as the riskiest region, investment tailed off. Trade also suffered as international banks curtailed letters of credit to African exporters far more drastically than to those in other regions (McKinsey 2011).

The overall recent fall in FDI to Africa was due principally to a reduction in flows from developed countries, leaving emerging countries to increase their share in inward FDI to the continent and in particularly their contribution through Greenfield investment projects which arguably can provide greater value to Africa in terms of the creation of new productive capacity, additional value added, employment and so forth (UNCTAD 2011).

Emerging Market Countries

Emerging market investment in Africa is concentrated in a few, mainly resource-rich, countries. Beside the big investors, China and India, Malaysia and several other emerging economies in East Asia have begun to invest, particularly in transport, telecommunications, agriculture, finance and light manufacturing (clothing and textiles). The Gulf States, Brazil, India, China and the Republic of Korea have become major investors in African agriculture in recent years. As major importers of grains, they have made strategic decisions to invest in Africa to ensure food security for their populations.

At the end of 2010, Chinese FDI stock in Africa stood at $13.04 billion, with nearly 2000 Chinese companies investing in 50 African countries, covering a range of sectors, most importantly mining, finance, manufacturing and construction. Investments are concentrated, the biggest recipients being South Africa (19.5%), DRC (11%), Niger, Algeria, and Nigeria (each about 9%), Kenya and Angola (5% each).

Chinese policy is coordinated by the Ministry of Commerce, with the Ministries of Finance, Commerce and Foreign Affairs and delivered through Chinese embassies. China has established investment promotion and service centers across Africa. Chinese embassies ensure that inter-Chinese firm cooperation is effective. China has concluded bilateral trade and investment agreements with more than 28 African countries and double taxation treaties (DTTS) with 4 African countries to promote and protect FDI to Africa and to create a more secure climate for Chinese investors.

China's trade and investment policies are pragmatic, driven by national interests and in particular with the objective of ensuring resource security. In addition to stat-level direction, this has implications at the level of firms. The "winner-take-all" investment strategy leaves little room for potential competitors; subsidies and other instruments are strategically bundled in order to undercut potential foreign (and domestic) competitors. This is done by encouraging intra-firm interaction (or sub-contracting) from exploration, production, refinement, import and export, giving Chinese firms supply chain-cost advantage over their potential competitors. Firms that perform less well are twinned with better performers in joint ventures to encourage improvements.

The strategy has produced some tensions with African countries as cheap manufactured Chinese goods displace in local markets small and medium African producers who are less competitive and also do not enjoy the same level of direct and indirect subsidies. It has also increased competition in export markets of interests to Africa, particularly in sectors such as textiles, footwear and leather that were already under threat from Vietnam and Bangladesh, long before the arrival of Chinese firms in Africa.

There is concern too about limited local sourcing of material from African firms by Chinese companies, and, with the wholesale importation of low skilled Chinese workers for Chinese financed investment projects, there is limited spillover effect for local employment. A number of issues have recently caused concern: environmental practices, sustainable exploitation of natural resources on-compliance with EITI, the Kimberley process, and the attention given by Chinese firms to health and safety standards and workers' rights. The growing migration of Chinese citizens to Africa has become an additional factor.

As the world's second largest importer of oil (importing about 46 percent of domestic oil consumption) China seeks to diversify and expand its sources of oil and gas. Consequently, China has engaged Africa's big oil producers such as Nigeria, Angola and the Sudan by offering them integrated packages of aid and low interest/interest-free loans to secure long term energy supply. Chinese stat-owned oil companies have enjoyed unlimited political and financial support from the Chinese state to undercut other competitors. However China remains far behind the United States and some EU countries with regard to access to Africa's oil.

Consistent with Asian success in establishing a critical mass of industries in manufacturing and export processing zones with incentives provided to Chinese anchor investors, China has funded special economic zones in Africa. These zones are part of the state policy to encourage Chinese entrepreneurs to establish offshore operation, to create safe-havens for Chinese capital, and at the same time offset the risk of protectionist resistance to trade from companies in China. By 2010, six special economic zones were under construction with China's help (two in both Nigeria and Zambia, in Mauritius and in Ethiopia).

The impact of these zones has been questioned since they have not been developed as part of a larger national industrialization strategy and provide tax concessions to Chinese firms.

Like the export processing zones of the 1970s, the SEZ's exist in isolation from the rest of the economy, and, in many cases, these SEZ's are not allowed to partner with local firms.

India is the world's fifth largest importer (importing 70 percent of domestic oil consumption) but it has so far been unable to match the financial muscle of Chinese state-backed oil diplomacy in Africa. Drawing on instances in Angola, Sudan, Nigeria and most recently Uganda, where Chinese oil companies out-competed Indian oil companies, it has been suggested that delays related to bureaucratic red-tape are also partly responsible for its aversion to proactive risk-taking and quick decision-making (Redvers 2010; Kumaraswamy 2007).

Data on Brazilian FDI flows to Africa are difficult to track; however two countries stand out: Angola and South Africa. The reported figures for both countries tend to substantially underestimate the actual volume. This is possible because some funds get to Africa through a "triangular diversion" via countries such as the Bahamas and the Cayman Islands (World Bank 2011). Brazilian investments in Africa are overly focused on mining, oil and gas, and infrastructure. Turkish investments in Africa reached more than $5 billion dollars in 2011, mostly in South Africa, Nigeria, Sudan, Ethiopia, Cameroon and Uganda. Inevitably this is focused on the same sectors as Chinese and Indian investment.

Conflict, Insecurity and Climate Change Have Risen on the Agenda

The trajectory of Africa's economic and political relations with both traditional and new partners will very much depend on how the continent manages two important risks: conflict and security, and climate change.

Conflict and security

The fragility of many African states, with weak central authority and competition for resources between rival ethnic or other groups, has provided fertile ground for conflict. Conflict within and between States has also provided opportunities for extremist and/or criminal networks to establish themselves and for security and police officials to operate with virtual impunity. Terrorist and criminal networks have come to be seen as real threats to the stability of African countries and to the conduct of beneficial international economic relations. For most OECD countries issues of peace and security, terrorism, drug trafficking and money laundering are priorities, as evidenced by the allocations of bilateral aid noted earlier.

Recent events in the Sahel region have demonstrated just how quickly new threats can emerge, toppling governments, attacking civilians, taking hostages and drawing in military personnel from Western countries. UN Peacekeeping in Africa is expensive ($5 billion in 2012) and arguably of limited effectiveness. Responding to emergencies absorb nearly 9% of total aid to Africa. The complex issues of conflict and failed states are covered in another paper suffice it to say that this has become, and is likely to stay, a major factor in Africa's relations with its external partners.

Security of transport routes has become a concern for trading nations across the globe. The Indian Ocean provides a key global transport route; half of the world's container traffic crosses it, and it is vital for oil from the Middle East. Almost 90% of Africa's imports and exports are carried by sea. Yet Africa is the only region that does not have a maritime strategy and has sparse naval or other security assets to deploy. It loses revenue as pirate operations drive up the cost of trade and as goods are diverted to other ports. Africa also loses substantially from illegal and unregulated fishing; a recent report puts the loss in West Africa as high as 37% of the region's catch. Lack of maritime policing also facilitates trade in illegal logging. In response the AU has begun to move toward a maritime strategy for the continent's waters. This will require unprecedented levels of cooperation to establish the necessary legal and regulatory framework, as well as coordination between police, customs and armed services.

The major powers have long recognized the area's strategic importance but more recently have stepped up operations in response to maritime attacks, mainly from pirates emanating from Somalia—estimated at 40% in the past year (ISS August 2012). Both China and India now also participates in operations. India in particular has decided to project its military power in the Horn of Africa and the Indian Ocean region, which it considers as its sphere of influence and through which the oil tankers that carry nearly all of India's oil imports must travel. India maintains a listening post in northern Madagascar, which consists of a radar surveillance station equipped with a high-tech digital communications system to monitor Chinese activities. It signed defense cooperation agreements with Seychelles and Mozambique respectively and conducts regular naval exercises off the Mozambican coast.

Transnational criminal networks crisscross the planet, conveying drugs, arms, trafficked women, toxic waste, stolen natural resources or protected animals' parts. While West Africa has been the worst affected, the rest of the continent has not been immune from the scourge of drug trafficking, money laundering and trafficking in humans. Hundreds of billions of dollars of dirty money flow through the world every year, distorting local economies, corrupting institutions and fuelling conflict. Transnational organized crime has become a central issue in international affairs and an important factor in the global economy. Organized crime has the capacity to undermine the rule of law and good governance.

Climate change

OECD countries recognize the impact of climate warming on Africa and the fact that Africa contributes marginal amounts of emissions. Assistance with adaptation and with better management of natural resources and cooperation on energy and environmental matters are now commonplace in donor strategies. Nonetheless, at a global level donor policies are dictated by domestic and regional concerns, and international dialogue will continue to be dominated by exchanges between the old and new emitters.

Climate financing continues to be a difficult issue: the amounts required; the source of funding; burden sharing; the allocation of resources; competing demands for mitigation and adaptation, between different thematic needs; all remain disputed. Reaching an agreement and unlocking funds will take years, and there is no guarantee that poor countries will be the main beneficiaries. As current discussions on climate financing vividly illustrate there is considerable scope for arguments about "additionality," the basis of any taxes, their incidence and impact, whether they should be collected at a national or international level and then how the resulting resources will be managed. There will be competing demands from potential beneficiaries, debates on the extent to which private sector activity can be leveraged in support, respective responsibilities and commitments. Africa has therefore to develop urgently national and regional strategies to adapt to climate change but also to provide opportunities to use the new finance. Africa cannot do nothing in the hope that it will be compensated adequately for the damage caused by others.

Global governance

Until recently, the structure of global governance reflected agreements made in the aftermath of the Second World War. Stimulated in particular by the financial crisis, this has begun to evolve. Although it remains a key forum for coordination on political and security issues, the role of the G7/G8 as pacesetter in international finance and economics has waned and as an apex forum for economic and financial discussion is being overshadowed by the G20. Given its greater legitimacy the G20 looks set to continue, but debates continue about the composition of the G20, the extent to which weight should be given to representativeness rather than simply economic size, how to balance inclusion with efficiency in discussions and decisions and whether it is a forum for exchange rather than decision making. Africa has a member—South Africa, even though it ranks only 28th in economic size.

What is Likely to Happen Next

Africa is unlikely to be the central preoccupation of the major economies. All of them have major domestic challenges and internationally are focused first on relations between themselves, on security and dealing with the areas of actual and potential conflict, and on financial crises and systemic stability. The US will be focused on strategic global issues, on competition with China and the emerging economies and on its responsibilities as a military superpower. Europe will be preoccupied with the euro crisis, with jobs and with its own structures.

The new leadership in China has signaled a stronger focus on its domestic agenda, maintaining and improving the quality of growth and tackling corruption. India and Japan will maintain their primary focus on regional issues and on growth. Competition in trade will grow; those countries and private sector institutions with funds to invest will continue to seek the highest return consistent with security, as seen vividly by comparing flows to Africa to total global flows.

With an economically and financially integrated world there will still be a need to ensure global stability by narrowing the gap between rich and poor, by having public policies to regulate trade and markets and manage common goods. But the gap between the rich and poor will be as much within as between countries. Inequality will receive more attention. Development policy and practice will therefore continue to evolve.

As aid withers, trade and investment come center stage

Trade and investment will predominate. Foreign direct investment from all partners whether direct or through investment funds, trade, remittances and philanthropic giving will all offer greater opportunities to support economic development. Some will still come with strings attached, but in a healthy global economy, Africa will be able to make its own choices, not simply take what is on offer.

Patterns of production and trade will continue to evolve. As China's per capita income grows, its days of being the low cost supplier to the world appear numbered, witnessed by the rise in Bangladesh textile production. Africa could take the place of China as a supplier of intermediate goods for the OECD by taking advantage of geographical proximity but to do so will need the infrastructure, rapid transport links, removal of other barriers, as well as product diversification. Consumers will continue to seek lower cost products, but producers will face demands to uphold higher standards of health and safety, as well as fair pay.

Investment is not guaranteed. The current slow-down in the global economy, including China, will impact the demand for raw materials from Africa. Willingness to invest in new exploration and production will be affected. The economic crisis has reduced flows to African countries as Western financial institutions adapt to new financial regulations, rebuild balance sheets, and are pushed to contribute more to domestic demand. Going forward there will always be finance for higher return projects, and Africa can be expected to benefit— provided that risks can be managed. Once growth returns, so will competition for investment funds. Money will go where it produces the best returns, safely.

But demand for energy will continue. Africa's share of global reserves is strategically important. New hydrocarbon discoveries and the untapped potential make it an attractive region for countries with rapidly growing energy needs, in particular therefore for the emerging economies. Opportunities will be there for value addition and for the development of a vibrant industrial sector that can be sustained long after natural resources are exhausted.

A seat at the table will take time. Despite the broadening of dialogue from the G8 to the G20, the pace and volume of international negotiations will continue to give primacy to large economies and to effective regional organizations, at the expense of smaller countries. Governance of existing international economic and financial institutions will adjust only slowly in the face of recalcitrance from those with a vested interest in the status quo. New institutions (such as a BRICs Bank) are also likely to be dominated by the policy interests of major shareholders. Africa will have to use its few representatives and also develop a voice for the continent putting aside as far as possible competing national interests.

Preferential access will disappear. The Doha Round may not be resumed. The EU and US have ambitions to complete within 2 years a pact to liberalize trade between them; in part as a response to increased competition from China and India, and to protect jobs. Deals will be done between regional blocs. By 2050 Africa will no longer get significant preferential treatment. International attention will focus on non-tariff barriers, labor standards, environmental and health regulations, intellectual property rights, service and public procurement.

More regional trade will be needed as well as diversification of products and international markets. With around 50% of global GDP being generated in Asia in 2050, Africa must adjust trade relations accordingly. But Africa cannot rely on any single market or assume a wholesale switch to emerging markets. As long as the pace of growth continues, China will predominate, but the rich countries will continue to provide high value markets and to have a considerable proportion of global trade and investment. The continent must, therefore, be flexible and diversify to meet the changing demands.

More must come from investment and growth within Africa. Expansion of intra-Africa trade will help bind countries together and assist the process of integration. Much of the success of ASEAN was founded on regional trade liberalization and cooperation, bringing together countries with very disparate backgrounds, some of which had recently been in conflict. Trade within the region amounts to 50% in Asia and 65% within the EU. Their experience has shown that economic liberalization and increasing openness to trade increase the share of trade in GDP, first within the region and then with wider world.

Global issues will loom larger. Increasingly international dialogue, and resources, are likely to focus on collective concerns, such as climate change, resource scarcity, security, disease and the health of the global financial system. Good government and reform, as defined by North will continue to be a factor in both trade and development. For Africa, resource transfers in support of global initiatives such as climate change will not readily replace traditional development assistance. OECD countries in particular will hang back on climate financing until they see the emerging markets make what they regard as a commensurate efforts including reducing emissions and making financial contributions. New financing mechanisms, international taxes or levies, are therefore unlikely to be agreed quickly or to be directed predominantly to poorer countries.

National interests will dictate partners' policy. For all partners, relations with developing countries will be increasingly defined with more explicit regard to national interests, encapsulated within a broader foreign and security policy, designed to secure domestic and parliamentary support. This will bring the traditional partners more into line with the stance already adopted by the emerging countries.

Aid is losing importance, volume will diminish, and aid will then become largely irrelevant. Aid is only one, and not the most important, element in a mix of financial flows to Africa. Whilst today it still makes a significant contribution to the development budgets of a number of African countries, it has largely served its purpose; it carries high and often hidden costs for both donors and recipients, and diminishes self-reliance.

There is now a greater skepticism about aid in the OECD countries and politicians are faced with stronger demands first to address domestic concerns. The sense of post-colonial moral obligation has dimmed and been replaced by concerns about macro-economic and policy stability, the rule of law, property rights and tackling corruption. Given budget constraints, donors are already cutting back aid and looking to reduce the budget burden by widening the definitions of ODA (for instance to include more conflict related expenditure); by leveraging more from, and/or working together with, the private sector. At best, aid levels are likely to stagnate before an inexorable decline. The 0.7% benchmark, achieved by only a handful of donors, will become irrelevant.

By 2050 traditional western development aid will have long since passed; emerging economies will have cemented their integrated approach based primarily on national needs. Any aid on concessional terms to Africa from traditional or emerging partners will be economically insignificant; the residual will be focused on responses to emergencies, humanitarian needs, technical know-how and knowledge transfer, or as part of support of broader global initiatives. For African governments, domestic revenue will offer a more predictable and stable source of development finance.

In the process, partners will differentiate more between African countries. The EU is now already promoting differentiation, moving away from the concept of "developing countries." The Agenda for Change approved in May 2012 concentrates EU activities on two broad priorities: First, human rights, democracy and good governance, linked to greater conditionality. Second, inclusive and sustainable economic growth, with a strong focus on leveraging in private sector money. The Commission proposes to do this by allocating funding according to country needs assessed using several indicators including: its fragility and vulnerability; its ability to generate domestic resources and its access to other sources of finance; its investment in education, health and social protections as well its progress on democracy and good governance; and the potential impact the EU funding would have especially on political reform and on private sector investment.

Aid will be concentrated on fewer African countries. Bilateral development assistance driven by poverty objectives is likely to be concentrated on a smaller number of poor countries, on post-conflict states, and in response to humanitarian crises. More assistance at the grassroots level will come through philanthropic funds and international NGOs, most operating directly rather than through the national budget. The countries most impacted will be those solidly performing but small African countries without extractive resources, which are outside zones of conflict and therefore of little strategic interest to the West. The paradox remains that development and humanitarian aid will continue to be most urgently needed in those countries where the prospects of its working effectively and productively are often the poorest.

Results will matter. The focus on aid quality rather than quantity will increase: "with limited ODA growth on the horizon, aid effectiveness and the use of aid-effectiveness principles will play a more prominent role in realizing greater development impact in the near term" (G8 2012 Camp David Accountability Report).

The post-2015 MDGs could be helpful but will not be critical. At its most recent meeting in Bali in March the High Level Panel on the post-2015 MDGs recognized the need to promote a single and coherent post-2015 development agenda that integrates economic growth, social inclusion and environmental sustainability. They highlighted four key objectives: reshaped and revitalized global governance and partnerships; protection of the global environment; sustainable production and consumption; and strengthened means of implementation, including financing for development. Flesh has yet to be put on these bones, and arguably these issues have been the subjects of debate for years. While the engagement of political leaders in the process might produce some momentum, the factors that have constrained progress to date are still in play.

The diversity of development actors will continue. There will still be a variety of channels providing concessional resources. Foreign investment, direct or through investment funds, trade, remittances and philanthropic giving will all offer greater opportunities to support development. International NGOs and national counterparts will become more influential and be conduits for higher levels of resources than most bilateral agencies. They will have the capacity to bypass governments by assisting communities directly and transferring money to individuals (e.g., mobile banking). They will be more concerned with delivery, with efficiency and with meeting targets (which the donor will largely define) than with more systemic questions.

The influence of multilateral development institutions will decline: Limited aid budgets will be directed on the basis of results, not necessarily to those most in need, and priority given to nationally directed action. This development will further erode the comparative advantage of the multilateral institutions— from the UN to the multilateral development banks. The UN in particular will continue to have a political role as a forum for global discourse, but most of its agencies will be increasingly irrelevant. The World Bank is likely to find a niche in global public goods, but as a number of large borrowers graduate from IDA, its concessional funds will be very largely focused on Africa. IDA and AfDB cannot both claim precedence as channels for resources for Africa; they will be forced to reduce overlaps.

African countries will have a choice. It is clear that in the future the multilateral and bilateral aid agencies will not have such an influential position; countries will be able to choose globally from a wide variety of ways to design, finance and deliver projects.

Achieving Africa's Potential: An Action Agenda

The previous section makes clear that going forward Africa's major partners will continue to juggle with multiple objectives; policy will evolve in response to events. The future is uncertain. There will be risks but also opportunities. For Africa the message is clear: The continent cannot wait for its partners to decide; it must take a grip on its own future. This section proposes an action agenda, for Africa and for its partners. The strategy will have to be implemented at multiple levels— national; sub regional and continental— and the formulation must engage domestic private sector actors, civil society organizations and other non-state actors.

Africa takes the lead

Africa must have a compelling longer-term vision rooted in what Africa itself will do. As such, it will become more self-confident, willing to set the agenda with its partners. Knowledge, sharing of lessons and experience will be more important. More key economic and trade decisions will be made on a multilateral basis, or between blocs, and between private sector players. Bilateral, government-to-government relationships will be less important; therefore Africa will have to make sustained efforts to develop regional and continental positions on the most significant policy questions.

Articulate an African development agenda and accept only that assistance which is aligned with these priorities. At the domestic level, African governments should insist that their homegrown development visions and strategies, those priorities already identified by individual African countries as well as by the Africa Union and NEPAD, be as a basis for negotiations with partners.

Accordingly, they must remain steadfast that the emerging partners reorient their trade, investment and aid policies in order to complement and support. Moreover, in their engagement with individual African countries, the emerging partners should be sensitive to the regional dimension of their investments and take appropriate measures to ensure that national level projects contribute to African strategies to strengthen intra-Africa trade.

Inspire confidence through macro-economic stability, sound and predictable policies, so as to provide an enabling and conducive environment for domestic and external investment and by creating the conditions for inclusive development.

Develop natural resources to promote African industrialization: Africa's abundant natural resources, if properly managed, could serve as a foundation for the continent's industrialization and could create more backward and forward linkages with the other sectors of the economy. While resource-seeking has been the primary motivation of investors, they have paid scant attention to the continent's priority for industrialization and job creation. Investments in the natural resource sector from emerging economies be guided by the African Mining Vision, adopted by the AU in the 2009; the African Productive Capacity Initiative adopted by the AU and NEPAD in 2004 and by the Plan of Action for the Accelerated Industrial Development of Africa adopted during the 2008 African Union Summit.

Ensure greater transparency in their extractive industries by providing public disclosure of the fiscal and other terms of resource extraction contracts, and at the same time level the field by calling on world-class expertise when negotiating new contracts.

Enhance the productivity of African agriculture. Although Africa's recent impressive growth has been driven by commodity exports, agriculture remains the main source of employment and livelihood for the majority of the population. Africa's partners must be encouraged to take a more strategic approach to the sector so that the necessary rural infrastructure, research and skills development can be upgraded to unleash the productivity of the sector. The Comprehensive African Agricultural Development Plan (CAADP) provides a reference point.

Benefit also small farmers, supporting infrastructure and vital rural services: including in the development of large scale commercial agriculture on leased land. Land-lease agreement should not be concluded without prior consultation of the affected communities. Such agreements should spell out the obligations of commercial farms to downstream peasant farmers and pastoralist communities and should establish from the outset a regular system of monitoring and evaluating compliance that involves all stakeholders.

Invest heavily in national and regional infrastructure and encourage partners to do likewise. Africa's huge infrastructure gap is well-documented, and high transport costs are identified by private firms as the major impediment to doing business in Africa. It has a negative impact on productivity and on intra-Africa trade. Priority regional infrastructure projects have been identified in the Program for Infrastructure Development in Africa (PIDA), a continental framework for the development of infrastructure. Partners must consult with the sub-regional economic communities since the sequencing of PIDA priorities may vary from region to region, particularly when it comes to corridor development.

Promote co-financing arrangement with existing infrastructure finance mechanisms such as the Africa Infrastructure Facility of the African Development Bank, the World Bank and the Development Bank of Southern Africa (DBSA).

Prioritize human capital development in science and technology: Africa's strategy to embark on a process of industrialization and economic diversification cannot succeed without developing technological capacity through increased investment in science and technology. Although partners continue to provide training and scholarship programs for large numbers of African students, the current focus is too general and uncoordinated, making it impossible to deploy graduates in critical sectors of the economy once they completed their studies. Partners should review and reorient their capacity development programs to fit African priorities in close consultation with African governments and their respective institutions of higher education.

Encourage partners to support African effort to establish regional platform for trade facilitation. Given the underdeveloped nature of banking services, trade facilitation has been hampered and costs increased by lack of access to suppliers or buyers credit, guarantees and other services. It is in the interest of emerging partners to support strong promotion services include "one-stop" facilitation of administrative approvals; provision of specialized physical, customs-related and technical infrastructure; matchmaking between investors and local suppliers; and providing accurate information on individual countries' laws and regulations to private economic agents.

Promote intra-Africa trade, first at regional level. By doing so, African countries will increase competitiveness and productivity, and by breaking down barriers within the continent the market will become bigger and more attractive to investors and to suppliers.

Develop better trade policy capacity so that negotiations can take place on a more equal footing. This will require RECs to prioritize areas of agreement where they seek key results, to aim for high-quality, "high-impact" commitments to lower trade transaction costs and the cost of key inputs into production processes (services notably), and to improve the regulatory environment for businesses and consumers. To do so negotiators must have a better understanding what are the costs and benefits and of how these impact each region.

Reduce corruption: Coordinated action is required by Africa and its partners to reduce the incidence of and scope for corruption and bribery, to take action against offenders whether those who offer or those who take payment and to return stolen assets.

Participate fully in key international institutions including the G20 and allied bodies dealing with banking and finance. For this purpose, African institutions and networks must be systematically developed to provide the knowledge base, but with the explosion of IT accessible knowledge, assimilation will be as important as generation. All African countries cannot all engage in all institutions. There has to be some conscious sharing of roles and mutual representation.

Maintain its own peace and security, including economic security of trade routes and its own territorial waters. The old partners will no longer put boots on the ground and will be reluctant to pay the very high costs of UN peacekeepers. Partners can provide information and technical support, but leadership must be taken in Africa at regional and continental levels. That will require unprecedented levels of cooperation and coordination, as well as smart investment in the security sectors.

Emerging market countries come onboard

The relationship between Africa and the emerging market partners will continue to grow, and great care should be taken to ensure that such a relationship does not end up replicating the unequal relationship that characterizes Africa's relationship with the traditional partners. To build up the foundations for a more sustained relationship with a win-win outcome, emerging partners should align their trade, investment and aid policies with Africa's own priorities.

Broaden the scope of engagement to include sectors other than extractive industries: Trade and investment by emerging partners have so far been concentrated in the extractive sector, replicating the pattern of economic relations between Africa and its traditional partners characterized by commodity exports and the importation of manufactured goods from the latter. If Africa is to embark on a process of industrialization and diversification, the new partners should use their resource flows to enhance technology transfer and technological learning.

Take a long-term perspective on natural resources development, in order to take into account equitable distribution of resource rents with African host countries, a strategic approach for building local technical capacity in the extractive sector that will benefit both, following the lead to be given by Africa. 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. To assist, emerging partners should align their strategies with the African strategies outlined in the African Mining Vision (AMC) and the AU Principles on Land Development.

Focus on building Africa's productive capacity through infrastructure development: Africa has established its own priorities in the Programme for Infrastructure Development in Africa (PIDA), a continent-wide program for the development of priority regional and continental infrastructure in transport, energy, trans-boundary water and ICT; partners should align their engagement accordingly and respect these priority.

Prioritize science and technology education in Africa: Technological advance has been a key driving force in the emerging countries, accounting for the major part of productivity growth. African countries continue to face shortages of skilled labor. The emerging countries can contribute immensely by helping the continent to embark on a progressive upgrade of technological capacity through expanded programs of capacity building and educational exchanges which respond to African priorities and follow consultation with African stakeholders. The aim should be to help Africa exploit its potential by leapfrogging in knowledge acquisition, enterprise creation and strengthen global economic linkages.

Strengthen support for regional integration in Africa: Emerging partners prefer to conduct their relationships with Africa at a bilateral level, with little or no link to regional development priorities. Since countries achieve economic of scale through regional integration, emerging partners can assist by providing more support for regional projects as an important step towards developing regional markets and enhance intraregional trade and investment opportunities. Support for the development of regional infrastructure is one good example since this would help reduce transaction costs, improve export competitiveness and boost inter-regional trade and investment.

Prioritize agriculture led-industrialization. Agricultural productivity has remained low due to poor rural infrastructure, modern technology and research on high-yielding crops, amongst others. Partners should prioritize rural infrastructure, such as rural roads, irrigation and electricity, agricultural research, skills development and knowledge sharing, as well as a network of rural industries in value-chain production linked to the agricultural sector.

Mutual dialogue and transparency as the foundation for equal partnership: Mutual confidence will be supported by openness. There must be public disclosure of official aid and investment flows as a foundation for monitoring mutual accountability; disclosure of royalties collected and the terms and conditions of sharing the revenues with partner governments; transparency in procurement of goods and services linked to major construction and extraction projects; and strengthened mutual review mechanisms.

Support comes also from OECD partners

The traditional partners currently provide 90% of development assistance; they have largely dictated the terms of trade and investment. The position is shifting fast, not least by greater self-confidence in an Africa buoyed by sustained growth but also from the growing weight of the emerging economies. The web of relations with Africa is complex, but change is in the interests of both parties. If OECD countries want to support Africa they should:

Learn the lessons of experience: Assistance will be most effective when flows are predictable and transparent and disbursed alongside and in support of domestic policy improvements, not with conditionality imposed from outside.

Promote growth, jobs and inclusion, moving beyond aid to a coherent set of policy measures covering aid, trade and investment. Recognize that an exit from aid increases significantly with macroeconomic stability, moderate inflation, high rate of investment, aggressive efforts at domestic resource mobilization and structural changes to favor a growing manufacturing sector. Donors should tailor resource allocation and their residual development strategies accordingly.

Emphasize the quality and impact of development aid rather than costs and volume. This will mean active harmonization in support of country defined targets and indicators, and shifting prime accountability to citizens not donors. More than lip service should be paid to the agreed targets on harmonization and development effectiveness.

Help build science and technology capacity in Africa, including through centers of excellence, knowledge platforms and exchange and linkages to their own higher education institutions.

Develop new modalities and instruments which will bring together the private and public sectors, new ways of raising and using resources to support national and regional initiatives in Africa, as well as in support of global programs (for instance on adaptation to and mitigation of global warming).

Demand transparency from multinationals. Europe is moving towards legislation which would require oil, gas, mining and timber companies to publish their payments, project by project, to foreign governments, thereby making it harder to disguise bribes to corrupt officials. This follows recent rules adopted by the US Securities and Exchange Commission that eliminates the exemption for companies reporting in countries where criminal law prohibits disclosure. There has to be an effective exchange of information between tax authorities and positive enforcement.

Promote African agriculture by reducing non-tariff barriers and eliminating distortive production subsidies to developed country farmers.

Continue to support African led conflict management, including through finance, training, exchange of information and technical training.

Avoid the reintroduction of competing export credits or other subsidies to national suppliers, notwithstanding the temptation to do so in response to competition from emerging markets or to create jobs at home. These would simply introduce economic distortions, raise costs, provide the recipient with lower value and detract from efforts to introduce best practice procurement.