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South-South Cooperation: Africa and the New Forms of Development Partnership

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Report 2010

South-South Cooperation: Africa and the New Forms of Development Partnership

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Explanatory notes

The $ sign refers to the United States dollar.

Sub-Saharan Africa: Except where otherwise stated, this includes South Africa.

North Africa: In this publication, Sudan is classified as part of sub-Saharan Africa, not North Africa.

Abbreviations

ABC	Brazilian Technical Cooperation Agency
ACP	African, Caribbean and Pacific Group of States
AfDB	African Development Bank
ASA	Africa–South America
AUC	African Union Commission
BAPOA	Buenos Aires Plan of Action
BIT	Bilateral investment treaty
CAADP	Comprehensive Africa Agriculture Development Programme
CNOOC	China National Offshore Oil Corporation
COMESA	Common Market for Eastern and Southern Africa
DAC	Development Assistance Committee
DCF	United Nations Development Cooperation Forum
DTT	Double taxation treaty
EMBRAPA	Brazilian Agricultural Research Company
EU	European Union
FDI	Foreign direct investment
FOCAC	Forum on China-Africa Cooperation
FTA	Free trade agreement
HIPC	Heavily indebted poor countries
IBSA	India–Brazil–South Africa
ICT	Information and communication technology
IIA	International investment agreements
IMF	International Monetary Fund
KIAD	Republic of Korea's Initiative for Africa's Development
KOAFEC	Korea-Africa Economic Cooperation Conference
KOICA	Korean International Cooperation Agency
KOV	Korean Overseas Volunteers
LDC	Least developed country
M&A	Mergers and acquisitions
MDG	Millennium Development Goal
NAASP	New Asian-African Strategic Partnership
NEPAD	New Partnership for Africa's Development
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
SADC	Southern African Development Community
SEZ	Special economic zones
SME	Small and medium-sized enterprise
SWAps	Sector-wide approaches
TNC	Transnational corporation
UNECA	United Nations Economic Commission for Africa
UNDP	United Nations Development Programme
WTO	World Trade Organization

Introduction

The increasing role of large developing countries in global trade, finance, investment and governance, coupled with their rapid economic growth, has rekindled interest in South–South cooperation and stimulated debate on its implications for Africa's development (Kaplinsky and Farooki, 2009; Kaplinsky and Messner, 2008; Wang and Bio-Tchane, 2008; Jobelius, 2007; Ajakaiye, 2006). It has also opened up opportunities for economic cooperation between Africa and other developing countries. Available data indicate that the share of non-African developing countries in Africa's total merchandise trade increased from 8 per cent in 1980 to 29 per cent in 2008 and their share in inward foreign direct investment (FDI) flows to the region rose from an average of 12 per cent over the period 1995–1999 to 16 per cent over the period 2000–2008.

South–South cooperation is a concept that is frequently used but rarely defined.[1] In this report, it refers to the processes, institutions and arrangements designed to promote political, economic and technical cooperation among developing countries in pursuit of common development goals.[2] It is multidimensional in scope, encompassing cooperation in areas such as trade, finance, investment, as well as the exchange of knowledge, skills and technical expertise between developing countries. Geographically, it covers bilateral, intraregional and interregional cooperation as well as collaboration among developing countries on multilateral issues designed to enhance their participation and integration in the world economy.[3]

In recent years, African governments have scaled up efforts to seize the opportunities created by the increasing economic power and influence of large developing countries through strengthening South–South cooperation. But South–South cooperation is not a new phenomenon in the region. Since the late 1950s, Africa has had relations with Southern countries focusing mostly on political issues. More recently, the focus of its engagement has shifted from political to economic issues, and more countries in the region are showing keen interest in furthering relations with the South as a mechanism for enhancing growth, reducing poverty and integrating into the global economy. Currently, Africa's share of global merchandise trade is around 3 per cent and its share of global FDI inflows is about 5 per cent. There is the feeling amongst African governments that South–South cooperation could play an important role in reversing this trend as well as in addressing other development challenges facing the region.

While the reduction of extreme poverty and hunger is the main development challenge facing Africa, most countries in the region are also grappling with the problems of climate change, high disease burden, poor infrastructure, brain drain, violent conflicts and lack of development of productive capacity. Furthermore, in the last few years, African countries have had to deal with the effects of rising food and energy prices and the complications emanating from the global financial and economic crisis. These multiple crises are already reversing recent progress made by the region in economic performance. They are also jeopardizing efforts by African countries to achieve the Millennium Development Goals (MDGs). In this context, Africa–South cooperation is seen as an important element of a strategy to address the challenges and emerging threats facing the region. It also provides an opportunity for African countries to induce technological change, transform the structure of their economies and lay the foundation for high and sustained growth.

South–South cooperation is also attractive to African countries because it increases and diversifies the sources of development finance available to the region. Africa is a major recipient of foreign aid and there is growing disappointment in the region with existing aid mechanisms, which most countries regard as characterized by a lack of fulfilment of commitments as well as reliance on policy conditions that influence their development policy choices. Consequently, several countries in the region are increasingly seeking financial support through South–South partnerships because these do not come with the policy conditions associated with aid from traditional donors.

The inability of African countries to influence the agenda, pace and decisions made in the international economic, financial and trading systems has also increased interest in South–South cooperation as a mechanism for increasing the region's bargaining power in global affairs. African countries are often not in a position to protect their interests in multilateral negotiations and in the reform of the international financial architecture. Consequently, they see South–South cooperation as an effective way to increase their voice and representation in the world economy. There is growing recognition that the formation of alliances with other developing countries in the Doha Round and climate change negotiations could help alter the pace and dynamics of the negotiations and increase the region's bargaining power. The need for African countries to enter into these alliances has become even more important with the rapid pace of globalization and concerns that the region has so far not derived sufficient benefits from the process.

Despite the potential benefits to Africa from South–South cooperation, it should be noted that the new partnerships also present challenges for the region. For example, there are concerns that it could result in a deterioration of governance and environmental quality and also hamper efforts to achieve debt sustainability in the region. Given these concerns, it is clear that the ultimate impact of South–South cooperation in Africa will depend on the extent to which African countries are able to maximize the benefits while minimizing any potential risks. Against this background, the report examines Africa's cooperation with the South with a view to identifying how the region could make better use of these partnerships to further its long-run development objectives. It does not consider South–South cooperation at the intraregional level because this was addressed in the *Economic Development in Africa Report 2009: Strengthening Regional Integration for Africa's Development*.

The key questions addressed in the report are as follows:

- What are the initiatives, institutions and platforms supporting Africa–South cooperation and why are these partnerships important to Africa?
- What are the patterns, scale and trends in trade, FDI and official flows between Africa and developing countries?
- To what extent has cooperation between Africa and developing countries in multilateral negotiations enhanced the region's bargaining power, in particular in the Doha Round talks?
- How might the financial and economic crisis affect Africa's cooperation with developing countries?
- To what extent have financial flows from developing country partners affected aid effectiveness?
- How can Africa manage its relationships with developing country partners for better development results?

This report argues that South–South cooperation has the potential to enhance Africa's capacity to deal with the challenges of poverty, poor infrastructure, development of productive capacity and emerging threats associated with climate change as well as the food, energy, financial and economic crises. These potential benefits of cooperation are however not automatic. They accrue to countries that have taken adequate and proactive steps to exploit them. In this regard, there is the need for African countries to mainstream South–South

cooperation into their development strategies to ensure that it furthers rather than hinders the achievement of national and regional development goals. An effective strategy on South–South cooperation requires African countries to exploit the complementarities between Southern trade, investment and official flows. It also requires policies at the national level to ensure that Africa–South cooperation does not replicate the current pattern of economic relations with the rest of the world, in which Africa exports commodities and imports manufactures. In this regard, it would be desirable if African countries and their developing country partners manage their growing and evolving relationships in a manner that supports and enhances technological progress, capital accumulation and structural transformation in the region. The report also stresses the need to broaden the country and sectoral focus of cooperation with the South to ensure that the gains are better distributed across countries. Furthermore, it argues that South–South cooperation should be seen as a complement rather than a substitute for relations with traditional partners and that the latter can make South–South cooperation work for Africa through strengthening support for triangular cooperation as well as better dialogue with developing country partners.

The report complements the existing literature on Africa's cooperation with developing countries in a variety of ways. First, it documents and examines the existing platforms, institutions and initiatives on Africa's cooperation with developing countries. In this regard, it complements a recent study by Kaplinsky and Farooki (2009), which provides an interesting analysis of Africa's relations with new and emerging development partners but does not discuss the evolving institutional framework for these partnerships. Other studies such as Davies *et al*. (2008), Besada *et al*. (2008) and the African Economic Research Consortium have also examined Africa's cooperation with developing countries (Ajakaiye, 2006; McCormick, 2006). However, they focused on the Asian drivers and did not consider other developing country partners.[4] Another feature of this report is that it considers Africa–South cooperation in international investment arrangements. In particular, it presents new data on bilateral investment and double taxation treaties (DTTs) between Africa and developing countries. Furthermore, it examines the implications of the global economic and financial crisis for the sustainability of Africa–South cooperation in trade, investment and official flows. This is important given the increasing role of developing countries in Africa and the impact of the global economic and financial crisis on the former's growth prospects. Another important feature of the present report is that, unlike existing studies, it deals with the issue of cooperation between

Africa and developing countries in multilateral trade negotiations and how this is increasing the bargaining power of the region in the Doha Round talks.

The report is organized as follows. Chapter 1 examines the institutional framework or initiatives guiding Africa's cooperation with developing countries. It also discusses the differences and similarities between these initiatives as well as the challenges facing African countries in managing the new partnerships. Chapter 2 deals with trends in Africa–South trade. It also looks at cooperation between Africa and developing countries in multilateral trade negotiations as well as the implications of the financial crisis for sustainability of Africa–South trade. Chapter 3 examines trends and features of official flows from developing country partners with an assessment of their implications for governance, debt sustainability, investment quality and natural resources in the region. It also studies the implications of the financial crisis for developing countries' support to Africa. Furthermore, it discusses how the emergence of developing country partners is affecting aid effectiveness and how their contributions could be managed for better development results. Chapter 4 examines trends and patterns of FDI flows to Africa from developing countries. It also discusses investment frameworks, such as bilateral investment and DTTs, supporting cooperation between Africa and developing countries. Chapter 5 presents the main findings and policy recommendations of the report.

Chapter 1

Africa–South Cooperation: Initiatives, Patterns and Challenges

Africa has a history of cooperation with the South. Its formal involvement in South–South cooperation dates back to 1955 when African and Asian nations, most of them newly independent, held a conference in Bandung, Indonesia, to promote economic and cultural cooperation and bring an end to colonialism.[5] The Bandung Conference called for the promotion of world peace and underscored the need for developing nations to reduce their dependence on industrialized countries by providing technical assistance to one another. Furthermore, the Bandung Conference provided inspiration and impetus for the development of various South–South alliances in the 1960s and 1970s. For example, it led to the creation of the Non-Aligned Movement in 1961. It also provided impetus for the creation of the Group of 77 (G-77) during the first United Nations Conference on Trade and Development (UNCTAD) in 1964.[6] The G-77 has established itself as the leading voice of the South in the global arena (United Nations, 2009a). It has also played a lead role in establishing a conceptual framework and guiding principles for South–South cooperation (box 1).

While technical cooperation among developing countries was discussed at the Bandung Conference, there was no strategic framework for such collaboration until 1978 when the Buenos Aires Plan of Action (BAPOA) was adopted (United Nations, 2009b). BAPOA is the outcome of the United Nations Conference on Technical Cooperation among Developing Countries held in Buenos Aires in August 1978. The declared aims of BAPOA were to:

- Strengthen economic, social and political interdependence among developing countries;
- Accelerate development;
- Correct distortions in international systems resulting from asymmetric power relations between developing and industrialized countries.

Since the adoption of BAPOA, the United Nations has played, and continues to play, a crucial role in supporting South–South cooperation initiatives as well as in providing platforms for dialogue between developed and developing countries.

Box 1. G-77 and China guiding principles for South–South cooperation

1. South–South cooperation is a common endeavour of peoples and countries of the South and must be pursued as an expression of South–South solidarity and a strategy for economic independence and self-reliance of the South based on their common objectives and solidarity;
2. South–South cooperation and its agenda must be driven by the countries of the South;
3. South–South cooperation must not be seen as a replacement for North–South cooperation. Strengthening South–South cooperation must not be a measure of coping with the receding interest of the developed world in assisting developing countries;
4. Cooperation between countries of the South must not be analysed and evaluated using the same standards as those used for North–South relations;
5. Financial contributions from other developing countries should not be seen as official development assistance (ODA) from these countries to other countries of the South. These are merely expressions of solidarity and cooperation borne out of shared experiences and sympathies;
6. South–South cooperation is a development agenda based on premises, conditions and objectives that are specific to the historic and political context of developing countries and to their needs and expectations. South–South cooperation deserves its own separate and independent promotion;
7. South–South cooperation is based on a strong, genuine, broad-based partnership and solidarity;
8. South–South cooperation is based on complete equality, mutual respect and mutual benefit;
9. South–South cooperation respects national sovereignty in the context of shared responsibility;
10. South–South cooperation strives for strengthened multilateralism in the promotion of an action-oriented approach to development challenges;
11. South–South cooperation promotes the exchange of best practices and support among developing countries in the common pursuit of their broad development objectives (encompassing all aspects of international relations and not just in the traditional economic and technical areas);
12. South–South cooperation is based on the collective self-reliance of developing countries;
13. South–South cooperation seeks to enable developing countries to play a more active role in international policy and decision-making processes, in support of their efforts to achieve sustainable development;
14. The modalities and mechanisms for promoting South–South cooperation are based on bilateral, subregional, regional and interregional cooperation and integration as well as multilateral cooperation.

Source: Ministerial Declaration, Ministers of Foreign Affairs of the Group of 77 and China, New York, 25 September 2009.

To strengthen and coordinate its work in this area, it has set up a Special Unit for South–South Cooperation managed by the United Nations Development Programme (UNDP). UNCTAD and several specialized agencies of the United Nations have also established new units or work programmes on South–South cooperation. In commemoration of the thirtieth anniversary of the adoption of BAPOA, the United Nations convened a High-Level Conference on South–South Cooperation in Nairobi, in December 2009. The conference reiterated the need to strengthen and further reinvigorate South–South cooperation as an additional mechanism for enhancing growth and addressing the development challenges facing developing countries. It also called upon developed countries to support South–South cooperation initiatives and reaffirmed the role of the United Nations in promoting cooperation among developing countries.[7]

African countries have been active participants in South–South alliances designed to enhance cooperation with other developing countries, but it was not until the new millennium that such cooperation began to play a significant role in the economic and social development of the region. In the past, development cooperation between Africa and Southern countries focused more on political rather than economic issues. Since 2000, African countries have entered into new partnerships and arrangements with the South, driven primarily by economic rather than political considerations. The new partnerships also differ from the old in the sense that they are often based on formal frameworks with dialogue forums and action plans. This chapter provides an overview of the new initiatives and frameworks for collaboration between Africa and developing countries. It examines the similarities and differences between these partnerships and identifies their novel features relative to partnerships with developed countries. It also examines the challenges facing African countries in managing and harnessing these relationships in a manner supportive of their long-run development objectives.

Although there are differences across the initiatives and arrangements that Africa has with Southern partners, they also share certain features (table 1). For example, the stated aim of these partnerships is to promote Africa–South cooperation to achieve common development goals. In addition, they put emphasis on the following general principles: mutual respect; reciprocal benefits; respect for sovereignty; and non-interference in internal affairs of partners. Southern partners consider respect for sovereignty and non-interference in the internal affairs of partners important in strengthening and sustaining their relations with Africa. Consequently, in providing support to the region they do not impose

Table 1

Broad features of Africa-South partnerships

Feature	Remarks
Aim	Promotion of Africa–South cooperation to achieve common development goals
Key principles	Mutual respect, reciprocal benefits, respect for sovereignty and non-interference in internal affairs
Mode of intervention	Forums, summits and bilateral agreements
Key areas	Political, economic, social and cultural cooperation
Accountability mechanism	Increasingly, the partnerships have inbuilt monitoring mechanisms
Stakeholders	Mostly governments, but private sector participation increasing

Source: UNCTAD.

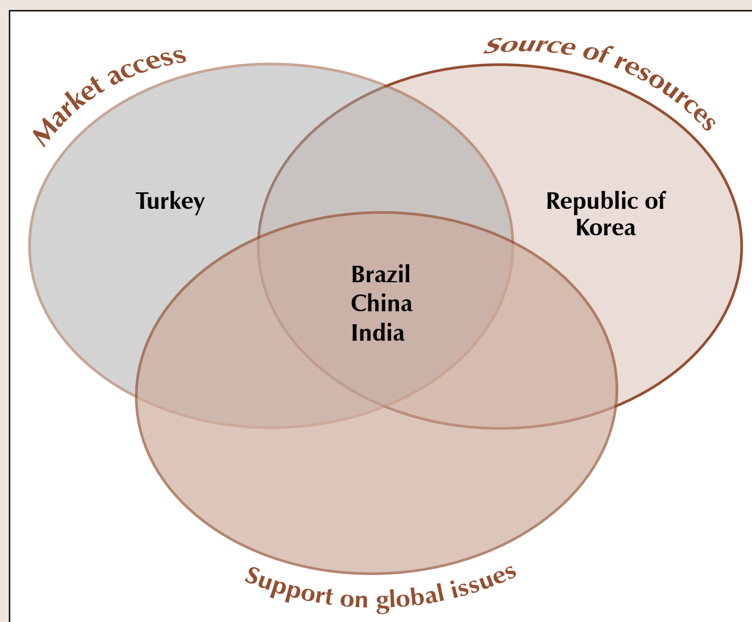
policy conditions. Another broad feature common to most of the partnerships is that they often cover political, economic, social and cultural cooperation. Furthermore, they are often supported by high-level official visits and efforts to bolster diplomatic ties. Finally, governments are the main stakeholders in the process, although efforts are increasingly being made by some of the partners to enhance private sector participation.

A major issue that is often raised in discussions and debates on Africa–South cooperation is why Southern partners are interested in establishing and strengthening relations with the region. In general, official statements by Southern partners suggest that their relationship with Africa is based on the need and desire to pursue mutually beneficial cooperation for common development. This suggests that Africa's relations with the South should be seen as one of complementary advantage. On one hand, the region needs external capital, technology and technical expertise from other developing countries to address its development needs and challenges. On the other hand, Southern partners need natural resources, markets and support on global issues and Africa has a lot to offer in these areas.

While Southern partners have a common desire to support Africa in meeting its development needs, there are important differences among them in terms of their commercial or strategic interests in the region (figure 1). For example, Brazil, China and India see Africa as an important source of natural resources needed to support and sustain domestic economic growth. They also see the region as a growing market for their exports and increasingly seek its support on global issues. In this regard, the Republic of Korea differs from Brazil, China and India because its engagement is driven more by the need for natural resources (oil) as opposed to market access or support on global issues. In the case of

Figure 1

Key strategic interests of selected partners



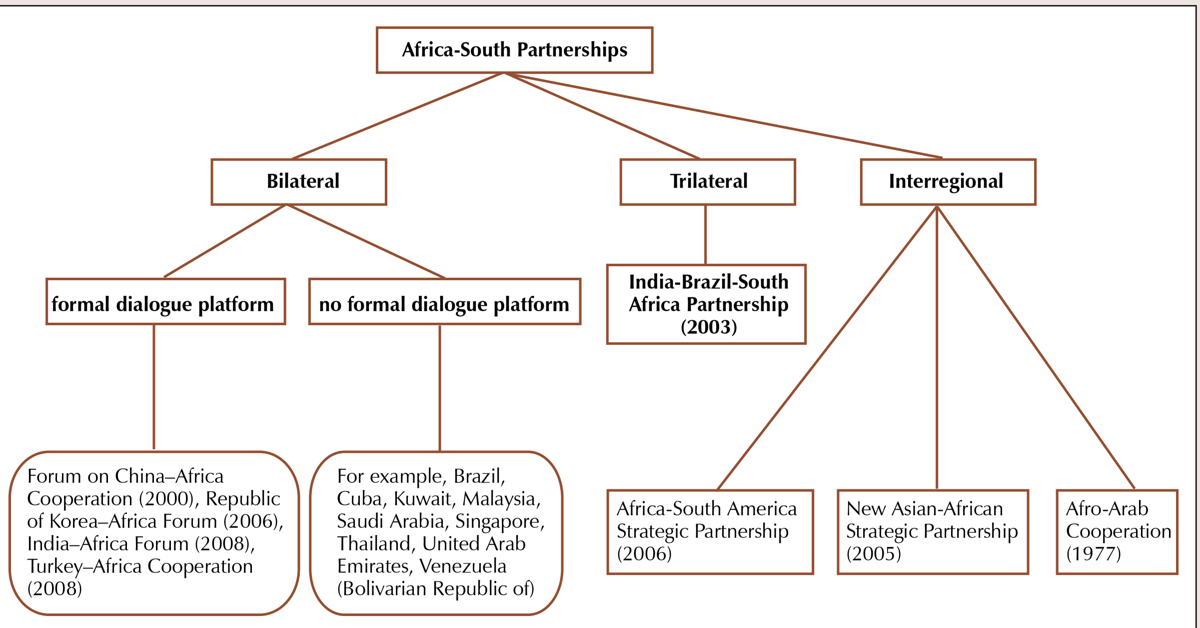
Source: UNCTAD.

Turkey, its engagement is driven more by the desire to create markets for its products rather than the need for natural resources or support on global issues (Kaplinsky and Farooki, 2009).

Africa's cooperation with the South is generally of three types (figure 2). The first form of cooperation arrangement is bilateral, between African countries and a developing country in another region. For example, it includes, among others, bilateral partnerships between Africa and developing countries such as China, India, the Republic of Korea and Turkey. The second form of cooperation is trilateral in the sense that it is between an African country and two developing countries in different regions. The main cooperation framework in this category is the India–Brazil–South Africa (IBSA) partnership. The third form of cooperation is at the regional level between Africa and other developing country regions. The three main cooperation arrangements in this category are the New Asian–African

Figure 2

Patterns of Africa's cooperation with the South



Source: UNCTAD.

Strategic Partnership, the Africa–South America Initiative and the Afro–Arab Cooperation Initiative.

A. Bilateral and trilateral initiatives

Several Southern partners have cooperation arrangements with Africa. In recent years the Bolivarian Republic of Venezuela, Brazil, China, Cuba, India, Kuwait, the Republic of Korea, Saudi Arabia, Turkey and United Arab Emirates have either developed or expanded their cooperation with the region. Some of these cooperation arrangements are based on strategic frameworks with well-developed dialogue platforms while others do not have any formal dialogue platforms. For example, China, India, the Republic of Korea and Turkey have established new initiatives and platforms for engagement with Africa while countries such as the Bolivarian Republic of Venezuela and Cuba do not have any formal bilateral dialogue platforms for their engagement with the region.

China–Africa partnership

Since the founding of the People's Republic of China in 1949, Africa has been an important component of its foreign policy. China has always had close political ties with African countries. It also has a long history of provision of financial support to the region. For example, in 1964 it was responsible for about 53 per cent of loans to the region (SAIIA, 2009). Furthermore, in the early 1970s it financed the Tazara railway linking Zambia's copper belt to the port of Dar es Salaam in the United Republic of Tanzania. It should be noted that China's engagement with Africa has evolved over the years. Up until 1978, the relationship was driven mostly by the politics of ideology and was based on what Beijing regards as five principles of peaceful cooperation, namely: mutual respect for territorial integrity and sovereignty; mutual non-aggression; mutual non-interference in each other's internal affairs; equality and mutual benefit; and peaceful coexistence. Following China's adoption of economic reforms in 1978, there was more focus on domestic issues and less emphasis on Africa. Since the 1990s, there have been renewed efforts to strengthen cooperation with the region. This began with a visit to the region by Chinese President Jiang Zemin in 1996 where he unveiled plans to create the Forum on China–Africa Cooperation (FOCAC).

The launching of FOCAC in Beijing in 2000 ushered in a new era of relations between China and Africa, driven mostly by commercial and economic interests rather than political ideology as in the past (Brown and Chun, 2009). The new relationship is also marked by the intensification of high-level visits to Africa by Chinese officials as well as an increase in trade, finance and investment. The broad priority areas of cooperation identified by China and African countries include: political affairs; international affairs, economic and development issues; peace and security; and cultural and people-to-people exchanges.

FOCAC has become the platform for coordination of China–Africa relations and for dialogue between African countries and China. The meetings are held every three years mostly at the ministerial level, although they are often attended by heads of state and government. Four FOCAC meetings have been held since its inception. The first ministerial meeting was held in Beijing in 2000 and the second ministerial meeting was held in Addis Ababa in December 2003. The third FOCAC meeting held in Beijing in November 2006 involved a heads of state summit. It drew international attention to China's increasing engagement with Africa because it attracted leaders from 42 African countries and took place in the same year that Beijing released a white paper on its Africa policy. At the meeting, China made commitments to double assistance to Africa by 2009, provide more loans and debt relief, establish trade and economic cooperation zones, set up a China–Africa Development Fund, build a conference centre for the African Union and provide more training and technical assistance to the region. This ambitious developmental agenda sent a clear message to Africa that China is interested in cultivating long-term relations with the region.

The fourth FOCAC meeting was held in Sharm el-Sheikh, Egypt, in November 2009 under the theme "Deepening the new type of China–Africa strategic partnership for sustainable development". The new type of strategic partnership, which was unveiled at the Beijing Summit in 2006, emphasizes political equality and mutual trust, mutual economic benefits from cooperation and cultural exchanges. In support of this new partnership, China announced eight new measures for boosting development cooperation with Africa over the period 2010–2012 at the fourth FOCAC meeting (box 2). The new measures involve support to Africa in areas such as climate change, science and technology, response to the financial crisis, poverty alleviation, environmental protection and health. It also involves culture and people-to-people exchanges. The 2009 FOCAC meeting was attended by leaders of 17 African countries.

Box 2. China's commitments at the 2009 FOCAC Conference

The eight new measures announced by China at the 2009 FOCAC meeting are:

1. To establish a China–Africa partnership in addressing climate change. China would build 100 clean energy projects for Africa covering solar power, biogas and small hydropower;

2. To enhance cooperation with Africa in science and technology. China would launch a China–Africa science and technology partnership, under which China would carry out 100 joint demonstration projects with Africa on scientific and technological research and receive 100 African post-doctoral fellows to conduct scientific research in China;

3. To help Africa build up financing capacity. China would provide $10 billion in concessional loans to African countries, and support Chinese financial institutions in setting up a special loan of $1 billion for small and medium-sized African businesses. For the heavily indebted countries and least developed countries in Africa having diplomatic relations with China, China would cancel their debts associated with interest-free government loans due to mature by the end of 2009;

4. To further open up the Chinese market to African products. China would phase in zero tariff treatment to 95 per cent of the products from the least developed African countries having diplomatic relations with China, starting with 60 per cent of the products in 2010;

5. To further enhance cooperation with Africa in agriculture. China would increase the number of its agricultural technology demonstration centres in Africa to 20, send 50 agricultural technology teams to Africa and train 2,000 agricultural technology personnel for Africa, in order to help boost the continent's food security;

6. To deepen cooperation in medical care and health. China would provide medical equipment and anti-malaria materials worth 500 million Yuan ($73.2 million) to the 30 hospitals and 30 malaria prevention and treatment centres built by China and train 3,000 doctors and nurses for Africa;

7. To enhance cooperation in human resources development and education, China would build 50 schools and train 1,500 school principals and teachers for African countries. By 2012, China would increase the number of Chinese Government scholarships to Africa to 5,500, and would also train 20,000 professionals for Africa over the next three years;

8. To expand people-to-people and cultural exchanges, China would launch a China–Africa joint research and exchange programme to increase exchanges and cooperation, share development experience and provide intellectual support for formulating better cooperation policies by the two sides.

Source: FOCAC website.

There are several interesting and novel features of China's engagement with Africa that are worth emphasizing. First, is that it uses FOCAC as a platform for making pledges and commitments to the region. These are usually multi-year commitments and their forward-looking nature makes Chinese financial support increasingly predictable. Second, FOCAC meetings are used to monitor progress in the implementation of existing commitments to Africa. This inbuilt monitoring mechanism increases the likelihood that commitments will be fulfilled and has become a model for other Southern partners. Third, China has made addressing climate change an important area of its support to the region. Fourth, China is increasingly making efforts to integrate the private sector into its Africa relations, although the latter is still a passive participant in the FOCAC process.

China's growing engagement in Africa has generated interest and debate on its contribution to economic and social development in the region. In general, the new partnership with Africa has led to closer political and cultural ties between China and Africa. Both sides have had frequent exchanges of high-level visits in recent years and provide support for each other in multilateral affairs. China has also made contributions to maintenance of peace and security in the region. For example, since the Beijing summit, it has sent 6,281 peacekeeping personnel and policemen to Africa. Trade and finance are two key areas where China's engagement has had very significant impact in the region. Merchandise trade between China and Africa increased from $8 billion in 2000 to $93 billion in 2008. China has also contributed to economic development in the region through the provision of concessional loans and grants, support for infrastructure, generous debt relief, the opening up of its market to Africa goods and support for human resource development and medical care.[8]

India–Africa partnership

India has also had close relations with African countries since their independence in the 1960s. It is also one of the Southern countries with a very large and vibrant diaspora community in the region: about 11 per cent of its global diaspora of 26 million people lives in Africa (Freemantle and Stevens, 2009). Until recently, India's relations with Africa focused more on the provision of technical assistance and capacity-building and there was no formal dialogue platform for cooperation with the region. In 2008, the Indian Government decided to create a new architecture for its engagement with Africa and this led to the convening of the First India–Africa Forum Summit in New Delhi from 8–9 April 2008.[9] At the summit, India and Africa agreed to enhance cooperation in

the following broad areas: economics; politics; science, research and technology; social development and capacity-building; tourism; infrastructure, energy and environment; and media and communication. The summit is held every three years at the level of heads of state and government.

As with China, the partnership agreement adopted at the India–Africa Summit is guided by expressions of fundamental principles of equality, mutual respect, mutual benefit, respect for state sovereignty and a desire to deepen the process of African integration. A very interesting aspect of the new partnership is the emphasis on strengthening Africa's regional integration.[10] India and Africa agreed to provide support to mutually agreed regional programmes of the African Union and African regional economic communities. They also agreed to develop a joint action plan at the continental level as well as a follow-up mechanism to implement the new framework for cooperation.

India's cooperation with Africa has had positive impact in Africa. There has been a significant increase in the volume of trade and investment flows between India and Africa. For example, trade between the two groups increased from $7.3 billion in 2000 to $31 billion in 2008. India has also contributed to Africa's development through loans, debt relief, technical assistance, peacekeeping and infrastructure finance.

Turkey–Africa partnership

Up until 1998, Turkey had a very passive political, economic and social engagement with Africa. In 1998, the government adopted an "Opening up to Africa Policy" designed to enhance cooperation with the region. This was followed by the declaration of 2005 as the "Year of Africa" and the hosting of the first Turkey–Africa Cooperation Summit in Istanbul in August 2008. The summit marked the beginning of a strategic relationship between Turkey and Africa based on the expressed principle of equality, mutual respect, respect for state sovereignty and reciprocal benefits. Heads of state and government of 29 African countries attended the summit, and in total 50 African countries were represented.

The two parties agreed to expand cooperation in the following areas: intergovernmental cooperation; trade and investment; agriculture; health; peace and security; infrastructure; culture, tourism and education; media and information and communication technology; and environment. It is interesting

to note that the priority areas are similar to those of China and India. The Turkey–Africa platform is similar to the India–Africa platform in the sense that they are both at the level of heads of state and government rather than at the ministerial level as is often the case with China. However, the Turkey–Africa Summit is held every five years while the India–Africa Summit is held once every three years. The Turkey–Africa partnership has a prominent role for the private sector. For example, there is a Turkey–Africa Business Forum that provides a platform for firms in Africa and Turkey to dialogue and explore business opportunities.

After 11 years of opening up to Africa, there has been an increase in trade and investment between Turkey and Africa. The volume of trade between both groups rose from $3.4 billion in 2000 to $10.3 billion in 2008 and Turkey's target is to reach $30 billion by the end of 2010. Furthermore, Turkey has successfully implemented development projects in 37 African countries and its recent membership in the African Development Bank will further expand its role in development finance in the region.

Republic of Korea–Africa partnership

The successful development and structural transformation experience of the Republic of Korea puts it in a unique position to contribute to Africa's development through South–South cooperation. However, until recently, there was no formal initiative or cooperation arrangement between the Republic of Korea and Africa. This state of affairs changed dramatically in March 2006 when the Republic of Korea's former President Roh Moo-Hyun visited Africa and, while in Nigeria, announced the establishment of the Republic of Korea's Initiative for Africa's Development (KIAD). As part of this initiative, the Republic of Korea pledged to triple ODA to Africa by 2008 compared to 2005. Furthermore, it promised to do more to share its development experience with Africa by inviting 1,000 Africans to receive training in the Republic of Korea over the period 2006–2008. It also promised to assist African countries in improving medical and health conditions, developing human resources, advancing agricultural productivity and bridging the digital divide.

In support of KIAD, the Republic of Korea organized the first Republic of Korea–Africa Forum in November 2006 and it has quickly become the main platform for dialogue and cooperation between African countries and the Republic of Korea. The forum was attended by five heads of state and government and 28 ministers. The Government of the Republic of Korea regards the new

partnership with Africa as an opportunity to further share its development experience, contribute to Africa's development and explore areas of mutual benefit. The stated principles guiding the new relationship include: respect for the independence and sovereignty of states; mutual respect and benefits; respect for international law and democracy; and the promotion and protection of human rights. The Republic of Korea–Africa Forum is held at the ministerial level unlike the India–Africa Forum Summit and the Turkey–Africa Summit, which are held at the heads of state level. Furthermore, it is held every three years.

The second Republic of Korea–Africa Forum was held in Seoul in November 2009. In the declaration issued at the end of the forum, the Republic of Korea pledged to double ODA to Africa by 2012 compared to 2008. It is interesting to note that the Republic of Korea uses the forum to make multi-year commitments just as is the case with China and more recently India. Another interesting feature of the Republic of Korea's approach to partnership with Africa is that in addition to the forum, it has established complementary frameworks to boost trade and economic cooperation with Africa. The first of these frameworks is the Republic of Korea–Africa Economic Cooperation Conference initiated in 2006 and held every two years. The second is the Republic of Korea–Africa Industry Cooperation Forum started in 2008 and held annually. The latter has provided a platform for more active participation of the private sector in the Republic of Korea's relations with Africa.

One of the key outcomes of the second forum is the announcement of the Republic of Korea–Africa Green Growth Initiative covering the period 2009–2012. Through this initiative, the Republic of Korea intends to implement environmental cooperation projects in Africa, strengthen environmental capacity in the region through training of public officials and transfer green technologies and policies for better adaptation to climate change. It is interesting to note that while other Southern development partners have identified response to climate change as a priority issue, the Republic of Korea is the first to have developed a clear initiative with Africa on how it intends to assist the continent in addressing the issue.

The Republic of Korea's engagement in Africa has improved since the reactivation of relations with the region in 2006. The Republic of Korea's ODA to Africa increased from $39 million in 2005 to $104 million in 2008 and Africa's share of the Republic of Korea's ODA to developing countries rose from 8 per cent to 19 per cent over the same period. There has also been an increase

in trade between the Republic of Korea and Africa. Total merchandise trade increased from $4.4 billion in 2000 to $11 billion in 2008. Despite the progress that has been made in this area, trade between the two sides remains very low and more needs to be done by both sides to reverse the trend.

Other partnerships

In addition to the formal initiatives described above, some Southern partners have bilateral cooperation arrangements with individual countries in the region for which there is no formal bilateral dialogue platform. For example, the Bolivarian Republic of Venezuela, Brazil, Cuba, Kuwait, Saudi Arabia and the United Arab Emirates have bilateral agreements with several countries in the region and have provided support to them through projects in areas such as health, infrastructure and agriculture. The Bolivarian Republic of Venezuela and Brazil are also key drivers of interregional cooperation partnerships between South America and Africa. Furthermore, they are active promoters of cooperation among developing countries in multilateral negotiations and reform of the international financial architecture.

Brazil has a unique partnership arrangement with India and South Africa that has attracted international attention. The IBSA partnership is a trilateral alliance between Brazil, India and South Africa aimed at boosting their bargaining power and clout on global issues and strengthening economic and political ties amongst the three countries (box 3). Since its inception in 2003, it has become a powerful force in setting the agenda and pace of multilateral negotiations. It also plays an important role in ensuring that the concerns and interests of developing countries are taken into account in global responses to the financial crisis and the reform of the international financial architecture.

Box 3. India–Brazil–South Africa Partnership

In June 2003, the Ministers of Foreign Affairs of India, Brazil and South Africa met in Brasilia and launched the India–Brazil–South Africa (IBSA) dialogue forum. The stated aim of IBSA is to expand these countries' influence on global issues as well as promote cooperation and exchange between them in areas such as agriculture, culture, defence, education, energy, environment and climate change, health, human settlements, information society, public administration, revenue administration, science and technology, social development, trade, transport and tourism.

The IBSA Forum takes place at the level of ministers and is held annually. IBSA also holds heads of state summits every two years, the first being in 2008. At the end of IBSA summits and forums, a communiqué and declaration are issued outlining among other things the common position of the group on a wide range of global issues.

IBSA has established a fund to support viable projects that can be replicated in developing countries. Each IBSA member contributes $1 million to the fund. Burundi, Cape Verde and Guinea-Bissau are examples of countries that have benefited from the IBSA fund. In Guinea-Bissau, the fund financed the introduction of new seeds and capacity-building in improved agricultural techniques. In Cape Verde, it financed the refurbishment of two local and isolated health units, and in Burundi it supported a workshop on HIV/AIDS.

Source: Prepared based on information found at http://www.ibsa-trilateral.org/.

B. Interregional initiatives

At the regional level, there are three existing initiatives on Africa's cooperation with the South. The first is the New Asian–African Strategic Partnership, the second is the Africa–South America Partnership and the third is the Afro–Arab Cooperation Initiative.

New Asian–African Strategic Partnership

As indicated earlier, Africa's cooperation with Asia dates back to the 1955 Bandung Conference. At the time, political issues were the main drivers of cooperation between both regions. In April 2005, leaders of Asian and African countries gathered in Jakarta to celebrate the fiftieth anniversary of the Bandung Conference and identify ways to boost cooperation between both regions. They decided to establish a New Asian–African Strategic Partnership (NAASP) and use it as the main framework for cooperation between both regions. The partnership covers three broad areas, namely political solidarity, economic cooperation and

socio-cultural relations. The core principles guiding this relationship include solidarity, friendship and cooperation.

The NAASP emphasizes the need for a multilateral approach to international relations as well as the importance of complementing and building upon existing initiatives that link the two continents such as the Tokyo International Conference on African Development, the India–Africa Forum and FOCAC. In addition, the new partnership acknowledges the need to use the New Partnership for Africa's Development (NEPAD) as the framework for engagement with Africa. The NAASP requires convening a heads of state and government summit every four years and a ministerial meeting every two years. It also requires the convening of a business summit every four years.

Africa–South America Partnership

The second interregional cooperation initiative with Africa is the Africa–South America (ASA) Partnership. Although South America has strong historic and cultural ties with Africa, especially the Portuguese-speaking countries, there was no formal interregional platform for interaction and cooperation until the first Africa–South America summit was held in Abuja from 26–30 November 2006. The meeting was convened to establish a mechanism for intensifying cooperation between Africa and South America for mutual benefit and to promote multilateralism as well as address the challenges associated with it.

The ASA Partnership requires the convening of a heads of state and government summit every two years. However, the second summit was held in September 2009 in Nueva Esparta State, Bolivarian Republic of Venezuela. The priority areas of cooperation include: multilateral affairs; legal affairs; peace and security; democracy and political issues; agriculture; water resources; trade and investment; combating hunger and poverty; infrastructure development; energy and minerals; social issues, tourism and sports; science and information and communication technology (ICT); health; education; environment; gender; and institutional development and information exchange. The ASA Partnership recognizes the role of the private sector in reaping the benefits of cooperation. Consequently, it calls for the establishment of an Africa–South America Business Association and an Africa–South America Bank.

In recent years, South American companies have increased their activities in Africa, particularly in the energy, infrastructure and agriculture sectors. For

example, in the energy sector, the Brazilian state company Petrobrás is engaged in oil exploration in countries such as Angola and Nigeria. It is also involved in the construction of processing facilities creating opportunities for oil-producing countries in Africa to add value to their products. In agriculture, the establishment of an office of the Brazilian Agricultural Research Company (EMBRAPA) in Accra in 2008 is facilitating the transfer of agricultural technology from Brazil to Africa, thereby contributing to food security in the region.

Despite the growing interest in Africa–South America cooperation, it is interesting to note that the region currently has neither high trade nor high investment relations with South America. Africa's trade and investment are still concentrated in Europe, North America and Asia. There is the need for concerted efforts by African and South American countries to boost economic cooperation and lay a solid foundation for more fruitful and mutual cooperation.

Afro–Arab Partnership

Africa has a long history of interaction with the Arab world. However, a formal framework for cooperation between both groups did not exist until March 1977 when African and Arab kings and heads of state and government held the first summit in Cairo to define principles and collective actions needed to further intensify ties between the two groups. At the summit, leaders of both groups agreed to collaborate in the following areas: political issues and diplomacy; economic and financial issues; education; culture, science and technology; information; and commerce. They also created various structures and institutions to support the relationship. These include the Joint Ministerial Council, the Standing Committee of Afro–Arab Cooperation and the Ad Hoc Court for Commission of Conciliation and Arbitration.

Some progress has been made in Afro–Arab cooperation since the 1977 Summit. For example, there has been more cooperation in trade and culture as evidenced by the regular organization of Afro–Arab trade fairs and the establishment of the Afro–Arab Cultural Institute in Bamako. Despite these achievements, there is an acknowledgement by both parties that the existing level and scope of cooperation between them is low given their geographical proximity as well as their historic and cultural ties. In an effort to address this issue, leaders of African and Arab countries intend to meet in Libya in October 2010 to revitalize their cooperation and map out a plan of action for future engagements. The Gulf countries have also intensified efforts to boost political

and economic cooperation with Africa. In February 2009, the Gulf Research Centre organized the first Gulf–Africa Strategy Forum in Cape Town, South Africa. The conference provided an opportunity for governments, academics and the private sector to discuss the state of cooperation between the Gulf States and Africa and offer recommendations on how to strengthen partnership. The conference is expected to be organized annually.

C. Africa–South partnerships and relations with traditional partners

The plethora of new initiatives aimed at strengthening Southern partners' engagement in Africa has generated interest and debate on two issues. The first is the distinctive or novel features of these new partnerships relative to relations with traditional partners. For example, in contrast to Africa's relationship with traditional partners, the new partnerships often have established forums and dialogue platforms and are generally supported by frequent high-level official visits. Furthermore, they are based on the principle of non-interference in the internal affairs of partner countries. Consequently, they are not associated with policy conditionality as has been the case in relations with traditional partners. Another distinctive feature of these partnerships relative to relations with traditional partners is that the big Southern partners generally use official flows to promote trade and investment activities in Africa. Furthermore, Southern partners do not consider their financial contributions to other developing countries as aid. Rather they describe them as "expressions of solidarity and cooperation borne out of shared experiences and sympathies" (box 1).

The second issue that has arisen as a result of the increasing engagement of Southern partners in Africa is the implications of these partnerships for relations with traditional partners. In recent years, concerns have been expressed about the growing role and influence of Southern partners in Africa (Besada *et al.*, 2008; Jung *et al.,* 2008; Kaplinsky and Farooki, 2009). There is the recognition that Africa's growing cooperation with the South presents challenges for its traditional partners. Politically, it threatens to alter the balance of power between developed and developing countries with implications for decision-making on global issues. For example, the formation of alliances between Africa and Southern countries in ongoing multilateral trade and climate change discussions has changed the pace and dynamics of the negotiations, and it is now evident that

important decisions on these and other global issues cannot be taken without the consent of developing countries. Furthermore, the fact that Southern partners' engagements are based on the principle of non-interference in the internal affairs of partner countries has given African countries some policy space and reduced the influence of traditional partners on domestic and regional issues.[11]

The new partnerships also have economic implications for Africa's relations with traditional partners. Traditional partners rely on Africa as a source of energy and natural resources and are increasingly facing competition from big developing countries that need resources to sustain growth. To the extent that the new partnerships lead to the diversification of export markets for Africa and a decrease in the share of traditional partners in Africa's trade, they will reduce dependence on developed countries. Despite these challenges, the new partnerships could also strengthen Africa's relations with traditional partners if as a result of increasing competition they are compelled to fulfil existing commitments made to the region, and also increasingly see African countries as serious economic partners rather than simply as aid recipients. Such a change in perception is likely to set the stage for a more durable and mutually beneficial relationship with the region.

While there are some aspects of Africa's relations with the South that increase competition between Southern and traditional partners, it is important to stress that there need not be tension between Africa–South and Africa–developed country cooperation. For one, the development challenges facing Africa are so enormous that cooperation with developed countries alone cannot address them effectively. In this regard, additional assistance from developing countries should be welcome and supported by traditional partners. Furthermore, despite the growing role of Southern partners in Africa, developed countries are and will remain important development partners. Consequently, African countries should see their partnership with the South as complementary rather than a substitute for relations with traditional partners. Southern partners should also create an incentive for traditional partners to support their engagement in Africa by increasing transparency in their development cooperation activities in the region. They should also put in place appropriate measures to ensure that their activities do not have adverse effects on debt sustainability and environmental quality in Africa.

D. Challenges for Africa and the way forward

The growing relationship between Africa and Southern partners is a welcome development because it has great potential to support the development of productive capacity and contribute to the achievement of sustained growth and poverty reduction in the region. However, this potential can only be realized to the extent that African countries are more proactive in the process and use the leverage they have with Southern partners to persuade them to strike a balance between their commercial or strategic interests and the region's development needs. It will also be realized to the extent that African countries are able to reconcile their national interests and avoid a race to the bottom. In this context, the region faces several challenges in managing the new relationships and using them to further their long-term development objectives.

One of the main challenges facing the region in dealing with Southern partners is that while the latter have a well-defined strategy of engagement with the region, Africa has not articulated a coherent regional approach to harnessing and managing these partnerships for its benefit. Consequently, Southern partners have been the key drivers of the relationship with the region. In addition, although Southern partners have strategic frameworks with Africa at the regional level, their actual engagement as well as implementation of projects is at the country level with often no link between these projects and the regional priorities of Africa. There is the need for the African Union Commission (AUC) and the subregional economic communities to play a more active role in setting the agenda as well as pace of relations with Southern partners. This is necessary to ensure that Southern partners pay more attention to the regional priorities of NEPAD that are critical to the development of productive capacity and boosting intra-African trade and investment. In this regard, it is interesting to note that at the eighth ordinary session of the Assembly of the African Union held in Addis Ababa from 29–30 January 2007, African leaders decided that the AUC should coordinate Africa's preparation, conduct and follow-up of implementation of decisions made at all FOCAC summits.

Another challenge facing African countries in dealing with Southern partners is how to ensure that their engagement is not concentrated in a few countries. There is a concern that the key Southern partners have more activities and engagements with large, resource-rich and politically strategic countries in the region. While the desire of Southern partners for natural resources is understandable, they

have a responsibility to ensure that the relationship with Africa yields maximum benefits to both sides. In this regard, there is the need for balance between the strategic interests of Southern partners and Africa's development needs. This will ensure that their engagement in the region is not focused on resource-rich countries and yields positive benefits for the region.

The increase in initiatives, structures and processes to support the new relationships between Southern partners and Africa also imposes enormous burden on the already weak capacity in the region. Each partner has established its own cooperation framework and processes thereby putting enormous burden on African governments in terms of human and financial resources. For example, the Republic of Korea's engagement with the region involves three channels: the Republic of Korea–Africa Forum; the Republic of Korea–Africa Economic Cooperation Conference; and the Republic of Korea–Africa Industry Cooperation Forum. Participation in these events is costly both in terms of human and financial resources. China, India and Turkey also have their own processes and structures for engagement with Africa. It would be desirable for these partners to consider streamlining and aligning their initiatives to reduce the transactions costs to Africa and maximize their benefits. For example, the Asian countries could adopt the NAASP as their framework for engagement with the region while South American countries could use the Africa–South America initiative as the framework for engagement with the region.

Furthermore, it would be useful for Southern partners to identify areas where each country has a comparative advantage and channel their resources and activities to those areas to reduce competition and maximize the development impact of their activities. For example, China has established a niche in the provision of infrastructure and could lead in the development of regional infrastructure. Brazil could take the lead in providing support on tropical agriculture where it has developed tremendous skills that could help the region boost agricultural productivity. The Comprehensive Africa Agriculture Development Programme of NEPAD could serve as a framework for such assistance to ensure that it is consistent with the region's development needs. The Republic of Korea could take the lead on support for green growth and climate change since this is a priority issue for the Republic of Korea and it has technology appropriate for Africa's development needs.

Another challenge facing African countries in the relationship with Southern partners is how to get local stakeholders such as parliaments, the private sector

and civil society more involved or represented in the partnerships. This is important for two reasons. First, although negotiations are done by governments, it is the private sector that is in a position to take advantage of the opportunities created by these partnerships. Second, getting parliaments and civil society more involved in the partnerships will increase transparency and ownership of the process and outcome.

Finally, there is lack of information on the activities of Southern partners in the region. This has led to misunderstandings and made it difficult to conduct a reliable analysis of the impact of their engagement in the region. It would be desirable for Southern partners to make public information on their engagement with Africa as an important step towards increasing transparency and establishing a viable and sustainable relationship with the region.

Chapter 2

Africa's Trade with Developing Countries

International trade has and will continue to play a vital role in the economic development of Africa. It provides employment, contributes to technology transfer and is an important source of foreign exchange needed for imports of intermediate and capital goods used in domestic production. In recent years, African countries have intensified efforts to exploit this potential of trade for growth and poverty reduction. In this regard, it is interesting to note that the strong economic growth performance observed in the region between the second half of the 1990s and the onset of the financial crisis in 2008 was accompanied by a spectacular increase in trade. Africa's total merchandise trade increased from $217 billion in 1995 to $986 billion in 2008. Its share of global trade also increased from 2.2 per cent in 2000 to 3.3 per cent in 2008. This means that Africa currently has a share of world trade that is higher than its share of world gross domestic product (GDP) (2.5 per cent) but much less than its share of world population (14.6 per cent).

The recent growth in Africa's merchandise trade has been accompanied by an increase in the role of developing countries in its trade. Historically, Africa's external trade was geared towards developed countries, mostly in Europe and North America. In recent years, however, there has been a marked shift in the geography of its trade, with non-African developing countries now accounting for a much larger share than in previous decades. This chapter examines the evolving trends and patterns of Africa's trade with developing countries and the consequences for the region's quest for diversification and structural transformation. In this regard, it identifies policy options needed to ensure that Africa's trade with developing countries furthers rather than jeopardizes the achievement of the broad development goals of the region. Furthermore, it explores the impact of the economic and financial crisis on Africa's trade with developing countries. Finally, it examines the growing cooperation between Africa and developing countries in multilateral trade negotiations and how it could contribute to enhancing the region's bargaining power and integration in the multilateral trading system.

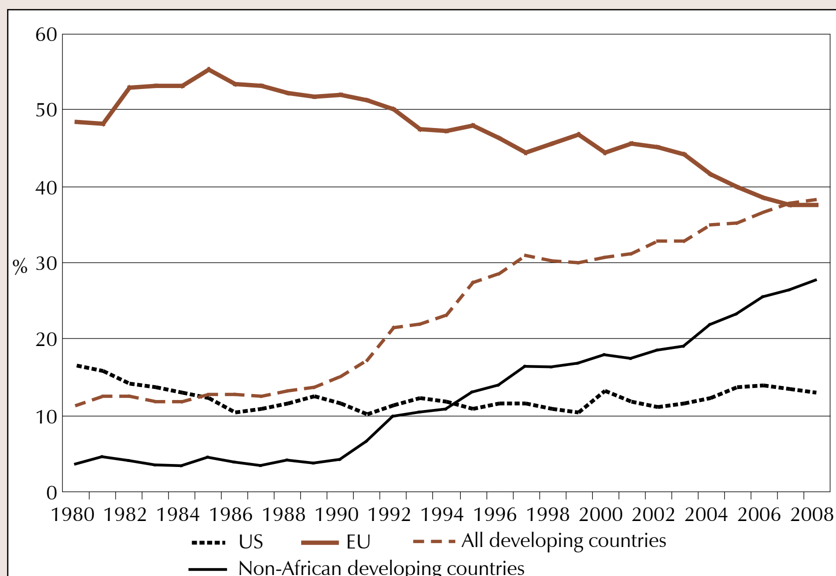
A. Trends and patterns of Africa's trade with developing countries

There has been a marked increase in the importance of developing countries in Africa's merchandise trade.[12] Africa's total merchandise trade with non-African developing countries increased from $34 billion in 1995 to $283 billion in 2008, while trade with developed countries increased from $138 billion to $588 billion over the same period. There has also been an increase in intra-African trade from $46 billion in 1995 to $115 billion in 2008. As a result of these developments, the share of non-African developing countries in Africa's extraregional trade increased from 19.6 per cent in 1995 to 32.5 per cent in 2008, while their share of the region's total trade rose from 15.4 per cent to 28.7 per cent over the same period.[13] The growing share of developing countries in Africa's trade has led to a reduction in the proportion of the region's trade going to its traditional partners in Europe and North America. While the European Union (EU) remains Africa's largest trade partner, its share of Africa's trade has declined from around 55 per cent in the mid-1980s to below 40 per cent in 2008. The United States has also experienced a fall in its share of African trade relative to the early 1980s. Since the mid-1980s its share has hovered between 10 and 14 per cent of Africa's trade (figure 3).

It is interesting to note that the increase in Africa's trade with non-African developing economies has been mainly due to expanding trade with Asia. In the 1990s, India, the Republic of Korea and Taiwan Province of China were the main drivers of this expansion along with a small but already increasing share of trade with China. In the most recent decade, however, it appears that the expansion of trade between Africa and China has been the main driver of the rapidly increasing share of developing countries in Africa's trade. The value of trade between Africa and China increased nearly tenfold between 2000 and 2008 and amounted to $93 billion in 2008, making China Africa's second largest trade partner after the United States, and its largest developing country partner by far. China alone now accounts for about 11 per cent of Africa's external trade and is the region's largest source of imports. Other countries such as Brazil, Saudi Arabia, Turkey and the United Arab Emirates have also increased their shares of African trade considerably and were among Africa's top 20 trading partners in 2008 (figure 4).

Africa has a trade deficit with developing countries but a surplus with developed countries. Although there has been an increase in Africa's trade with

Figure 3
Share of Africa's total trade accounted for by selected partners, 1980–2008

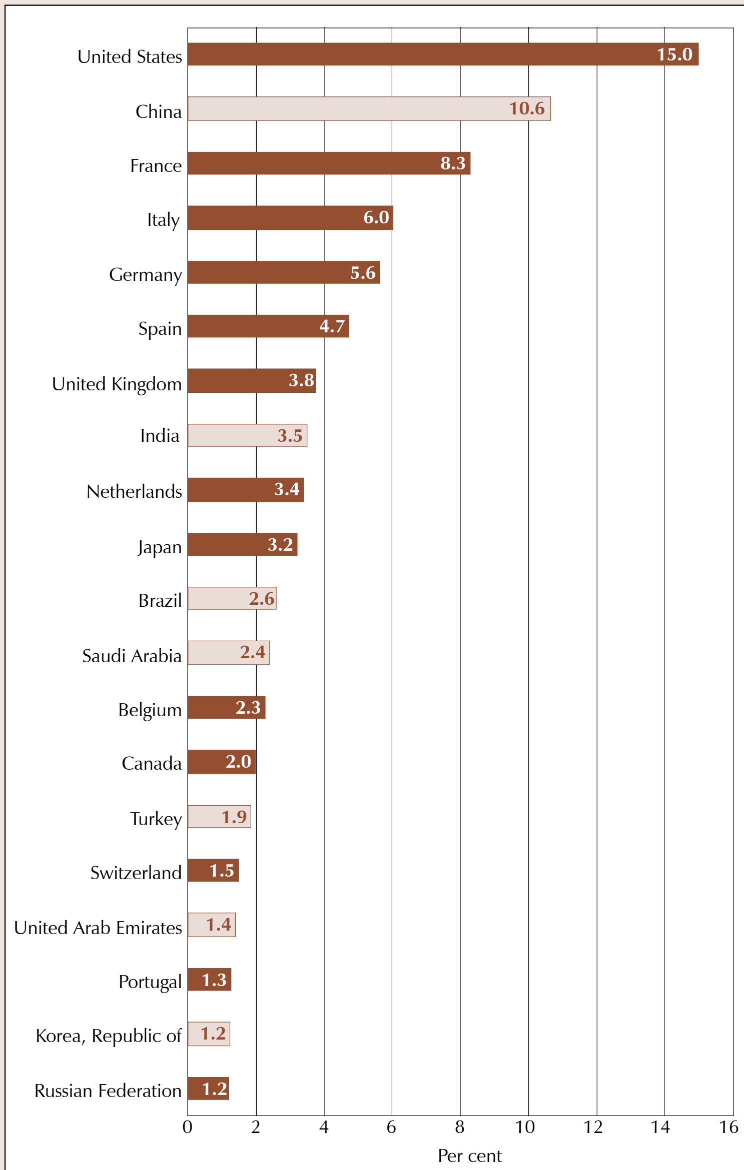


Source: Computed using IMF *Direction of Trade* data.

developing countries, the composition is skewed more towards imports rather than exports. Figure 5 shows that over the period 2000–2008, the share of non-African developing countries in Africa's imports was more than their share of Africa's exports. Furthermore, as a result of the rapid growth of imports relative to exports, the region's trade deficit with non-African developing countries increased from $1 billion in 2000 to $37.2 billion in 2008. Although Africa has a trade deficit with non-African developing countries, there are differences in trade patterns across countries. For example, Brazil is the only developing country with whom Africa maintains a large trade surplus, representing over 22 per cent of its trade with the region in 2008. China, India and Turkey all have fairly balanced trade with Africa. In contrast, Africa has trade deficits with the Republic of Korea, Saudi Arabia and the United Arab Emirates. In contrast to its trade with developing countries, Africa's recent trade with developed countries has been characterized by faster growth in exports than in imports. Consequently, the region currently has a trade surplus with developed countries. Overall, Africa's trade with the world has been in surplus since 2000 because the surplus with developed countries outweighs the deficit with developing countries.

Figure 4

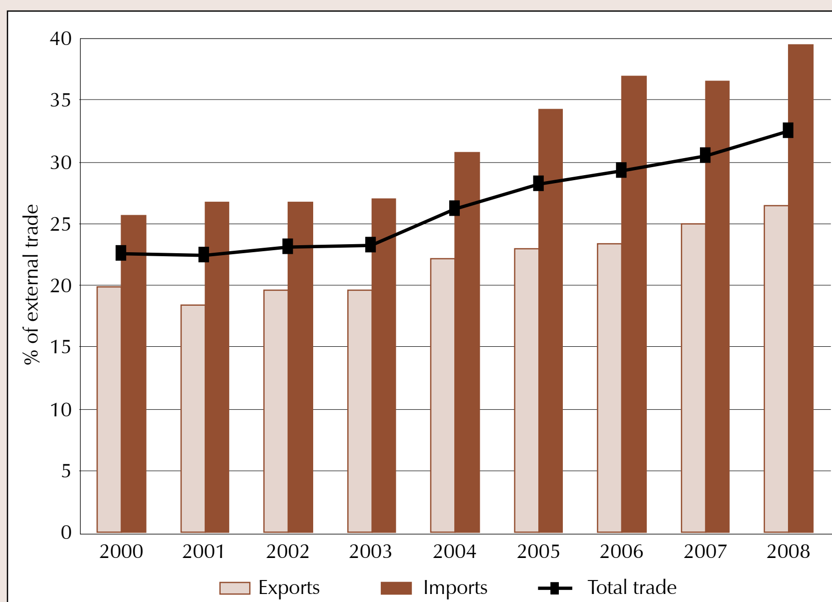
Africa's extraregional trade: share of main trading partners in 2008



Source: UNCTAD.

Figure 5

Composition of Africa's trade with non-African developing countries, 2000–2008



Source: UNCTAD.

Africa's exports to developing countries are concentrated by country of origin. A few African countries account for a large proportion of the region's exports to developing countries (table 2). In 2008, the five largest African exporters to developing countries accounted for 67.5 per cent of the regions' total exports while the top 10 accounted for 89.2 per cent. These figures are up from 61.5 per cent and 79.7 per cent respectively in 1995. This phenomenon is not, however, specific to Africa's exports to developing countries. Indeed, Africa's exports to developed countries are similarly concentrated with the top five and top 10 exporters accounting for 69.2 and 86.5 per cent of total exports respectively in 2008. The largest exporters to developing countries and to developed countries are largely the same even though there are some shifts in their rank and importance. Perhaps the most striking of these is Angola. While Angola accounted for 9.5 per cent of Africa's exports to developed countries in 2008, making it the fifth largest African exporter, it was by far Africa's largest exporter to developing countries, accounting for 26.1 per cent.[14]

Table 2
Top five African exporters to major developing country partners, 2008

Partner	China	India	Brazil	Saudi	Turkey	United Arab Emirates	Republic of Korea
Exporter's rank							
1	Angola (48)	Nigeria (47)	Nigeria (38)	Egypt (51)	Algeria (37)	South Africa (24)	South Africa (42)
2	Sudan (15)	South Africa (14)	Algeria (23)	South Africa (15)	Libyan Arab Jamahiriya (36)	Angola (18)	Algeria (22)
3	South Africa (9)	Egypt (10)	Angola (17)	Morocco (8)	Egypt (9)	Egypt (15)	Egypt (16)
4	Congo (7)	Angola (8)	Morocco (10)	Ethiopia (6)	South Africa (6)	Sudan (7)	Nigeria (6)
5	Equatorial Guinea (5)	Morocco (5)	South Africa (5)	Sudan (5)	Morocco (4)	United Rep. of Tanzania (5)	Morocco (4)

Source: UNCTAD.
Note: The figure in parentheses is the share of each exporter in Africa's total exports to the relevant partner.

The fact that Africa's exports to these important developing country partners come from a small number of source countries raises the question of whether these are truly important partners for Africa or if they appear to be because of heavy trade with a handful of countries. Comparing the weight of Africa's main developing country trade partners for the region as a whole and for individual African countries does indeed show disparities in several cases. China and India have almost equal importance in both measures, suggesting that their importance to most individual African countries largely matches their importance to Africa as a whole. Brazil, the Republic of Korea, Saudi Arabia and Turkey, on the other hand, all have much lower importance for most African countries than their aggregate weight would suggest. This means that although they are important export destinations for Africa as a whole, there are in fact few African countries that export much to them. The United Arab Emirates, however, are more important to most African countries than the aggregate figure suggests. These results are confirmed by a listing, for each of these developing countries, of the number of African countries who count them as one of their top 10 export markets. While China and India appear in the top 10 for 26 and 22 African

countries respectively, Brazil shows up in the list for only five. This contrasts with the United Arab Emirates, which is one of the top 10 export markets for nine African countries in spite of its imports from Africa being nearly twice as low in value terms as Brazil's.

Africa's imports from developing countries are concentrated by country of destination. Another feature of Africa's trade with developing countries is that a few countries in the region account for the bulk of its imports from non-African developing countries. In 2008, South Africa accounted for 23 per cent of the region's imports from non-African developing countries. Furthermore, five countries (Algeria, Egypt, Morocco, Nigeria and South Africa) accounted for 57 per cent of imports from non-African developing countries in 2008.

Africa has also become an important trading partner for many developing countries. Africa accounts for an increasing share of total trade in several developing countries. Developing countries such as Argentina, Lebanon, Pakistan, the Syrian Arab Republic and Turkey depend on Africa more as a market for exports than as a source of imports (table 3). Other countries such as Brazil, China and Trinidad and Tobago, on the other hand, import a larger share from Africa than they export. Of the 12 developing countries that import more from Africa than the world average, seven mainly import oil. Africa's importance to developing countries is, however, considerably larger than the aggregate figures above suggest. In many cases, developing countries may rely on Africa as a source of strategic resources such as fuels or minerals for which the region is a main producer. For example, Africa, accounted for over 73 per cent of Brazil's imports of crude oil and 30 per cent of China's in 2008.

Table 3

Africa's importance in key developing countries' trade, 2008

	Share of total	Share of exports	Share of imports
Syrian Arab Republic	9.10	12.0	6.80
India	8.45	8.46	8.44
Brazil	6.98	5.13	9.10
Lebanon	6.30	15.36	4.34
Trinidad and Tobago	5.83	2.16	12.96
Jordan	5.77	6.88	5.25
Turkey	5.04	6.87	3.85
Pakistan	4.72	6.77	3.74
Argentina	4.36	7.22	0.87
China	4.18	3.57	4.94

Source: UNCTAD.

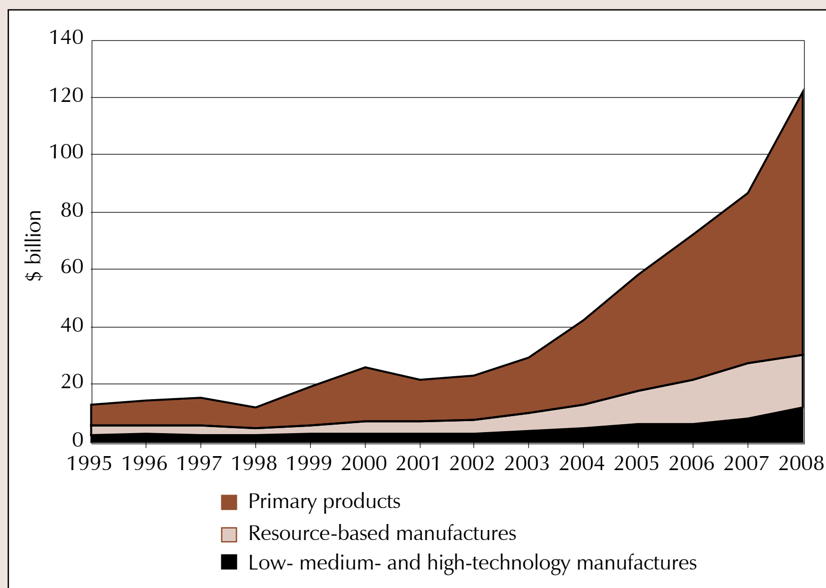
Overall, non-African developing countries trade with Africa almost as much as developed countries. In 2008, 3.1 per cent of developed country trade was undertaken with Africa compared with 2.9 per cent of developing country trade. However, since 2000, Africa's share of developing country trade has been increasing faster than its share of developed country trade. If current trends continue, Africa's share of developing country trade could soon overtake its share of developed country trade. In terms of the nature of this trade, it is the case for both developing and developed countries that Africa accounts for a larger share of their imports than of their exports. This distinction is, however, less marked for developing countries than it is for developed ones.

Africa's exports to other developing countries have increasingly been dominated by primary products. Another marked feature of Africa's trade with developing countries is that the composition of its exports to other developing countries has shifted towards primary products at the expense of manufactures (figure 6). While primary products accounted for 55 per cent of African exports to non-African developing countries in 1995, their share rose to 75 per cent in 2008. Over the same period, the share of resource-based manufactures in African exports to non-African developing countries fell from 27 to 15 per cent and that of low, medium and high technology manufactures from 18 to 10 per cent.[15] Fuels account for a large proportion of Africa's primary commodity exports to non-African developing countries. In 2008, they accounted for 67 per cent of exports of primary commodities. Within the category of fuels, oil accounted for 89 per cent of Africa's fuel exports to non-African developing countries in 2008 while natural gas and coal accounted for 9 and 2 per cent respectively.

There are several reasons for the increasing share of oil in Africa's exports to developing countries. It is partly the result of increasing oil production in the region as new producers such as Equatorial Guinea have emerged and others such as Angola have increased production following the end of violent conflicts. It is also a consequence of rapidly rising prices for oil from $17 per barrel in early 1999 to over $147 per barrel in July of 2008. Finally, developing countries such as Brazil, China and India have grown rapidly over the past decade, thereby dramatically increasing their energy needs. The result of this spectacular expansion in oil exports to developing countries is that although the value of low, medium and high technology manufacturing exports from Africa to non-African developing countries has increased from $2.3 billion in 1995 to $12 billion in 2008, its share of the region's exports to non-African developing countries has fallen sharply from 18 per cent to 10 per cent over the same period.

Figure 6

Structure of Africa's exports to non-African developing countries, 1995–2008



Source: UNCTAD.

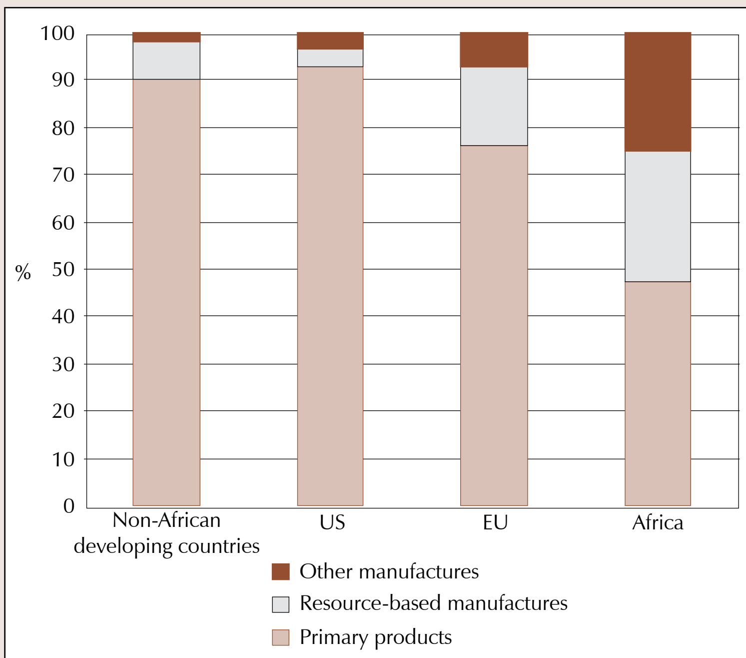
There is relatively no major difference between these aggregate trends and those of Africa's exports to key developing country partners. Africa's exports to China, for example, changed from a near balance between primary products and manufactures in 2001 to an 84 to 16 per cent split in favour of primary products in 2008. Turkey is Africa's only major developing country export market for which manufactures have slightly increased their share of total exports in recent years, though primary products still dominate, accounting for 80 per cent of exports in 2008. As a result of the changing composition of Africa's exports to non-African developing countries in the past decade however, there is now very little difference between the composition of Africa's exports to developing and developed countries (figure 7). In both cases, primary products account for nearly three quarters of total exports while resource-based manufactures account for 12–15 per cent. Low, medium and high technology (other) manufactures make up a small part of exports to both groups, accounting for about 10 per cent of exports to developing countries and 14 per cent of exports to developed

countries. This contrasts with the situation with intra-African trade, which remains considerably more balanced in terms of composition.

Among Africa's main developing country partners, low, medium and high technology manufactures only represented 3.1 per cent of exports to China and 3.9 per cent of exports to India in 2008. It is striking to note that those developing countries to which Africa exports the most are those for whom low, medium and high technology manufactures represent the lowest shares. Indeed, the share of low, medium and high technology manufactures in Africa's exports to countries such as the Republic of Korea, Saudi Arabia and the United Arab Emirates was higher than 10 per cent in 2008.

Figure 7

Composition of Africa's exports to main export partners, 2008

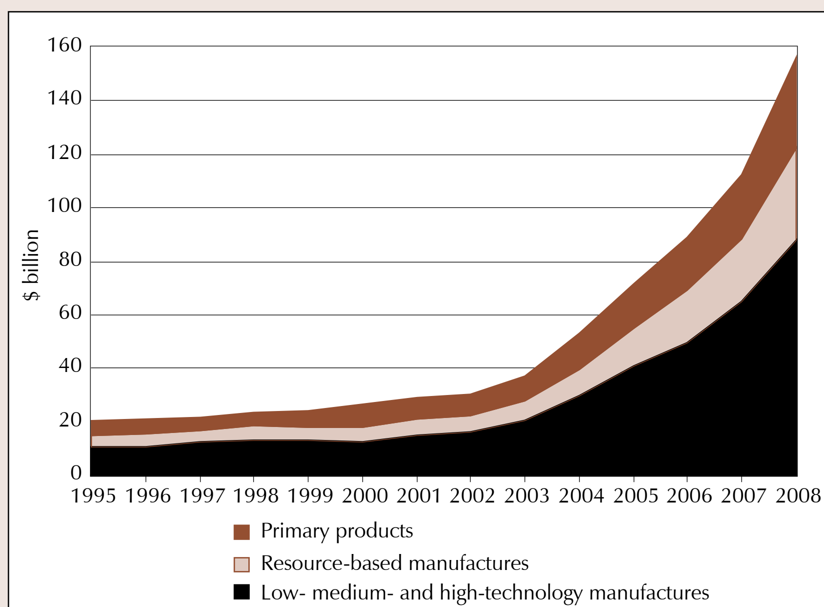


Source: UNCTAD.

Africa's import from other developing countries has been increasingly dominated by manufactures. With regard to imports, Africa is increasingly importing technology-intensive manufactures from non-African developing countries (figure 8). The share of low, medium and high technology manufactures in Africa's imports from non-African developing countries increased from 47 per cent in 2000 to 56 per cent in 2008, while the share of primary products fell from 32 to 22 per cent over the same period. Africa's imports from the major developing country trade partners reflect this general trend. For example, the share of low, medium and high technology manufactures in Africa's imports from China increased from 76 to 86 per cent over the period 2000 to 2008. These broad patterns resemble that of imports from developed countries. Primary products account for 14 per cent of Africa's imports from developed countries while low, medium and high technology manufactures account for 69 per cent.

Figure 8

Composition of Africa's imports from non-African developing countries, 1995–2008



Source: UNCTAD.

B. Emerging issues, concerns and policy options

A key issue emanating from the current pattern of Africa's trade with developing countries is the fact that exports are increasingly concentrated in primary commodities while imports tend to be manufactures, thereby reinforcing commodity dependence and replicating the existing pattern of trade with developed countries. This evolving pattern of trade with developing countries could be explained in part by: increased demand for natural resources by large developing countries; an increase in oil production by new producers as well as former producers emerging from conflicts; and lack of international competitiveness of African producers in the market for manufactures (Broadman, 2007). Notwithstanding these facts, the increasing concentration of Africa's exports on primary commodities is and should be of concern to the region. There is considerable evidence that, far from being equivalent, the type of product that a country exports matters considerably for its future economic growth and development (UNCTAD, 2008a; Hausmann *et al.*, 2007; Lall *et al.*, 2006). Manufactures, especially medium and high technology manufactures, have a production structure that is often strongly linked to the rest of the economy that produces them. Furthermore, they have fairly high income elasticities of demand and tend to offer better prospects for future growth (Lall, 2000).

Primary products such as oil and metal ores, on the other hand, have production structures that are often poorly linked to the rest of the economy and therefore have less positive externalities for the producing country. Moreover, their prices on world markets tend to be more volatile than those of manufactured products and are out of the control of producers, which creates considerable macroeconomic instability for exporters. These factors help to explain why it has been found that natural resource-abundant countries have grown slower than relatively resource-poor economies (Sachs and Warner, 1995; Atkinson and Hamilton, 2003). Furthermore, oil and other extractive industries are highly capital intensive, generating very limited amount of employment. This fact partly explains why Africa's recent growth had little impact on employment creation in the region. As employment is one of the major links between growth and poverty reduction, the concentration of African export growth on extractive industries limits the contribution of the export sector to poverty reduction in the region (International Labour Organization, 2008).

Another concern for many African countries is that large-scale imports of manufactures from other developing countries are increasingly competing with domestic production, with dire consequences for local manufacturing production. This is especially the case given the fact that the manufactured products imported from other developing countries tend to be consumer rather than capital goods. Consequently, these imports are not goods that contribute to improving productive capacities of African countries. Rather, they tend to compete with products that were either imported from other sources or might previously have been produced in the region. Indeed, it has been reported in many African countries that the influx of cheap manufactured products, mostly from China, presents challenges for local manufacturing firms (e.g. Onjala, 2008; Kaplinsky and Morris, 2007). In some cases, the competition has been so severe that even traditional products that had been manufactured in Africa for several centuries are now being almost exclusively produced in China (Idun-Arkhurst, 2008). This threat to manufacturing exports potentially has large consequences for industrial development and competitiveness as it has been found that exporting firms have significantly higher productivity than non-exporting firms in Africa (Mengistae and Patillo, 2004).

It is interesting to note that China is rapidly moving up the global value chain and leaving space for other developing countries to produce some of the low technology manufactured goods it currently produces. There is a need for African countries to position themselves to take advantage of these new opportunities for export market expansion in the manufacturing sector. So what should be done? An effective response to the challenges facing Africa's manufacturing sector requires lifting the constraints on international competitiveness of manufacturing firms in the region. In particular, it requires improving access to credit and addressing the problem of poor infrastructure.

Access to credit is a key factor inhibiting the development of manufacturing production and exports in the region. In many African countries, small and medium-sized enterprises (SMEs) often find it difficult to gain access to credit. Governments can stimulate the extension of credit to these firms, for example by creating or overseeing the creation of a credit information bureau that would reduce the risk of lending to financial institutions and provide an incentive for them to increase lending to SMEs. Another major constraint to manufacturing competitiveness in Africa is the poor state of infrastructure. Unreliable access to power limits productivity while poor transport infrastructure raises trade costs dramatically, especially for landlocked countries. African governments should

take proactive steps to improve domestic and regional infrastructure. Specific actions will vary from country to country depending on resource availability. Countries that benefit from commodity export price windfalls could seek to use the additional revenues to fund infrastructure provision while those with less financial resources should encourage their development partners to provide support. In this regard, the increasing involvement of Southern partners in infrastructure finance is welcome.

Despite recent advances, there is the need to broaden the scope of Southern finance to regional infrastructure so as to exploit its potential to boost intra-African trade and maximize impact. In addition, African countries should seek to coordinate infrastructure development with their neighbours through regional or pan-African institutions. Ensuring regional cooperation in infrastructure development is of special relevance to landlocked countries as they depend not only on their own infrastructure but also on that of neighbouring and transit countries. Southern partners could also play a direct role in boosting Africa's capacity to export manufactures by contributing to the Aid for Trade Initiative as well as making technology transfer an important component of their technical assistance to the region. It is important to emphasize that the development of the manufacturing sector should not be achieved at the expense of the primary product sector because the latter is likely to remain the most important export earner for many countries in the region in the short and medium term.

C. The financial crisis and Africa's trade with developing countries

The global financial and economic crisis has had a considerable impact on Africa's trade and economic development prospects. It has also revealed the extent to which developing countries matter for Africa's current and future economic development. Prior to the crisis, Africa was enjoying its longest and most widely spread growth episode, driven mostly by improvements in macroeconomic policies and buoyant commodity exports (IMF, 2009). The financial and economic crisis is slowly reversing these gains in economic performance. For the first time since 1994, the real GDP growth rate in sub-Saharan Africa in 2009 was insufficient to match population growth, resulting in a fall in income per capita. Given the large proportion of the population living close to the poverty line in Africa, this fall will add up to 10 million people to the number of people below the $1.25 per day poverty line in 2009 and 2010 (IMF, 2009).

International trade has been particularly affected by the crisis. While global GDP is estimated to have contracted by 2.2 per cent in 2009, world trade volume is estimated to have declined by 12.5 per cent, the first decline in world trade in over 60 years (United Nations, 2009c). Furthermore, this decline has affected both developed and developing countries and has had important consequences for Africa's trade with the South. For many African countries, the effect of the global slowdown has meant a reduction in both the volumes of their exports as well as their prices. Consequently, the region lost 30–50 per cent of its 2008 export revenues in 2009 (AfDB, 2010). Furthermore, in sub-Saharan Africa, it is estimated that exports as a share of GDP fell from 41.0 per cent in 2008 to 31.2 per cent in 2009 (IMF, 2009). While the crisis has had a negative effect on trade through a decline in growth, it has also affected Africa's trade through lower access to trade credit (AfDB, 2010).

The impact of the crisis has varied considerably both across and within regions. In broad terms, developed countries were affected more severely and their recovery is expected to be slower than for large developing countries, particularly China and India (table 4). The differing impact of the crisis on developed and developing countries is likely to affect the geography of Africa's future trade. The expected faster recovery of growth in China and India will have a positive effect on the demand for African exports. Indeed, following a fall of 8.4 per cent in the volume of emerging and developing countries' imports of goods and services in 2009, these are forecast to increase by 9.7 per cent in 2010 and 8.2 per cent in 2011. Advanced country imports, on the other hand, are expected to grow at 5.4 per cent in 2010 and 4.6 per cent in 2011 (IMF, 2010).

Table 4

Estimated GDP growth rates for selected regions and countries, 2008–2011

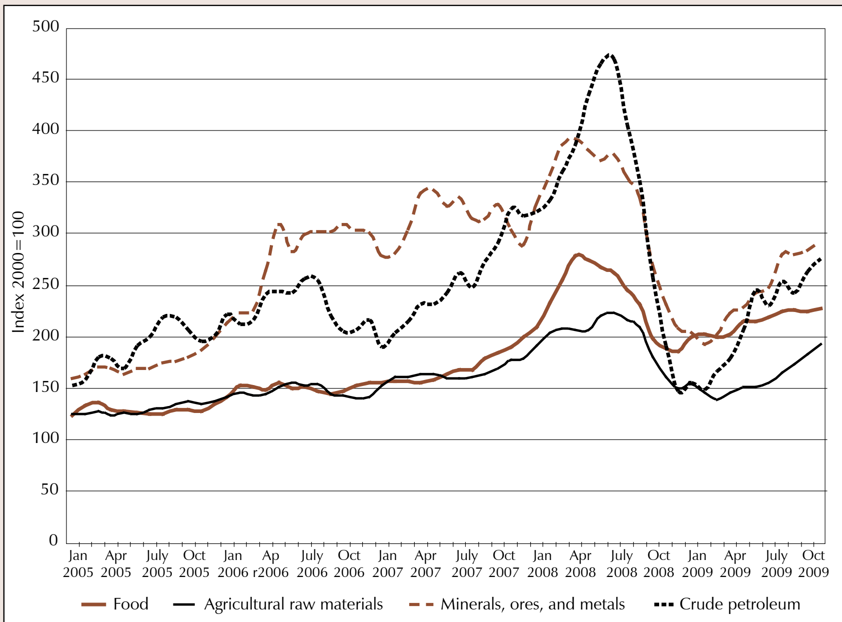
	2008	2009	2010	2011
Advanced	0.5	-3.2	2.3	2.4
Emerging and developing	6.1	2.4	6.3	6.5
Sub-Saharan Africa	5.5	2.1	4.7	5.9
Euro Area	0.6	-4.1	1.0	1.5
United States	0.4	-2.4	3.1	2.6
China	9.6	8.7	10.0	9.9
India	7.3	5.7	8.8	8.4
Brazil	5.1	-0.2	5.5	4.1

Source: IMF (2010).

The pickup in demand is already visible to some extent in the commodities market, with rising commodity prices in the first half of 2009 (figure 9). Recent forecasts indicate that this rebound in commodity prices will continue through 2010 and 2011, especially for oil but also for non-fuel commodities. This will be principally due to rapid recovery in the large developing economies, particularly China and India (IMF, 2010). In many ways, the economic and financial crisis has brought out the importance of developing countries in Africa's trade and economic development. The increasing diversification of Africa's export markets has helped the region to weather the current crisis faster and with less damage done than in previous external shocks. The recovery is fragile, however, and depends greatly on commodity export volumes and prices increasing, and it could take until 2012 for the global demand for African export products to return to pre-crisis levels (World Bank, 2010; IMF, 2010). The important role of developing countries in Africa's trade and economic development is nonetheless

Figure 9

Trends in commodity prices, 2005–2009
(Index 2000=100)



Source: UNCTAD.

likely to be a lasting feature. In the medium term, this influence will probably increase relative to its developed country partners as the latter face a slower and less forceful recovery from the crisis. In the longer term, it is also likely that trade between Africa and some of its major developing country partners will increase as developing countries come to represent a larger share of world trade and wealth. It has been estimated that if current trends continue, China, India and Brazil will respectively become the world's second, fourth and seventh largest economies by 2030 (Freemantle and Stevens, 2009).

D. Africa–South cooperation in multilateral trade negotiations

Africa's growing cooperation with developing countries on trade issues is also evident in ongoing multilateral trade negotiations. Over the past decade, countries in the region have shown a keen interest in multilateral trade issues and have strengthened cooperation with other developing countries to further as well as to protect their interests in the trading system. As a result, the region now plays a relatively more active role in multilateral trade negotiations. The third World Trade Organization (WTO) Ministerial Conference, held in Seattle in 1999, marked a turning point in this respect when African countries, in collaboration with other developing countries, expressed their dissatisfaction with the outcomes of the Uruguay Round of negotiations and rejected the launch of a new round until their grievances were heard and better addressed.

This developing country activism in trade negotiations had a strong influence in setting the tone, if not the agenda, of the fourth WTO Ministerial Conference held in Doha in 2001 and was the primary reason why important development issues were incorporated into the Doha Round work programme. Since the launch of the Doha Round, African countries have further increased their capacity to participate in the negotiations in an effective manner and it is becoming increasingly difficult for developed countries to further their interests in the global trading system without offering concessions to address the interests of the region and those of other developing countries (UNCTAD, 2007; Page *et al.*, 2008).

African countries participate in a number of negotiating groups to defend their interests in the Doha Round negotiations. Notable among these is the Africa Group, an informal grouping of African trade negotiators that aims to promote

the region's common interests in the multilateral trade system (Osakwe, 2007). They are also active in the Least Developed Countries (LDCs) Group, which promotes the interests of both African and non-African LDCs in the trading system. The African, Caribbean and Pacific Countries (ACP) Group is another important group that African countries participate in. It defends the interests of all countries party to the Lomé and Cotonou Agreements with the EU. The Africa Group, together with the LDC and ACP Groups also formed the G-90 to increase their bargaining power and defend common interests at the 2003 and 2005 WTO Ministerial Conferences. Some African countries are also active in a number of groups, such as the G-20 and the NAMA-11 group of 10 developing countries (Argentina, the Bolivarian Republic of Venezuela, Brazil, Egypt, India, Indonesia, Namibia, the Philippines, South Africa and Tunisia), formed to protect interests on more specific issues.

Africa's cooperation with developing countries in multilateral trade negotiations has had a significant impact in three key areas. First, it has enabled developing countries to influence the agenda and pace of the Doha Round negotiations. When the round was launched, developing countries were against the inclusion of the Singapore Issues — investment, competition policy, government procurement and trade facilitation — in the work programme. However, developed countries ignored their concerns and requests to drop these issues from the Doha Round negotiations. By forming alliances, developing countries have now been able to influence developed countries to abandon three of the Singapore issues – investment, competition policy and government procurement. Second, the formation of alliances between Africa and other developing countries has increased their level of participation in the negotiation process. Prior to the WTO Ministerial Conference in Cancun, important decisions in the negotiations were made in "Green Room" meetings in which Africa was hardly represented. In Cancun, however, an effort was made to include African countries in the decision-making process. For example, the Kenyan Minister of Trade was one of the co-facilitators of the conference. Furthermore, at the WTO Ministerial Conference in Hong Kong, China, the Zambian Minister of Trade and the Nigerian Minister of Commerce were co-facilitators of the conference. These represent important changes in the WTO negotiation process in response to the increasing bargaining power of African countries. Third, as a result of increased cooperation with Africa, several developing countries have put in place schemes to provide preferential market access for products originating from LDCs, most of which are in Africa. Brazil, China and India are examples of developing country partners that have put in place such schemes. These measures have the potential

to boost trade between Africa and developing countries and increase the region's share of global trade.

It should be noted that Africa's cooperation with developing countries in multilateral trade negotiations has not been easy because of the heterogeneity of countries, and in several cases, interests. For example, there are opposing interests between food-importing and food-exporting developing countries on issues of agricultural market access. While the former want to see entry barriers lowered rapidly, the latter worry about increased competition harming national production (Meyn, 2008). There is also a divergence of interests between the big and small developing countries. For example, countries such as Brazil, China, India and South Africa are competitive in the market for agricultural goods and are interested in rapid and ambitious reforms to increase market access. On the other hand, most African countries, as well as the smaller developing countries, rely on preferences and are worried about the erosion of these preferences by rapid and ambitious agricultural trade reforms. There are also differences between developing countries on the removal of trade barriers within the group. For example, several countries are not participants in the São Paulo Round of the Global System of Trade Preferences among developing countries. It would be desirable if developing countries reconcile their differences on this issue and increase efforts to conclude negotiations in this area. In this regard, the adoption of modalities for market access by ministers of countries participating in this system at their meeting in Geneva on 2 December 2009 is welcome.

Despite these challenges, African countries continue to strengthen and enhance collaboration with developing countries in the negotiations by focusing on areas of common interest such as the need for special and differential treatment, Aid for Trade and the elimination of cotton subsidies. The elimination of cotton subsidies is of particular interest to the Cotton-Four West Africa countries (Benin, Burkina Faso, Chad and Mali) and has become a symbol of the imbalances in the global trading system. Developing countries have rallied around this issue and have supported Africa in putting pressure on developed countries to eliminate their domestic support measures on cotton in a meaningful and timely fashion. Overall, African countries have much to gain from cooperation with developing countries in the multilateral trading system. By exploiting common interests and cultivating strong links with developing countries, they increase the likelihood of achieving a positive outcome in the negotiations. To do this effectively, however, the burden is on African countries to have a clear vision of their interests and to be strategic in their efforts to achieve their objectives.

E. Conclusion

The strong growth in the value of African trade over the decade leading up to the global economic and financial crisis has in large part been driven by a rapid increase in the region's trade with the developing world. While many African countries are benefiting from enhanced trading ties with other developing countries, the evolving nature of these ties is raising concerns in the region. Africa's trade with developing countries is reinforcing commodity dependence and replicating the pattern of trade with developed countries. This pattern of trade has potentially dire consequences for Africa's ability to create its own internationally competitive manufacturing sector. There is a need for African countries to redefine their trade relations with developing countries and adopt measures to transform their economies and boost productive capacity in the region. This requires improving the business environment, addressing the problem of poor infrastructure, enhancing access to credit and transfer of skills and technology by, for example, providing targeted incentives to encourage foreign firms to train local employees. It also requires encouraging developing country partners to redirect part of their official flows to the development of productive capacities in the region.

Chapter 3

Southern Official Flows to Africa: Trends, Features and Challenges

In recent years, Africa has received significant amounts of financial contributions from both developed and developing countries. While Africa's traditional partners generally refer to their contributions as aid or ODA, Southern partners do not consider their financial contributions to other developing countries as aid or ODA. Rather they describe these as "expressions of solidarity and cooperation borne out of shared experiences and sympathies". Despite these differences, it should be noted that there is no agreed language on what these contributions from Southern partners to other developing countries should be called. Consequently, in this report we use the term "official flows", where appropriate, to describe contributions from Southern partners with the recognition that in the literature "official flows" generally refers to ODA and transactions of the official sector with developing countries that do not meet the conditions for eligibility as ODA (box 4).

Box 4. Definitions of official development assistance and official flows

Official development assistance (ODA): refers to grants or loans to developing countries that: (a) are undertaken by the official sector; (b) have the promotion of economic development and welfare as the main objective; (c) are at concessional financial terms, having a grant element of at least 25 per cent.

Official flows: Official flows are the total disbursements by the official sector of the creditor country to the recipient country. In particular, they are the sum of ODA and other official flows.

Other official flows: refer to transactions by the official sector with developing countries that do not meet the conditions for eligibility as ODA either because they are not primarily aimed at development, or because they have a grant element of less than 25 per cent.

Source: United Nations (2008) and the website of the Organization for Economic Cooperation and Development (OECD).

The chapter is organized as follows. Section A presents and discusses quantitative estimates of aid flows to Africa from both traditional and Southern partners. Section B identifies features of official flows from Southern partners, where possible pointing out important differences between the practices of traditional and Southern partners. Section C discusses emerging issues arising from the activities of Southern partners, while Section D examines the impact of the financial and economic crisis on official flows from Southern partners. Section E discusses how the provision of support by Southern partners affects aid effectiveness. The last section contains concluding remarks.

A. Quantitative estimates of aid flows to Africa

Since the beginning of the new millennium, there has been an increase in the volume of aid flows to Africa as well as in the role of developing countries in providing support to the region. Available data in the OECD database indicates that net ODA to Africa increased from $15.6 billion in 2000 to $44 billion in 2008 and Africa's share of ODA flows to developing countries rose from 31 to 34 per cent over the same period (table 5).[16] In 2008, net ODA flows to Africa from members of the Development Assistance Committee (DAC) of the OECD amounted to $27.2 billion, representing 61.8 per cent of total reported flows to the region. Flows from multilateral agencies and non-DAC partners accounted for 36.8 and 1.4 per cent respectively. With regard to bilateral aid, in 2008 DAC countries accounted for 97.8 per cent while non-DAC partners accounted for 2.2 per cent of reported flows to the region.

Table 5

Net ODA disbursement by all donors, 2000–2008

(in millions of current dollars)

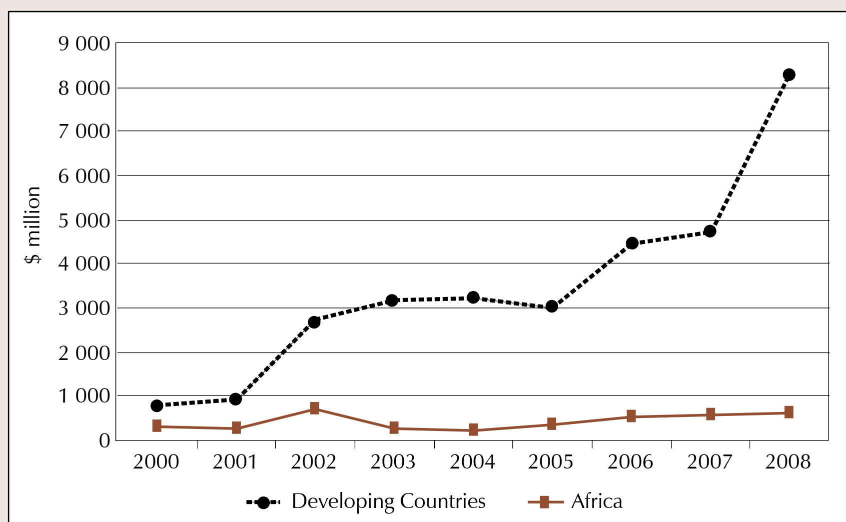
Recipients	2000	2001	2002	2003	2004	2005	2006	2007	2008
Developing countries	49 791	52 267	60 858	71 121	79 399	107 975	106 149	107 102	128 608
Europe	3 715	3 373	5 055	3 552	3 603	4 044	5 035	4 187	6 570
Africa	**15 558**	**16 791**	**21 772**	**27 256**	**29 710**	**35 507**	**43 502**	**39 122**	**44 005**
America	4 838	5 990	5 076	6 129	6 803	6 706	7 308	6 954	9 262
Asia	15 916	16 870	19 080	20 280	22 881	45 575	32 930	35 607	44 159
Oceania	816	781	714	817	939	1 161	1 199	1 309	1 535
Unspecified	8 947	8 463	9 161	13 087	15 464	14 983	16 174	19 924	23 077

Source: OECD database.

While DAC countries still account for a large part of reported ODA flows to Africa, support from non-DAC partners recorded in the OECD database has grown since 2000 (figure 10). For example, reported ODA flows from non-DAC partners to Africa increased from $300 million in 2000 to $604 million in 2008. Despite the positive trend, it should be noted that Africa's share of reported non-DAC aid fell from 38 per cent in 2000 to 7.3 per cent in 2008. A large part of the decline is due to an increase in aid flows to countries in the Middle East by Arab partners who are important providers of non-DAC aid. For example, in 2008, Kuwait, Saudi Arabia and the United Arab Emirates provided 63 per cent of reported aid flows by non-DAC partners.

Figure 10

Net ODA disbursements by non-DAC partners reported to OECD
($ millions)

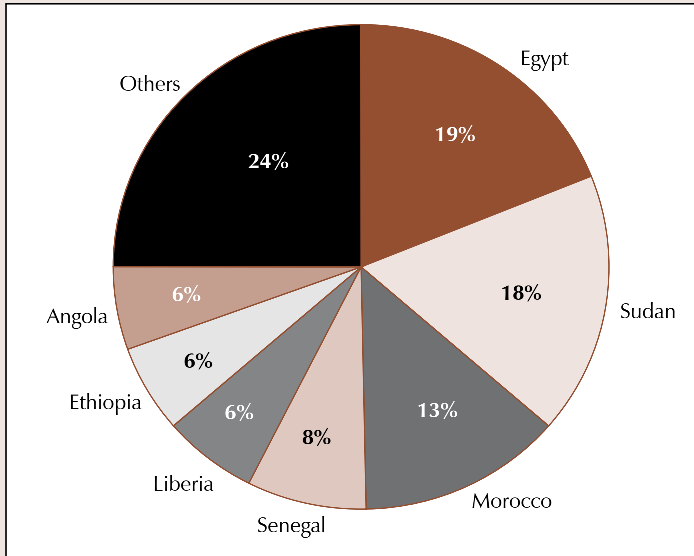


Source: OECD database.

In terms of beneficiaries, reported non-DAC aid to Africa is highly concentrated in a few countries. Algeria, Egypt and Sudan received 75 per cent of reported non-DAC aid to the region in 2000 and Egypt, Morocco and Sudan accounted for 50 per cent of these flows in 2008 (figure 11).

Figure 11

Share of recipients in reported non-DAC aid to Africa, 2008



Source: Computed using data from OECD database.

Although reported aid from non-DAC partners looks small relative to those of DAC donors, it should be noted that it does not include support by Southern partners such as the Bolivarian Republic of Venezuela, Brazil, China, Cuba and India. These Southern countries generally do not disclose information on aid disbursements, thereby making it very difficult to obtain comprehensive and reliable data on their aid flows and practices. Indeed, as noted earlier, most Southern partners do not think of themselves as providing aid. Among the Southern partners, Brazil, China, India, Kuwait, the Republic of Korea, Saudi Arabia, Turkey and the United Arab Emirates provide significant amounts of development assistance to Africa.[17] Other countries such as the Bolivarian Republic of Venezuela, Cuba, Malaysia and Thailand provide various forms of support to the region, but the magnitude is relatively very small (Kaplinsky and Farooki, 2009). Consequently, the analyses in this chapter will focus mainly on the eight Southern partners identified above.

A major consequence of the fact that many Southern countries do not provide information on aid flows is that analyses and description of their support

are generally based on estimates by researchers as well as information published in newspapers. Consequently, estimates of aid flows from these countries to Africa vary considerably and are often contradictory. They should therefore be interpreted with caution. Notwithstanding this caveat, there is the recognition that Southern partners are increasingly important providers of aid to Africa (Kragelund, 2008; Kaplinsky and Farooki, 2009). Their growing willingness and ability to provide grants and concessional finance has increased the resources available for development as well as diversified the financing options open to countries in the region. Available data indicates that in 2006 they provided approximately $2.8 billion as ODA to Africa, representing 6 per cent of total aid flows to the region and 9 per cent of bilateral aid (table 6).

China is the main source of Southern aid to the region, accounting for 83 per cent of estimated flows. While we do not have enough information to provide reliable estimates of flows for more recent years, it is likely that the aid figures for 2007 and 2008 are much higher, because since 2006 several pledges have been made by Southern partners to scale up support to the region. For example, at the FOCAC held in 2006, China pledged to double its assistance to Africa by 2009. Furthermore, at the India–Africa Forum held in 2008, India pledged to increase its Aid to Africa budget by $500 million over the next five to six years.

Table 6

Estimate of aid to Africa by main Southern partners in 2006

	$ millions	Source and remarks
Republic of Korea	47.8	OECD database
Turkey	24.9	OECD database
Arab countries (Kuwait, Saudi Arabia and the United Arab Emirates)	290.2	OECD database
China	2 300	Wang and Bio-Tchane (2008) and Besada et al. (2008). Figure includes debt relief, which was $1.3 billion in 2006.
India	11.3	Based on United Nations (2008), India's aid for 2006 was between $504 million and $1 billion. To obtain the reported figure, we took a simple average of the United Nations estimates multiplied by Africa's share, estimated to be 1.5 per cent in 2006.
Brazil	96.1	United Nations (2008) suggests that Brazil's total ODA for 2006 was $356 million. The figure reported here is based on information that about 27 per cent of its ODA goes to Africa (Kragelund, 2008).
Total	**2 770.3**	

Source: UNCTAD.

It is interesting to note that Africa's share of its aid and loan budget has already increased from 1.5 per cent in 2006 to 3.6 per cent in 2008.

In support of the KIAD, launched in March 2006, the Government of the Republic of Korea promised to expand aid to the region threefold by 2008. Furthermore, in September 2007, it introduced an air ticket solidarity levy yielding about $20 million annually to assist LDCs in Africa in their development efforts (Korean International Cooperation Agency (KOICA), 2008). Brazil and Turkey have also promised to increase support to the region in recent years.

In general, countries endowed with natural resources (e.g. Angola, Nigeria and Sudan) as well as large and politically strategic countries (e.g. Egypt, Ethiopia and South Africa) receive the bulk of aid provided to Africa by Southern partners. However, some small countries with neither resources nor economic and political clout are increasingly receiving significant support (table 7). In this regard, one of the challenges facing Southern partners, and also traditional donors, is how to improve aid allocation to ensure that countries in need get more access to aid envelopes. This requires the adoption of aid allocation criteria that focuses more on need rather than geography, endowments or ideology.

B. Features of official flows from Southern partners

It is difficult to provide a comprehensive and reliable estimate of the scale of official flows from Southern partners to Africa because they generally do not provide detailed information on their contributions. Consequently, this section does not attempt to provide an estimate of total official flows by Southern partners. Rather, it presents certain features of official flows to Africa from Southern partners that can be identified based on available information.

The large Southern partners use official flows to promote trade and investment activities. A distinctive feature of official flows from several Southern partners is that they are intertwined with trade and investment activities (Woods, 2008). For example, official flows from China and India have been used to support and promote trade and investment relations with African countries. Both countries use their export-import banks as channels for providing finance and promoting commercial interests in trade and investment. This contrasts with the practice of traditional donors who channel their funds through development agencies and are reluctant to mix official flows with investment activities. The

Table 7

Major recipients of Southern aid in Africa, 2008

Donor	Recipients	Source
Republic of Korea	Angola ($25 million), Liberia ($10 million), Senegal ($10 million), Egypt ($7 million) and the United Republic of Tanzania ($7 million). These countries accounted for 57 per cent of the Republic of Korea's aid to the region in 2008.	OECD database
Turkey	Sudan ($13 million), Somalia ($7 million), Mauritania ($4 million) and Ethiopia ($3 million). These countries accounted for 52 per cent of Turkey's aid to the region in 2008.	OECD database
China	The resource-rich countries (Angola, Democratic Republic of the Congo, Nigeria, Sudan and Zambia) are the main beneficiaries of Chinese development assistance. However, most countries in the region receive support from China. For example, 35 countries in sub-Saharan Africa have benefited from Chinese infrastructure finance.	Davies *et al*. (2008) and Foster *et al*. (2008)
India	Nigeria and Sudan are key recipients of infrastructure finance. Burkina Faso, Chad, Côte d'Ivoire, Equatorial Guinea, Ghana, Guinea-Bissau, Mali and Senegal are beneficiaries of the $500 million concessional credit provided by India under the Techno-Economic Approach for Africa–India Movement Initiative.	Annual reports of the Indian Government as well as speeches by government officials
Brazil	Angola, Cape Verde, Guinea-Bissau, Mozambique and Sao Tome and Principe account for 74 per cent of Brazilian resource allocation for technical cooperation projects in Africa.	Brazilian Cooperation Agency 2008 publication on *Brazilian Technical Cooperation in Africa*.
Arab countries	Egypt ($104 million), Sudan ($83 million), Morocco ($78 million), Senegal ($36 million), Mauritania ($20 million), Djibouti ($9 million) and Cameroon ($9 million). These countries accounted for 99 per cent of Arab countries' aid to Africa in 2008.	OECD database

Source: UNCTAD.

link between official flows and commercial activities by large Southern partners can be explained by the fact that as developing countries they believe that their support should be of mutual benefit to both the contributor and the recipient. One consequence of the link between official flows and the commercial activities of Southern partners is that African recipients tend to be countries with close trade and investment relations or those with significant potential and opportunities for trade and investment. Another consequence of this link is that the development impact of Southern official flows cannot be assessed adequately without taking into account its catalytic effect on trade and investment flows in

recipient countries. To the extent that Southern official flows stimulate trade and investment in Africa, they could boost growth as well as domestic savings, thereby creating a favourable condition for reducing dependence on such flows in the long run. In this regard, there is the need for African countries to put in place appropriate measures to seize the opportunities created by the complementary linkages between Southern official flows, trade and investment.

Southern partners tend to provide more support to the infrastructure and production sectors. Although support by Southern partners covers a wide range of activities, they tend to focus more on the infrastructure and production sectors compared with traditional donors who increasingly target the social sectors. Table 8 presents information on the sectoral focus of Southern partners. Brazil provides assistance to the production sectors, with particular focus on agriculture. In 2008, it opened an office of the Brazilian Agricultural Research Company (EMBRAPA) in Accra to facilitate the transfer of agricultural technology from Brazil to Africa (box 5).

China is also making significant contributions in the area of infrastructure. Lum *et al.* (2009) suggest that about 54 per cent of China's support to Africa over the period 2002–2007 was in infrastructure and public works. It is estimated that Chinese infrastructure finance commitments rose from $470 million in 2001 to $4.5 billion in 2007 (figure 12). With regard to sectoral distribution, 33 per cent of Chinese infrastructure finance to sub-Saharan Africa over the period 2001–2007 went to electricity, 33 per cent to transport, 17 per cent to ICT, 14 per cent to general projects and 2 per cent to water. The main beneficiaries of Chinese infrastructure finance to the subregion are Nigeria (34 per cent), Angola (20 per cent), Ethiopia (10 per cent) and Sudan (8 per cent).

Other Southern partners that are active in the provision of infrastructure finance to Africa are India and the Arab countries. It is estimated that over the period 2003–2007, the average annual support provided by India for infrastructure finance in sub-Saharan Africa was $500 million (Foster *et al.*, 2008). It should be noted that Nigeria and Sudan are the main beneficiaries of Indian infrastructure finance, although Angola and Mozambique have also received support for the development of their rail systems. China and India have the practice of channelling their infrastructure finance through their export-import banks and the loans are generally linked to natural resource revenue (a phenomenon often referred to as "the Angola mode"). The Arab countries have historically been active in infrastructure finance in the region. However, unlike China and India,

Table 8

Sectoral focus of Southern official flows

	Sectors	Source and remarks
Republic of Korea	Health, education, rural development, ICT, governance, industry and energy, environment and disaster relief	KOICA (2008)
Turkey	Education, health and water	2008 annual report of the Turkish International Cooperation and Development Agency
Arab countries (Kuwait, Saudi Arabia and the United Arab Emirates)	Transportation and telecommunication, energy, agriculture, industry and water	Kragelund (2008)
China	Infrastructure, agriculture, industry, health and education	Davies *et al.* (2008) and Lum *et al.* (2009).
India	Agriculture, infrastructure and energy, ICT, SMEs, human resources and institutional capacity development	Annual report of India as well as speeches by the Prime Minister of India and other government officials at the India–Africa Forum Summit held in New Delhi in April 2008
Brazil	Agriculture, livestock, environment, energy, health, education, culture, urban development, professional training and information technology	Brazilian Cooperation Agency 2008 publication on *Brazilian Technical Cooperation in Africa*

Source: UNCTAD.

Box 5. EMBRAPA: a model of Brazil–Africa cooperation in agriculture

Agriculture is one of the main areas of Brazil's technical cooperation with Africa. In response to the agricultural challenges facing Benin, Burkina-Faso, Chad and Mali (the Cotton-4 countries), Brazil has been providing technical assistance to the cotton sector in these countries through EMBRAPA. In 2008, it opened an EMBRAPA office in Accra to facilitate the transfer of agricultural technology from Brazil to Africa.

One of the visible projects of EMBRAPA in Africa is the Cotton-4 project. The main objective of the project is to increase productivity as well as production in the cotton sectors of the recipient countries through the transfer of Brazilian agricultural technology. It is expected that this will raise the incomes of producers, create jobs and contribute to the mitigation of food insecurity in the Cotton-4 countries.

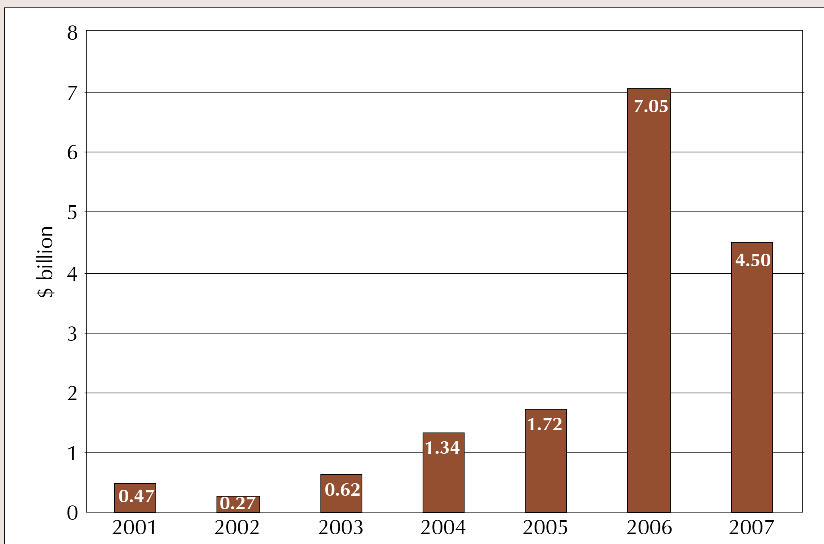
Source: Brazilian Cooperation Agency.

they channel their support through special funds or development agencies such as the Islamic Development Bank, the Arab Fund for Economic Development in Africa, the Kuwait Fund for Arab Economic Development, the Organization of the Petroleum Exporting Countries Fund and the Saudi Fund. It is estimated that on an annual average basis, the Arab countries provided $500 million per year in infrastructure finance to sub-Saharan Africa over the period 2001–2007. About 50 per cent of support by Arab countries for infrastructure goes to transportation, 30 per cent to power and 15 per cent to water and sanitation.

Of the eight Southern partners, the Republic of Korea and Turkey are the only ones that focus more on the social sectors. In 2008, 36 per cent of the Republic of Korea's ODA went to the health and education sectors (figure 13). It is not surprising that the Republic of Korea and Turkey focus more on the social sectors because they are OECD members and so their aid allocations often follow the pattern associated with traditional donors. The shift in focus by traditional donors from production to social sectors has been increasing since

Figure 12

Chinese infrastructure finance commitments in sub-Saharan Africa, 2001–2007



Source: Foster et al. (2008).

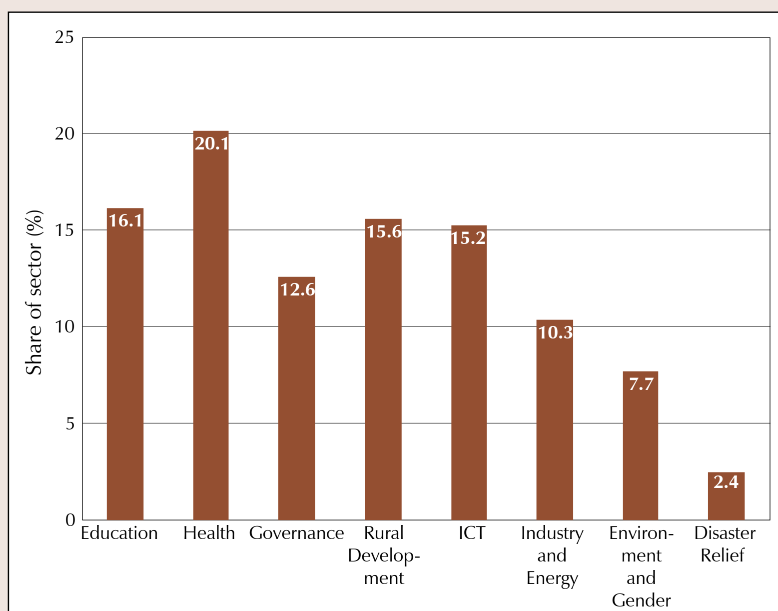
the adoption of the MDGs in 2000. The share of the social sectors in ODA flows to Africa increased from 60 per cent in 2002 to 69 per cent in 2006, while the share of the production sectors and economic infrastructure fell from 30 per cent to 22 per cent over the same period (United Nations Economic Commission for Africa (UNECA) and OECD, 2008).

There are concerns that the shift in emphasis from infrastructure and production activities to the social sectors limits the ability of African countries to build capacity for long-term sustainable growth. It is estimated that Africa's infrastructure spending need is $93 billion per year and its annual funding gap is $31 billion (Foster and Briceno-Garmendia, 2010). Furthermore, recent research suggests that the region loses as much as one percentage point per year of per capita income growth as a result of poor infrastructure (Foster *et al.*, 2008).

Figure 13

Distribution of ODA from the Republic of Korea to Africa by sector in 2008

(Per cent)



Source: Computed using data in KOICA (2008).

By increasing funding for the infrastructure and production sectors, Southern partners are filling financing gaps in priority sectors that have serious implications for growth and poverty reduction.

Official flows provided by Southern partners also go to countries often not targeted by traditional donors. One of the features of support by Southern partners is that they are increasingly providing support to fragile and conflict-affected states. China has supported countries such as Angola, Sudan and Zimbabwe. India is known to have provided support to Angola, Djibouti, Côte d'Ivoire and Niger. Furthermore, Comoros, Djibouti, Mauritania, Somalia and Sudan have benefitted from support by Arab countries (OECD, 2008a). An interesting feature of flows to fragile and conflict-affected states is that they tend to have access to a very limited number of donors (OECD, 2008a). By extending support to fragile and conflict-affected states, Southern partners are filling important financing gaps in the region. It should be noted however that some of the fragile and conflict-affected states may have been targeted by Southern partners because they are also resource-rich countries.

Southern partners are playing active roles as providers of debt relief. One of the factors inhibiting growth and development in Africa has been the heavy debt burden carried by many countries in the region. The Heavily Indebted Poor Countries (HIPC) Programme and the Multilateral Debt Relief Initiative were introduced to address the debt problem. In the early years of the HIPC initiative, debt relief was mostly provided by the traditional donors. In recent years, however, there has been an increase in the number of Southern partners providing debt relief to Africa. For example, China has had three successive rounds of debt relief for Africa. Over the period 2000–2002 it cancelled about $1.3 billion in overdue debt owed by African countries (Wang and Bio-Tchane, 2008). Furthermore, at the 2006 FOCAC Summit in Beijing, it promised to cancel debt, on interest-free government loans that matured at the end of 2005, owed by HIPCs and LDCs in Africa that have diplomatic relations with China. It is estimated that this debt write-off is worth about $1.3 billion. Finally, at the 2009 FOCAC Conference, the Chinese premier stated that China will cancel debt owed by African HIPCs and LDCs that are due to mature by the end of 2009. Brazil has also offered debt relief to African countries under the HIPC initiative. It has cancelled $369 million in debt owed by Mozambique, $10 million owed by the United Republic of Tanzania, $9 million owed by Mauritania and $5 million owed by Guinea-Bissau (Schlager, 2007). India is another Southern partner that has offered significant debt relief to African countries. For example, Ghana, Mozambique, Uganda,

the United Republic of Tanzania and Zambia have benefited from $24 million in debt relief under the Indian Development Initiative unveiled by the Finance Minister in 2003 (Jobelius, 2007).

Concessional loans are the most widespread instrument of support by Southern partners. Unlike traditional donors, Southern partners to Africa provide more support in the form of concessional loans rather than grants. An exception to this is Turkey, which provides support to the region in the form of grants (table 9). In 2008, the share of grants in gross ODA disbursement to Africa by DAC donors was 91 per cent. For the Republic of Korea, the share was 68 per cent and for the Arab countries it was 10 per cent. China is one of the Southern partners that makes extensive use of concessional loans as an instrument of support to Africa. Over the period 2001–2007, 50 per cent of its infrastructure finance to sub-Saharan Africa was in the form of loans, 44 per cent in the form of export credits, 5 per cent in the form of FDI and 1 per cent in the form of grants (Foster *et al.*, 2008). As a follow-up to the promises made during the 2006 FOCAC Conference in Beijing, China has provided $3 billion of preferential loans and $2 billion of preferential export buyers' credit to Africa. Furthermore, in 2006 it promised to set up a China–Africa Development Fund with up to $5 billion to encourage Chinese companies to invest in the region. This fund has been established with initial funding of about $1 billion. As is the case with China, India also provides support to the region mostly in the form of concessional loans and trade credit.

Recent pledges by Southern partners suggest that the use of concessional loans rather than grants will increase in future years. For example, at the 2009 FOCAC Conference held in Egypt, the Chinese Premier stated that China will provide $10 billion in concessional loans to Africa. At the India–Africa Forum Summit held in 2008, India also pledged to enhance available lines of credit to Africa by $5.4 billion over five years. Between 2003 and 2008, it also extended

Table 9

Share of grants in donor gross aid disbursements to Africa

(Per cent)

	2000	2008
DAC	91.4	91.1
Turkey	100.0	100.0
Republic of Korea	20.0	68.6
Arab countries	43.9	10.5

Source: Computed using data from the OECD database.

$2.2 billion in concessional lines of credit to the region. One of the reasons why some Southern partners provide most support in the form of concessional loans rather than grants is that it is often used to catalyse trade and investment activities expected to yield mutual benefits to the lender and borrower.

The dominant method of delivery of official flows by Southern partners is project support. A common feature of official flows from Southern partners to Africa is that they are generally provided in the form of projects rather than sector-wide approaches (SWAps) or general budget support. This contrasts with the practice of traditional donors, who increasingly provide support through SWAps or general budget support. The practices of the Republic of Korea and Turkey are interesting because although they are OECD members, they have not followed the traditional donor practice of providing support in the form of general budget support.

Southern partners do not impose policy conditions but often tie official flows to non-policy conditions. The most distinctive feature of official flows from Southern partners is the absence of policy conditions. This contrasts with traditional donors who, despite streamlining conditions and changing modalities, still continue to make use of policy conditions in aid delivery. These conditions generally reflect donor views and preferences on what constitutes good economic policy. Traditional donors often justify the use of policy conditions on the grounds that aid works best in countries with good governance and economic policies. While this is understandable, there has been a tendency for donors to equate good policies with less government intervention and reforms such as trade and financial market liberalization. The recent economic and financial crises have shown that reducing the role of governments in critical areas of economic activity could be very costly. It has also shown that the appropriateness of financial market liberalization depends on country-specific circumstances.

Although Southern partners do not impose policy conditions, they often tie disbursement of official flows to non-policy conditions such as access to natural resources or the purchase of goods and services provided by firms in the country providing support. These conditions impose costs on recipients and have consequences for the effectiveness of official flows. China and India are the main Southern partners that make extensive use of non-policy conditions in disbursement of official flows to the region.

Technical cooperation is an important component of support by Southern partners. Each of the eight Southern partners considered in this study has technical assistance activities in Africa, although the importance of such activities in their budgets and programmes varies across countries. In 2008, the share of technical cooperation in gross aid disbursement to Africa was 33 per cent in the Republic of Korea and 29 per cent in Turkey. This contrasts with DAC countries where technical assistance represented 16 per cent of gross aid disbursement in 2008.[18] It should be noted that although traditional donors provide technical assistance to Africa, the manpower and technology skills transferred by Southern partners tend to be more appropriate to the geographical conditions and stage of development of African countries (United Nations, 2008).

The Republic of Korea provides technical assistance to Africa through various channels. For example, it has the Korean Overseas Volunteers (KOVs) programme that enables professionals from the Republic of Korea to share their experience and knowledge with developing countries. Between 1990 and 2008, 938 KOVs were dispatched to Africa, representing 16 per cent of total KOVs. The Republic of Korea also provides training and capacity-building to African countries. Over the period 1991–2008, about 13 per cent of the 4,286 trainees sponsored by the Republic of Korea were from Africa. Brazil regards technology transfer through technical cooperation as a key component of its aid programme to Africa. It provides technical assistance through the Brazilian Technical Cooperation Agency. In 2008, 43 per cent of the resources for technical cooperation projects managed and implemented by the agency went to Africa. Historically, five Portuguese-speaking African countries (Angola, Cape Verde, Guinea-Bissau, Mozambique and Sao Tome and Principe) have been the main beneficiaries of Brazil's technical cooperation with Africa, accounting for about 74 per cent of Brazilian resource allocation for technical cooperation in Africa. In recent years, however, Brazil has extended support to more African countries and currently has projects in 22 countries.

India is one of the Southern partners that is very active in the provision of technical assistance to Africa. It provides training to African countries through the Indian Technical and Economic Cooperation programme established in 1964 and the Special Commonwealth Assistance for Africa Programme. Furthermore, through the Indian Pan-African e-Network project, it is enhancing the capacity of African countries to provide quality services in education and health (box 6). At the 2008 India–Africa Summit, the Indian Government increased the number of training slots for African countries in the Indian Technical and Economic

Box 6. The Pan-African e-Network Project: Indian technical cooperation in practice

In recognition of the challenges facing African countries in the provision of education and health services as well as the potential role of ICT in addressing these challenges, the Indian Government established the Pan-African e-Network. The key objective of the project is to provide e-services with a focus on education and medicine. It will also support e-commerce, e-governance and other services. It connects participating African countries with designated Indian universities and specialist hospitals through satellite and fibre optic links. The first phase of the project was inaugurated in India in February 2009.

The idea for the project came from a speech by the former President of India, A. P. J. Abdul Kalam, to the inaugural session of the Pan-African Parliament held in Johannesburg, South Africa on 16 September 2004, in which he proposed to connect all the 53 nations of the African Union by a satellite and fibre optic network. The project is funded by the Government of India with an estimated budget of 5,429 billion Indian rupees ($117 million). So far, 44 African countries have signed the agreement and are participating in the programme. These are:

West Africa: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo;

East Africa: Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Madagascar, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Uganda and the United Republic of Tanzania;

Southern Africa: Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Zambia and Zimbabwe;

Central Africa: Cameroon, Central African Republic, Chad, Congo, Democratic Republic of the Congo and Gabon;

North Africa: Egypt, Libyan Arab Jamahiriya and Mauritania.

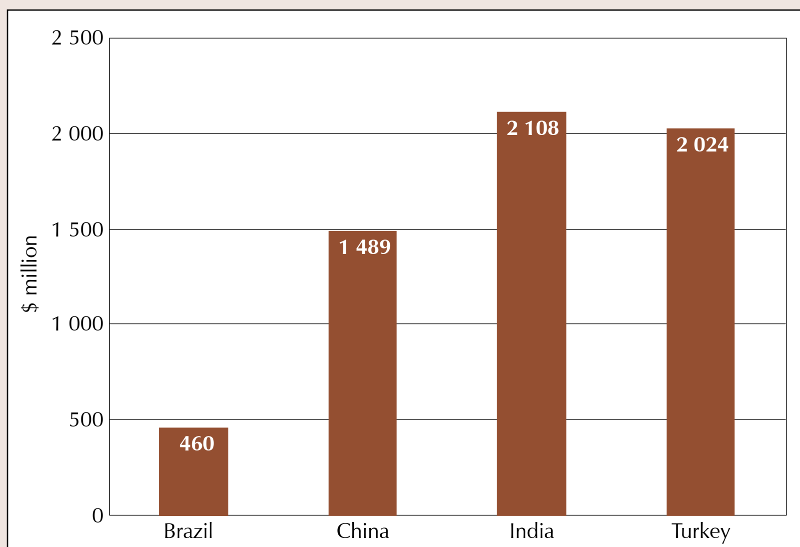
Source: Based on information obtained at www.panafricanenetwork.com.

Cooperation programme from 1,100 to 1,600. It also doubled the number of scholarships for African students to 500. China and the Arab countries also provide technical assistance to Africa, although it is a small percentage of their support to the region.

Southern partners receive aid as well as provide official flows. Most Southern partners provide support to Africa while also receiving aid from other donors. Figure 14 shows the volume of aid received in 2008 by four of the eight Southern partners of Africa for which there was data in the OECD database. It shows that net ODA flows to the four Southern partners were positive in 2008, with India, Turkey and China receiving the bulk of these flows. The fact that

Figure 14

Aid receipt by Southern partners in 2008
($ millions)



Source: Compiled using data from the OECD database.

Southern partners are also recipients of aid has been identified as one of the reasons why they are quite sensitive to the needs and concerns of developing country recipients (United Nations, 2008).

Summary of distinguishing features

Five key features distinguish support to Africa from Southern partners from those by traditional donors (table 10). First, traditional donors tie aid delivery to the formulation and implementation of policy reforms while Southern partners do not insist on policy conditions. Second, unlike traditional donors, Southern partners generally deliver support to Africa through projects rather than SWAps or general budget support. Third, traditional donors tend to provide more support to the social sectors while Southern partners focus more on infrastructure and productive sectors. Fourth, while some Southern partners use official flows to promote trade and investment activities, traditional donors generally do not mix aid with investment activities. Finally, traditional donors have development

cooperation agencies responsible for their aid disbursement and activities, while most Southern partners either do not have a development cooperation agency or channel support through several institutions. Furthermore, unlike traditional donors, several Southern partners have formal forums or dialogue platforms supporting their bilateral engagements with Africa.

There are also differences in the activities and practices of Southern partners. For example, in terms of scale, China stands out as the most significant Southern partner of Africa. It is also the most significant in terms of country coverage. It provides support to most countries in the region, except a few that have diplomatic relations with Taiwan Province of China. China and India differ from the other Southern partners in two significant respects. First, they tie disbursement of official flows to non-policy conditions such as access to natural resources or the purchase of goods and services provided by firms in the country providing support. Brazil and the Republic of Korea also use non-policy conditions, but to a lesser extent than China and India. Second, they channel most of their support through export-import banks and use it to promote trade and investment activities. The Republic of Korea is unique in the sense that it is the only Southern partner that is a member of the DAC of the OECD.[19]

In terms of type of support, Turkey differs from the other Southern partners in the sense that its support to the region is in the form of grants rather than loans. The other partners make extensive use of concessional loans. Turkey also does not provide debt relief to the region. This contrasts with the other partners who use debt relief as a method of support. Brazil's support programme is interesting in the sense that technology transfer through technical cooperation constitutes its main focus. In addition, its support is often in the form of co-financing projects with recipients and other donors through triangular cooperation. Triangular cooperation refers to partnerships between traditional donors and Southern partners to implement development projects or programmes in beneficiary countries.

C. Emerging issues on activities of Southern partners

The growing role of Southern partners as providers of official flows to Africa has generated interest in their practices as well as the implications for sustained growth and development in the region. In this section, we provide an assessment of concerns that have been expressed in the literature about support by Southern partners.

Table 10
Selected features of support provided by Africa's development partners

	Africa's share of aid budget (%)	Form of support	Conditions imposed	Mode of delivery	Debt relief provided	Monitoring mechanism
Traditional donors	35*	Mostly grants	Policy and non-policy conditions	Increasingly moving away from projects in favour of SWAps and budget support	Yes	Peer review by other traditional donors as well as the *Mutual Review of Development Effectiveness* Report published by the OECD Secretariat and UNECA
China	30–50	Grants and loans	Non-policy conditions	Project	Yes	Forum on China–Africa Cooperation
India	1.5–3.6	Grants and loans	Non-policy conditions	Project	Yes	India–Africa Forum Summit
Brazil	27–30	Co-financing, often through triangular cooperation	Non-policy conditions	Project	Yes	
Republic of Korea	15*	Grants and loans	Non-policy conditions	Project	Yes	Republic of Korea–Africa Forum
Turkey	6*	Grants		Project	No	Turkey–Africa Cooperation Summit
Arab countries	11*	Grants and loans		Project	Yes	

Source: UNCTAD.
* Share of Africa in total aid to developing countries (three-year average over the period 2006–2008).

Governance and policy reforms: There is the fear expressed often by traditional donors that the provision of low conditionality finance by Southern partners to developing countries threatens to reverse the hard-won progress made in governance and economic policy management (Wanner, 2009; Manning, 2006). The idea is that by making funds available to countries that traditional donors are hesitant to finance, perhaps due to lack of implementation of policy conditions, Southern partners create an incentive for recipients to avoid or delay governance and economic policy reforms. Implicit in this view is the assumption that conditionality will lead to desired changes in economic policy or governance in recipient countries. However, available evidence indicates that

the use of conditions in aid delivery has not always been effective in inducing reforms desired by donors in African countries (Killick, 1998; Devarajan *et al*., 2001). A bigger problem with the use of policy conditions is that they limit the ability of recipients to adopt alternative development policy paths as well as take ownership of their development policies and outcomes (Osakwe, 2008). Furthermore, they delay disbursements and increase the unpredictability of official flows with dire consequences for economic planning and management.[20] It should be noted, however, that traditional donors are increasingly making efforts to streamline conditions attached to aid delivery.

Quality of investment: Another issue that has been raised in the literature regarding support by Southern partners is that pressure from domestic firms in these countries may encourage financing of unproductive capital projects in recipient countries, leading to resource waste (Manning, 2006). The idea here is that such pressure often makes it difficult for governments to appraise proposed investment projects properly. While this may well be the case in some Southern partner countries, it is not clear why the same argument does not apply to support by traditional donors. Furthermore, the propensity for companies in lending countries to influence financing decisions is likely to be lower if financing is demand- rather than supply-driven, and recent studies suggest that Southern partners tend to finance projects in priority areas identified by recipients (UNDP, 2009).

Debt sustainability: Two key points have been made regarding Southern support and the debt problems of Africa. The first is that the increasing extension of loans by Southern partners will have a negative effect on debt sustainability and trigger a new debt crisis in the region (World Bank, 2006). The second, and related point, is that Southern partners providing loans to post-completion point African HIPCs are free-riding on debt relief paid for by traditional donors. The concern here is that traditional donors are implicitly providing cover for Southern loans to the extent that the recent debt relief provided by the former has enhanced the ability of African countries to borrow from, as well as repay, debt owed to the latter. On the first point, it is indeed the case that the availability of concessional loans has the potential to cause serious debt distress if they finance unproductive projects or are extended to countries that do not have the capacity to repay. However, a recent study by Reisen and Ndoye (2008) that focused on loans by China found very little evidence of imprudent lending to African HIPCs. In particular, the authors found that the availability of concessional loans and export credits from China allowed recipients to boost exports and growth,

resulting in a reduction in debt ratios. Other authors have also arrived at the conclusion that loans from Southern partners have not reduced debt sustainability in the region (Berthelemy, 2009). On the second point, while traditional donors continue to bear a large part of the cost of debt relief under the HIPC initiative and the Multilateral Debt Relief Initiative, Southern partners are increasingly providing significant amounts in debt relief to the region. For example, in recent years Brazil, China and India are known to have cancelled debts owed to African countries. Consequently, the claim that Southern partners are free-riding on debt relief provided by traditional donors is not supported by available evidence.

Natural resource access: There is the concern that the resurgence of interest in Africa by Southern partners has more to do with their growing need for natural resources rather than a desire to promote the economic development of recipient countries. It is well known that Southern partners, such as China and India, have an interest in sourcing natural resources in the region and that resource-rich countries are among the main beneficiaries of their support. For example, the bulk of India's infrastructure finance commitments are in three resource-rich countries: Angola, Nigeria and Sudan (Foster *et al.*, 2008). With regard to China, about 70 per cent of its infrastructure finance in Africa goes to Angola, Ethiopia, Nigeria and Sudan. In addition, its support is often backed by access to natural resources (table 11). However, although they provide more support to the resource-rich countries, small countries have also benefitted from their support (Davies *et al.*, 2008).

Table 11

Chinese-financed infrastructure projects in Africa backed by natural resources, 2001–2007

Country	Year of commitment	Natural resources to be received in payment	Total Chinese financing *($ million)*
Democratic Republic of the Congo	2001	Oil	280
Sudan	2001	Oil	128
Angola	2004	Oil	1 020
Nigeria	2005	Oil	298
Guinea	2006	Bauxite	1 000
Gabon	2006	Iron	Not available
Zimbabwe	2006	Chromium	Not available
Ghana	2007	Cocoa	562

Source: Foster *et al.* (2008).

A related concern that has been expressed is that the concessional loans provided by large Southern partners in African countries often finance investments in the natural resource sector, thereby perpetuating existing production structures with dire consequences for export diversification and the environment. As indicated earlier, there is evidence that the activities of China and India are heavily concentrated in African countries with natural resources, which tends to support the view that Southern finance may increase Africa's dependence on resource production and exports, with potentially adverse environmental implications. However, there is also evidence that Southern partners tend to finance infrastructure development that contributes to reducing transaction costs and has implications for the region's capacity to diversify into the production and export of manufactured goods.

D. The financial crisis and official flows from Southern partners

The ongoing financial and economic crisis has diminished growth prospects for the global economy and led to concerns that there might be a reduction in official flows to African countries by Southern partners. Why the concern? Africa has been severely affected by the crisis, with forecasts of growth rates for 2009 and beyond reduced by about 3 percentage points. The crisis is also widening Africa's financing gap, with recent estimates suggesting that the region will need funding of approximately $50 billion to achieve pre-crisis growth rates and $117 billion to achieve the 7 per cent growth rate deemed necessary to meet the MDGs (Kaberuka, 2009). Countercyclical financing is needed to cushion the impact of the shock in the region, but a large part of it would have to come from official flows given the low savings rates of African countries. However, aid flows from developed countries have historically been pro-cyclical. That is, they tend to increase during economic booms and fall during downturns. Furthermore, recent evidence suggests that aid flows tend to fall after a financial crisis and that it takes several years before they return to pre-crisis levels (UNCTAD, 2009a; Frot, 2009). Consequently, there is the expectation that aid flows from traditional donors to Africa will either decrease or increase marginally. Traditional donors such as France, Ireland and Italy have already announced plans to cut aid budgets (Mold *et al.*, 2009). With diminished prospects for funding by traditional donors, a decrease in Southern support is likely to have serious consequences for growth and poverty reduction in the region.

A major channel through which a decrease in funding by traditional donors could potentially affect Southern support is through its impact on triangular cooperation activities. In recent years, some traditional donors have entered into collaborative arrangements with Southern partners to implement projects in recipient countries — a phenomenon referred to as “triangular cooperation” (UNDP, 2009). The projects are either co-financed by the traditional donors and Southern partners or are financed by the former with the latter providing human resources and technical assistance. Brazil is the main Southern partner operating in Africa that is actively involved in these collaborative arrangements with traditional donors. To the extent that the financial crisis leads to a reduction in traditional donors’ participation in these activities, it would reduce funding for these activities.

Another channel through which the crisis is expected to have a potentially negative effect on Southern support is through its impact on economic growth. Since the onset of the crisis, there have been downward revisions of growth forecasts for emerging economies, with dire consequences for their capacity as well as willingness to scale up official flows to other developing countries. In 2009, four of the eight key Southern partners to Africa had negative growth rates as a result of the crisis (table 12). Although China and India had positive growth rates, they were much lower than their average in the past five years.

To the extent that Southern partners respond to the crisis by focusing more on domestic economic issues rather than external relations, there will be a substantial decline in support to Africa in the near to medium term. Recent developments suggest, however, that they may not respond to the crisis in this

Table 12

The financial crisis and the growth of Southern economies

	2007	2009	2010
China	13.0	8.7	10.0
India	9.4	5.7	8.8
Saudi Arabia	2.0	0.1	3.7
Kuwait	2.5	-2.7	3.1
United Arab Emirates	6.1	-0.7	1.3
Republic of Korea	5.1	0.2	4.5
Turkey	4.7	-4.7	5.2
Brazil	6.1	-0.2	5.5

Source: IMF (2010).

manner. For example, since the onset of the crisis, China has stepped up rather than reduced its economic engagement in African countries. In particular, it has promised to increase support to Africa. Brazil, India and the Republic of Korea have also signalled their intention to provide more support to the region in the coming years.

Although the financial and economic crisis poses challenges for Africa–South cooperation, it also presents opportunities for Africa and could have a positive effect on Southern support to the region through two channels. First, to the extent that it has reduced growth prospects, it may create an incentive for Southern partners to pay more attention to the effectiveness of their support and so maximize its development impact in the region. Second, the crisis could also increase Southern solidarity and the need to enhance economic and development cooperation as a mechanism for weathering the impact of the global slowdown in developing countries.

The impact of a reduction in Southern official flows to individual African countries will depend on their degree of exposure as well as the magnitude and source of the decline. For example, a huge decline in support by the Republic of Korea will have more impact on Angola, Liberia and Senegal, which received a large share of its support to the region in recent years. On the other hand, a reduction in support by Turkey will have more impact on Ethiopia, Mauritania, Somalia and Sudan. Furthermore, Egypt, Mauritania, Morocco, Senegal and Sudan are vulnerable to a reduction in support by the Arab countries while Angola, Cape Verde, Guinea-Bissau, Mozambique and Sao Tome and Principe are vulnerable to reduction in support by Brazil. With regard to China, most countries in the region are likely to suffer from any decline in its support because of its scale as well as country coverage. However, resource-rich countries such as Angola, the Democratic Republic of Congo, Nigeria, Sudan and Zambia are likely to be more affected because of their higher exposure. Finally, Nigeria and Sudan are vulnerable to a decline in Indian support because of their high exposure to Indian infrastructure finance.

E. Southern partners and aid effectiveness

The scaling up of aid flows to developing countries by traditional donors as well as an increase in support by Southern partners has renewed the debate on the effectiveness of development assistance.[21] In this section, we discuss how

the presence of Southern partners affects three keys aspects of aid effectiveness: country ownership, aid predictability, and fragmentation and coordination.

Country ownership is seen as a necessary condition for improving aid quality and impact in recipient countries. It requires recipient countries to exercise effective leadership over aid-financed development plans, strategies and policies. If recipient countries can set their own priorities and use their local systems for aid delivery, they can increase the likelihood of reducing aid dependence in the long run. Traditional donors face significant challenges in promoting country ownership because it involves striking a balance between their need to ensure that aid is put to good use and recipient countries' need for independent development policies (OECD, 2008b). Because of their experience as former or current recipients of aid, Southern partners generally do not interfere in the internal affairs of recipients. In particular, they do not tie disbursements of official flows to policy reforms. This flexibility by Southern partners increases the ability of recipients to own their development policies and outcomes and so has a positive impact on aid effectiveness in the region (OECD, 2009).

Another way in which the emergence of Southern partners enhances ownership is by increasing the financing options available to recipients. It should be noted, however, that some practices of Southern partners may hinder rather than encourage effective country ownership. For example, the large Southern partners impose non-policy conditions, thereby reducing country ownership. The provision of project finance by Southern partners, as opposed to general budget support, could also reduce country ownership if the choice of projects is not made by the recipients, because it limits recipients' control over allocation of resources. Nevertheless, the use of the project approach has allowed them to avoid addressing governance issues associated with general budget support. Increasing transparency and giving recipients more control over project management and delivery is one way to ensure that the practice of project finance is consistent with country ownership. There is also the need to increase the participation of local stakeholders such as parliaments, the private sector and civil society. In this regard, African governments have the responsibility to ensure that all relevant stakeholders are active participants in their activities and engagements with Southern partners.

Aid predictability refers to how confident a recipient country is about the amount and timing of aid disbursements. Experience and econometric evidence have shown that aid is unpredictable, making it difficult for recipient

governments to plan or respond to domestic needs. The lack of aid predictability also increases macroeconomic volatility in the region, with dire consequences for growth (Dupasquier and Osakwe, 2007). On average only 45 per cent of aid scheduled by donors arrives on time in a recipient country (Deutscher and Fyson, 2008). Furthermore, over the period 1990–2005 the gap between aid commitments and disbursements in sub-Saharan Africa was 3.4 per cent of GDP (Celasun and Walliser, 2008). There are no rigorous and systematic studies on the predictability of Southern official flows. However, recent information on their activities and practices suggests that they tend to provide more predictable support than traditional donors. For example, they impose fewer conditions and have a shorter time lag between financing commitments and delivery (United Nations, 2008). In addition, several partners make multi-year commitments, effectively reducing the uncertainty associated with recipients not knowing the amount of support they are likely to receive from development partners in the short to medium term. China has the practice of announcing its multi-year commitments to the region at FOCAC meetings, which usually begin with a report on progress in fulfilling and implementing existing commitments. In recent years, India and the Republic of Korea have also adopted a similar approach of announcing new commitments at high-level summits with African leaders. Despite these encouraging efforts by Southern partners, it should be noted that concerted actions are needed on their part to provide more information on their support and practices as an important step to improving development effectiveness in the region.

Aid fragmentation and coordination: Lack of coordination among donors is one of the factors hindering aid effectiveness in recipient countries. The need for visibility often leads individual donors to design, maintain and implement their own programmes even if the scale of their assistance is small relative to the total aid flows to a recipient country. This has led to the fragmentation of aid, which increases transaction costs of aid delivery and puts enormous strain on local government systems and capacity in recipient countries (UNECA and OECD, 2009). Recent evidence indicates that the United Republic of Tanzania manages over 700 aid-financed projects and in 2005 alone it received about 540 donor missions (Hammad and Morton, 2009). Furthermore, aid fragmentation is higher in Africa compared to other developing country regions and the costs are quite substantial (Kharas, 2007).

In recent years, traditional donors have taken various steps to address this issue but progress has been modest. For example, despite recent efforts to increase donor coordination, result of surveys suggests that there has been a decline in donor coordination of missions (UNECA and OECD, 2008).

The increasing number and role of Southern partners has made development cooperation and coordination more complex and challenging, especially given the fact that most Southern partners do not provide full information on their support and are not part of existing aid coordination mechanisms such as the DAC. There is the need for dialogue between traditional donors and Southern partners to ensure that they support Africa in ways that reduce rather than increase fragmentation in recipient countries. Triangular cooperation has the potential to contribute to the achievement of this objective and efforts should be made by traditional donors and Southern partners to increase its use. In addition, Southern partners should consider joint financing of projects in recipient countries as well as division of labour amongst themselves to reduce duplication and waste.

The international community has acknowledged the need for dialogue with Southern partners and is increasingly making more efforts to include them in key forums established to enhance aid effectiveness. For example, several Southern partners are now members of the Working Party on Aid Effectiveness hosted by the DAC and changes have been made to its operations to allow for joint North–South Chairs. However, these new members are often reluctant to follow existing norms and conventions on aid delivery, which they regard as outcomes of the governance of an aid architecture in which they are highly underrepresented (Hammad and Morton, 2009). Incorporating Southern partners into existing coordination mechanisms and giving them an adequate voice will promote dialogue and information sharing as well as make the aid delivery system more effective. In this regard, the recent establishment of the United Nations Development Cooperation Forum (DCF) as a platform for triangular dialogue and coordination between Southern partners, traditional donors and recipients is welcome (box 7). To the extent that Southern partners see the DCF as a platform that allows all countries to protect their interests, it is likely to achieve its objective. Donor coordination can also enhance aid effectiveness by increasing the likelihood that aid will be allocated according to need rather than politics or philosophy of donors. Such an improvement in allocation is necessary to ensure that aid gets to poor countries that are neither rich in natural resources nor of political or strategic importance to donors.

Box 7. The Development Cooperation Forum

The DCF is one of the new functions of a strengthened United Nations Economic and Social Council. Its mandate is to enhance the implementation of the internationally agreed development goals, including the MDGs, and promote dialogue to find effective ways to support it. The DCF will be held every other year within the framework of the High-level Segment of the Council. The DCF was launched in Geneva in July 2007 and the first biennial forum took place in New York on 30 June and 1 July 2008. The second DCF will take place in July 2010 in New York.

The DCF exerts a positive influence on the international development cooperation system by bringing together all the relevant actors to engage in a dialogue on key policy issues affecting the quality and impact of development cooperation. The forum discusses issues relating to effectiveness and coherence, and provides policy guidance and recommendations on how to improve international development cooperation.

The forum attracts representatives from developing and developed countries, including bilateral development agencies, United Nations system organizations, the World Bank, the International Monetary Fund, the OECD and regional development banks as well as civil society and the private sector.

Source: United Nations Economic and Social Council website.

While donor efforts on coordination at the international level are useful and welcome, it is important to stress that effective coordination also requires country ownership and is better done at the national level. Coordination at the national level will permit recipients to effectively combine funding from different sources for better development results. Some countries such as Uganda and the United Republic of Tanzania have already adopted aid management policies and established institutions to ensure that DAC aid flows are more closely directed to addressing their development needs (UNCTAD, 2008b). These institutions could effectively coordinate both DAC and Southern partners' support if they are strengthened. In this regard, there is a need for the international community to enhance the ability and capacity of recipient countries to lead the coordination efforts. Regional institutions such as the AUC and the African regional economic communities should also be called upon to support national governments in carrying out this responsibility.

F. Conclusion

Southern partners have emerged as important providers of support to Africa. Although data constraints do not permit a comprehensive estimate of the scale of official flows to the region from developing countries, it is estimated that aid to Africa from developing countries, based on the OECD-DAC definition, was about $2.8 billion in 2006. In recent years, several developing countries have made financial commitments to the region and so it is likely that the figures for 2007 and 2008 are much higher. The support provided by developing countries has increased the resources available to the region as well as diversified its financing options. It is also catalysing trade and investment with implications for growth and development. The challenge facing Africa is how to harness these new financing options for better development results. This requires African governments to be more proactive in their relations with Southern partners to ensure that support goes to their priority sectors, contributes to the development of productive capacity and does not have negative effects on debt sustainability and the environment. It also requires avoiding a "race to the bottom" and ensuring that national actions do not jeopardize the achievement of regional development goals.

The focus of Southern support on the infrastructure and production sectors is welcome because it is taking place at a time when the share of these sectors in DAC aid is declining. However, so far the emphasis has been on national rather than regional infrastructure. African countries should encourage Southern partners to extend the scope of their infrastructure finance to the regional level as an important channel to reduce transactions costs, link national markets and boost intra-African trade and investment.

Despite the advances in Africa–South cooperation, it is important to note that traditional donors are, and will remain for a long time, the main providers of support to the region. Consequently, African countries should see Southern support as complementary to those of traditional donors. They should also take advantage of the leverage they have with Southern partners by encouraging them to direct more support toward the development of capacity for domestic resource mobilization as an important element in reducing dependence on official flows in the long run. Furthermore, there is the need for African countries to play a more active role in coordination of support from Southern and Northern partners to reduce transaction costs and increase development impact. In this regard,

African countries should develop or strengthen existing national aid management and coordination frameworks, with the support of their development partners, to enhance national ownership of aid processes and outcomes.

Chapter 4

Southern Foreign Direct Investment to Africa

African countries can use significant inflows of FDI to supplement domestic savings, create employment, access new technology and enhance prospects for meeting the MDGs by the 2015 target date. Before the onset of the financial and economic crisis, several countries in the region made significant progress in attracting FDI, resulting in an increase in inflows from $2.4 billion in 1985 to $87.6 billion in 2008. There has also been an increase in inward FDI stock from $42.9 billion to $510.5 billion over the same period (UNCTAD, 2009b). As a result of these positive developments, Africa's share of global FDI inflows increased from 4.4 per cent in 1985 to 5.2 per cent in 2008. The recent surge in FDI to the region was driven largely by favourable commodity prices, high economic growth and a better investment climate.

The positive trend in FDI flows to Africa was reversed in 2009 as the financial and economic crisis spread across the world. Although Africa is not well integrated in global financial markets, it has been severely affected by the crisis, with dire consequences for FDI growth. Inward FDI to Africa in 2009 is estimated to have fallen by 36.2 per cent relative to 2008 (UNCTAD, 2010). Currently, developed countries account for the bulk of FDI flows and stock in the region. In 2008, they accounted for 91.6 per cent of total inward FDI stock in the region. In recent years, however, FDI from developing countries has increased, with Asia being the most important source of recent increases in flows to the region. This chapter examines the evolving trends and geography of Southern FDI to Africa. It also discusses Africa–South cooperation in international investment agreements, in view of the potential role it could play in stimulating FDI. Finally, it examines the challenges facing Africa in attracting FDI from developing countries and offers suggestions on how to boost FDI flows between the two groups.

In analysing South–South FDI, it is important to note that there are severe limitations imposed by data availability and quality. For example, many developing countries do not report data on outward FDI flows. Consequently, analysis of South–South FDI is generally based on data provided by reporting host countries that often do not reflect all FDI activities (box 8).

Box 8. South–South FDI: data issues

When analysing South–South FDI, two caveats need to be made on the use of FDI data. The first relates to the availability of quality statistics. The second concerns issues of definitions and their applications to concepts such as those of nationality.

Availability of FDI data. The first limitation is that many developing countries do not report outward FDI data. While for some of those countries their FDI outflows can be estimated on the basis of information provide by the recipient countries, it cannot be avoided that total FDI from developing countries is still underestimated as it covers only those host countries that report inward FDI by origin.

The volume of FDI from the South may also be wrongly estimated because of the way in which TNCs structure their investments, e.g. for tax reasons. Significant amounts of FDI from developing economies (e.g. Brazil and Hong Kong, China) are directed towards offshore financial centres. Moreover, these offshore financial centres are also major sources of FDI, thus contributing to the overall volume of FDI from developing countries. This may contribute to an exaggerated overall estimate of the total FDI from the South, for two reasons. First, some of the FDI from offshore financial centres is undertaken by foreign affiliates of developed country TNCs. Second, flows between other developing countries and the offshore financial centres tend to inflate the total volume through “double counting”.

Definitional issues. A number of other factors add to the complexity of measuring the phenomenon and analysing its implications for host and home countries. They relate to the definition of nationality. Three different criteria can be used to define the nationality of a company: its place of incorporation, the location of its seat or headquarters, or the location of the owners. FDI flow statistics capture the transactions where they are undertaken regardless of this nationality issue. It is not unusual that many Southern TNCs locate their headquarters or are reincorporated in developed countries, but their main activities take place in developing countries including Africa.

Source: UNCTAD.

A. Trends and patterns of Southern foreign direct investment to Africa

Developing countries are increasingly important sources of FDI to Africa. The share of developing countries in total FDI inflows to Africa, based on data for reporting host countries, increased from an average of 17.7 per cent over the period 1995–1999 to 20.8 per cent for the period 2000–2008. In addition, their share of inward FDI stock in the region rose from 6.9 per cent in 1999 to 7.4 per cent in 2008 (table 13). Recent studies suggest that the prime driver of investment in Africa by developing country transnational corporations (TNCs) is the search or need for resources (UNCTAD, 2006; UNCTAD and UNDP, 2007). In this regard, a particular feature of FDI from the South to Africa is the frequent involvement of governments or state-owned enterprises. Brazil-based Petrobas, the China National Offshore Oil Corporation, India's Oil and Natural Gas

Table 13

Distribution of estimated inward FDI and stock in African countries by source region

	Share in world total (per cent)			
	Inflows		Inward stock	
Home region	*1995–1999*[a]	*2000–2008*[b]	*1999*[c]	*2008*[c]
Total world	100.0	100.0	100.0	100.0
Developed countries	79.0	72.1	89.0	91.6
Developing economies	17.7	20.8	6.9	7.4
Africa	5.1	4.9	2.3	2.9
Latin America and the Caribbean	5.5	0.7	1.3	1.3
Asia	6.7	15.2	3.1	3.2
South-East Europe and Commonwealth of Independent States	0.3	0.0	0.0	0.0
Unspecified	3.0	7.1	4.1	1.0

Source: UNCTAD, FDI/TNC database.

Note: Totals cover only those reporting host African countries for which inward FDI data are available as follows: Algeria, Cape Verde, Egypt, Ethiopia, Kenya, Mauritius, Morocco, Namibia, Nigeria, South Africa, Tunisia, United Republic of Tanzania and Zimbabwe (inflows 1995–1999 and 2000–2008); Botswana, Cape Verde, Egypt, Ethiopia, Nigeria, South Africa, Swaziland, Tunisia, Uganda and United Republic of Tanzania (inward stock 1999 or latest year available); Botswana, Madagascar, Malawi, Morocco, South Africa, Uganda, United Republic of Tanzania and Zambia (inward stock 2008 or latest year available). Data for Egypt (1999 inward stock), Kenya and Zimbabwe are on an approval basis.

a Or latest year available between 1990 and 1999.

b Or latest year available between 2000 and 2007.

c Or latest year available.

Corporation and Malaysia-based Petronas are typical examples of state-owned TNCs that have pursued FDI interests in Africa.

In addition to resource-seeking motives, developing country TNCs also invest in Africa in order to create markets for their products. For instance, a survey among Chinese private investors indicates that their FDI in Africa is “emphatically market-driven” (Gu, 2009). One reason for this is the increasingly tough competition Chinese investors have been facing in their domestic markets. Similarly, there are several examples of market-seeking motivations being behind the investment decisions made by India-based investors (Broadman, 2007). Linguistic and cultural factors also play a role in the decision of developing country TNCs to invest in Africa. For example, FDI from Arab countries tends to be concentrated in North Africa and Brazilian investors tend to target the lusophone countries in the region.

Interestingly, the recent increase in Southern FDI to Africa reflects an increase in greenfield investments as well as mergers and acquisitions (M&As). Table 14 shows that the number of greenfield projects from developing countries increased from 87 in 2003 to 309 in 2008. The number of projects from developed countries rose from 238 to 497 over the same period. In terms of M&As, figure

Table 14

Greenfield FDI projects of Africa, by investor/destination region, 2003–2008

(number of projects)

Partner region/ economy	Africa as destination						Africa as investors					
	2003	2004	2005	2006	2007	2008	2003	2004	2005	2006	2007	2008
	By source						*By destination*					
World	335	279	459	446	381	820	65	49	70	83	60	192
Developed countries	238	203	325	264	262	497	20	15	10	12	17	39
Developing economies	87	70	129	173	109	309	43	32	57	71	39	153
Africa	26	18	35	43	28	125	26	18	35	43	28	125
Latin America and the Caribbean	2	4	6	4	4	6	-	2	3	2	-	2
Asia	59	48	88	126	77	178	17	12	19	26	11	26
West Asia	21	16	40	72	36	93	9	4	11	20	6	12
South, East and South-East Asia	38	32	48	54	41	85	8	8	8	6	5	14
Transition economies	10	6	5	9	10	14	2	2	3	-	4	-

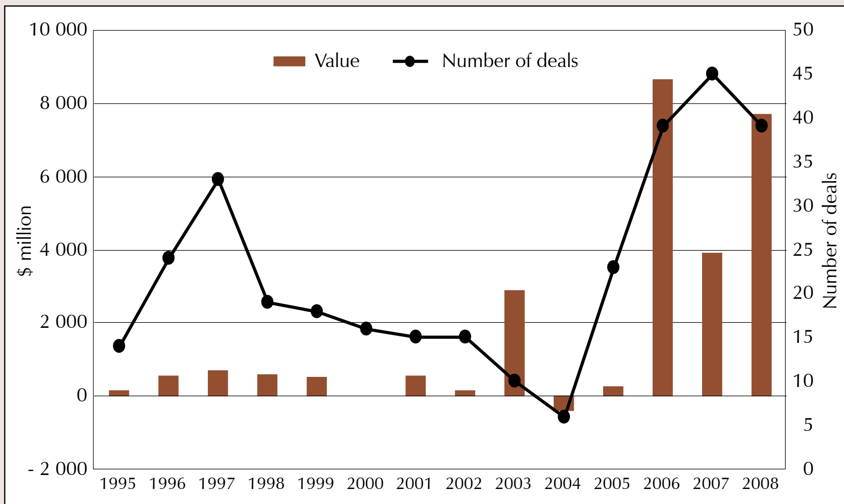
Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

15 shows that the value and number of cross-border M&As in Africa concluded by developing country TNCs increased between 1995 and 2008. It should be noted that although developed economies account for the bulk of FDI to Africa, Southern FDI is significant in some African countries. For example, TNCs from Taiwan, Province of China, have been important investors in the textiles and clothing sector in Lesotho and Swaziland (UNCTAD, 2003; Madonsela, 2006). Furthermore, China has been one of the major investors in Sierra Leone in the years following the latter's civil war (UNCTAD, 2008d).

FDI between Africa and other developing countries is concentrated by country of origin and destination. An important feature of Southern FDI to Africa is that it is concentrated in a few host countries. More specifically, the major host countries in the region include Angola, Mauritius, Nigeria, South

Figure 15

Value and number of cross-border M&As in Africa concluded by developing country TNCs, 1995–2008
($ millions and number of deals)



Source: UNCTAD cross-border M&A database.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10 per cent and refer to the net cross-border M&A sales of African TNCs..

Africa and Zambia as well as the North African countries. Figure 16 shows the main African host countries in terms of Africa–South cross-border M&As over the period 1991–2008. It suggests that South Africa and Egypt have by far been the countries most involved in cross-border M&As, together accounting for almost 60 per cent of investment from developing countries. Other major recipients in the region include Nigeria, Tunisia and Sudan.

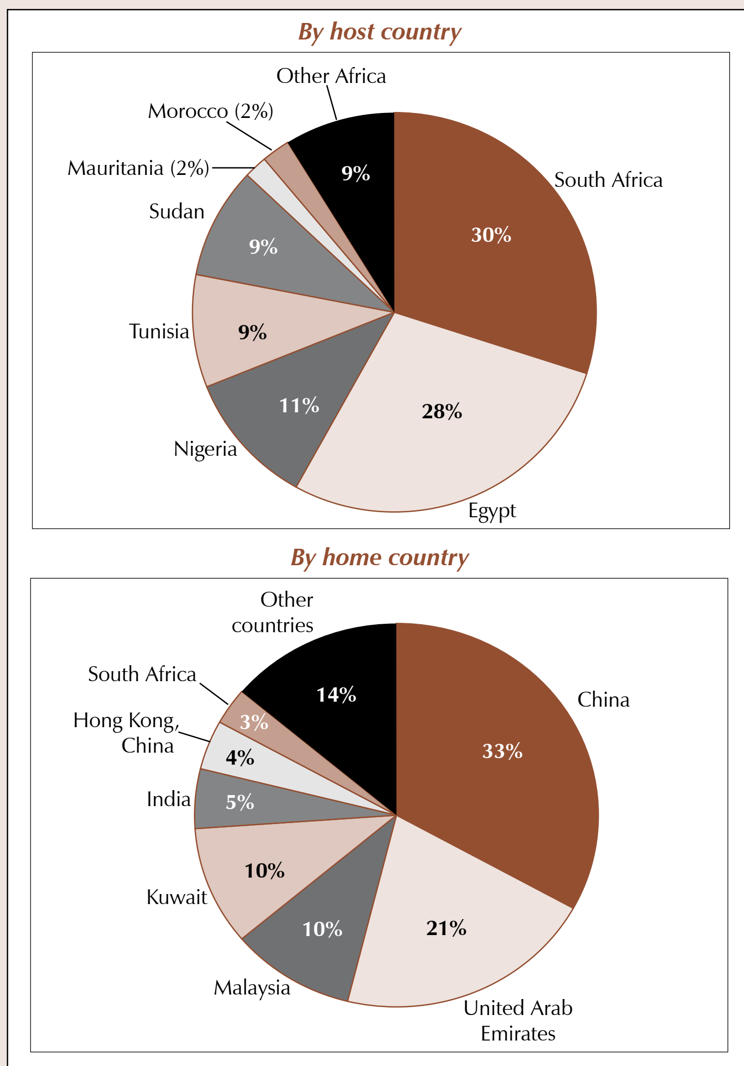
With regard to source, Asia accounts for a large proportion of the increase in Southern FDI to Africa. On an annual average basis, the share of Asia in total FDI inflows to Africa increased from 6.7 per cent over the period 1995–1999 to 15.2 per cent for the period 2000–2008. Interestingly, the share of Latin America and the Caribbean fell from 5.5 per cent to 0.7 per cent over the same period. Figure 17 provides a breakdown of main Southern investors in Africa by source (as reported by non-African developing countries). It shows that in terms of stocks the major developing economy investors in Africa include China, Hong Kong (China), India, Malaysia and Singapore.[22] Although Singapore has the highest stock of FDI in the region, it is important to note that most of it is in Mauritius. In recent years, China has become a very important foreign investor in Africa. Chinese FDI stock in Africa reached $7.8 billion by the end of 2008, accounting for 4 per cent of China's total outward FDI stock.

The growth of Chinese FDI outflows to Africa is taking place against the background of closer economic ties between China and African countries. The leading African recipient of FDI from China is South Africa, which has a stock of about $3 billion and accounts for nearly 40 per cent of total Chinese FDI stock in the region. Other important recipients are Nigeria (with a stock of $796 million), Zambia ($651 million), Sudan ($528 million), Algeria ($509 million), Mauritius ($230 million), United Republic of Tanzania ($190 million), Madagascar ($147 million), Niger ($137 million), Congo ($134 million), Egypt ($131 million) and Ethiopia ($127 million). Evidence suggests that Chinese investors conduct most of their business with government agencies and purchase a substantial share of their inputs from China (Broadman, 2009). This has adverse consequences for the creation of linkages between Chinese FDI and host economies in the region. Although there is more focus on the role of Chinese state-owned enterprises, it is interesting to note that Chinese private investors are also increasingly active players in Africa (Gu, 2009).

Figure 16

Distribution of cross-border M&As in African countries concluded by developing economy TNCs, by major host and home economy, cumulative 1991–2008

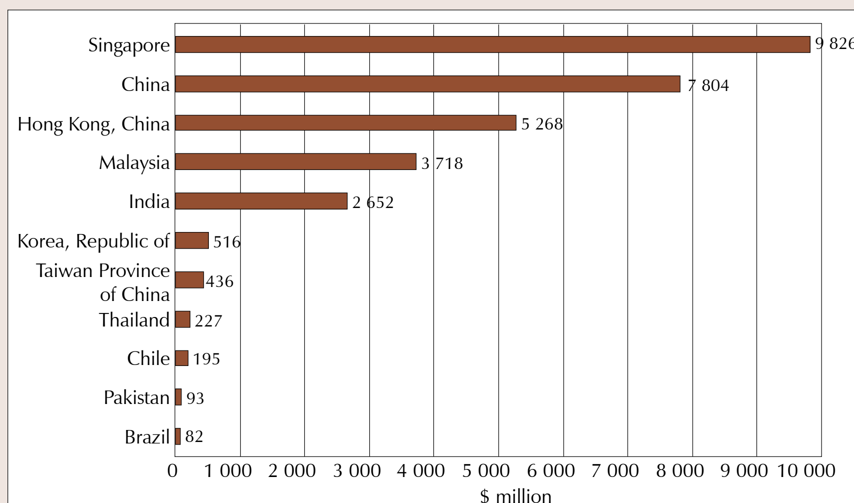
(% of total value)



Source: UNCTAD cross-border M&A database.
Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10 per cent.

Figure 17

Major developing economy investors in Africa, 2008
($ millions)



Source: UNCTAD, FDI/TNC database.

Note: Data refer to the outward stock of the developing economies listed above to Africa as a region in 2008 or the latest year available. Data for India and Taiwan Province of China are on an approval basis.

Historically, Indian FDI in Africa was concentrated in Mauritius. During the period 1996–2005, accumulated flows to the country reached $1.4 billion, accounting for 9 per cent of total outward FDI from India. More recently, large Indian investment projects have been implemented in other countries, such as Côte d'Ivoire, Senegal and Sudan. Malaysia is another Asian country that has made significant investments in the region. Malaysian companies, such as Petronas and Telekom Malaysia, have been active investors in Africa, responsible for more than 24 per cent of the total number of Southern M&A purchases in the continent during the period 1987–2005. In 2004, the African host countries that had the largest FDI stock from Malaysia were Mauritius ($618.7 million), South Africa ($456.2 million) and Sudan ($320.8 million). Together they accounted for almost three quarters of Malaysia's FDI in Africa that year (UNCTAD and UNDP, 2007).

There has also been an increase in FDI to Africa from West Asia, although data problems make it difficult to know the exact value of these investments.[23] Most of the FDI from West Asia to Africa comes from Arab Gulf countries. According to available data on cross-border M&As and greenfield FDI projects, most West Asian FDI in Africa is concentrated in North Africa, with Egypt as the main destination (tables 15 and 16). About 40 per cent of total FDI in Egypt is estimated to have come from Gulf investors in 2006–2007. The latter have used the Egyptian Government's privatization scheme to move into the financial sector, and have also been encouraged by the simplification of property registration procedures to increase their activity in the construction and real estate market. In addition, Gulf investors in Egypt have been active in tourism, energy, insurance, manufacturing, fertilizers and telecommunications.

Arab investors have also invested in other North African countries, mainly in telecommunications, but also in ports, real estate and tourism. However, the level of execution of announced real estate and tourism mega-projects has been low. For example, Sama Dubai, the property unit of Dubai Holding, announced in 2007 plans to spend $14 billion on a luxury real estate development north of Tunis including apartments, theatres, cinemas, offices and hotels. The land has

Table 15

West Asia: net cross-border M&A purchases in Africa, 2001–2009

($ millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2005–2009
North Africa	39	25	0	0	103	4 285	2 372	1 145	337	8 305
Egypt	39	0	0	0	103	640	2 372	837	0	3 991
Sub-Saharan Africa	0	0	2	0	0	0	495	0	0	497

Source: UNCTAD, cross-border M&As database.

Table 16

West Asia: greenfield FDI projects, 2003–2008

(number of deals)

	2003	2004	2005	2006	2007	2008	2003–2008
Total Africa	21	16	40	72	36	93	278
North Africa	17	13	36	55	18	67	206
Egypt	8	9	13	18	12	23	83
Sub-Saharan Africa	4	3	4	17	18	26	72

Source: UNCTAD, based on information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com).

been sold, but work is yet to start. In Morocco, a plan by Emaar Properties, based in Dubai, to transform Rabat's run-down Atlantic shoreline was announced in 2006, but has not yet shown real signs of progress. In addition, Emaar Properties closed its office in Algeria in 2009 due to a lack of progress on projects.

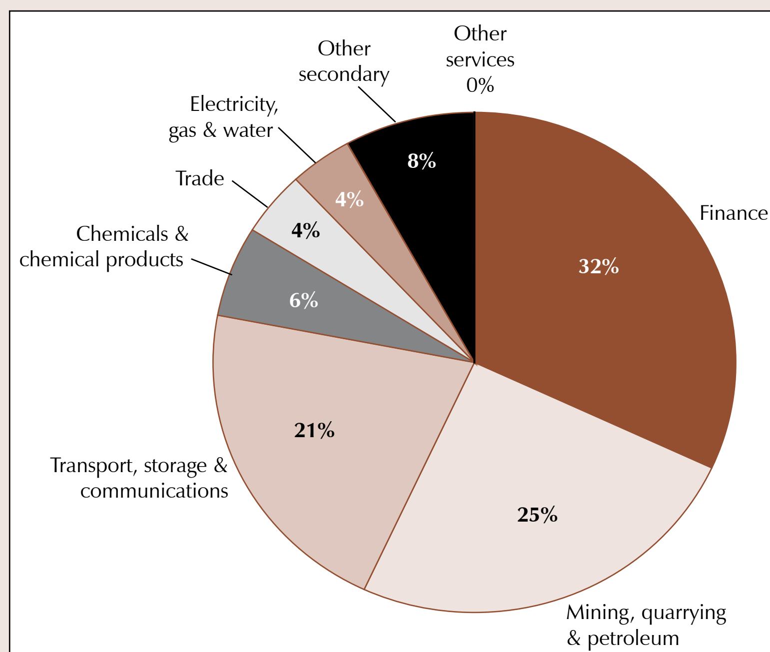
Within Latin America and the Caribbean, Brazil is the most important investor in Africa. For instance, Brazilian energy giant Petrobras has operations in Angola, Libyan Arab Jamahiriya, Mozambique, Nigeria, Senegal and the United Republic of Tanzania, whereas mining company Vale is present in Angola, the Democratic Republic of Congo, Gabon, Ghana, Mozambique, South Africa and Zambia. Other examples of Brazilian investors active in Africa are bus maker Marcopolo, which has a plant in South Africa, and conglomerate Odebrecht, which primarily has engineering and construction projects in Angola, Djibouti, Liberia, Libyan Arab Jamahiriya and Mozambique. Other Latin American TNCs with operations in Africa are Mexico-based building materials company Cemex and Chile-based energy company ENAP, which both have a presence in Egypt.

Southern FDI to Africa is mostly in natural resources, but there are significant investments in infrastructure, finance, agriculture and light manufacturing. Although there is no comprehensive and reliable disaggregated data on the sectoral composition of Southern FDI in Africa, recent studies suggest that they are concentrated in the natural resources sector (UNCTAD, 2006; UNCTAD and UNDP, 2007). For example, there is evidence that Chinese FDI tends to target the natural resource and infrastructure sectors (Broadman, 2007). Brazil and India are also known to have made significant investments in the natural resource sectors in recent years. Despite this tendency to focus on natural resources, Southern investors are increasingly active in areas such as transport, telecommunications, finance and light manufacturing (clothing and textiles). For example, data on cross-border M&As in African countries concluded by developing country TNCs over the period 1991–2008 suggest that about 32 per cent of the investments went into finance, 25 per cent into mining, quarrying and petroleum, and 21 per cent into transport and communications (figure 18). It should be noted, however, that the preferred mode of entry of TNCs in Africa is greenfield investment rather than M&As (UNCTAD and UNDP 2007). Consequently, the conclusion emerging from data on M&As need not reflect a general trend.

Some developing countries have also invested in African agriculture. For example, Malaysia-based Sime Darby invested $800 million in a plantation in

Figure 18

Distribution of cross-border M&As in African countries concluded by developing country TNCs, by major host industry, cumulative 1991–2008
(% of total value)



Source: UNCTAD cross-border M&A database.

Note: The data cover only those deals that involved an acquisition of an equity stake of more than 10 per cent.

Liberia in 2009. The Gulf States, Brazil, China and the Republic of Korea are also known to have made investments in agriculture in recent years (Cotula *et al*., 2009; UNCTAD, 2009b). A major driver of recent expansion of South–South investment in agriculture is the quest for food security by countries such as China, the Republic of Korea and the Gulf states. As major importers of grains, these countries have made strategic decisions to invest in agriculture in Africa to ensure food security for their populations. It is interesting to note that the availability of land as well as water resources to irrigate it influences the location of food security-related FDI in Africa. Ethiopia, Sudan and the United Republic of Tanzania are among the major recipients of Southern FDI in agriculture. Some

examples of investments implemented or proposed include: the purchase of farmland in Sudan by the United Arab Emirates and the Republic of Korea; Saudi Arabia's purchase of land in the United Republic of Tanzania and proposal to invest in Ethiopia and Sudan; and Qatar's interest in leasing land in Kenya (Freemantle and Stevens, 2010; Cotula *et al.*, 2009; Gulf Research Centre, 2009). In general, it has been difficult to estimate the actual scale or value of Southern agricultural investment in the region because several projects are still at an early stage of development and some proposed projects may not be realized (UNCTAD, 2009b).

The growing Southern FDI in agriculture, especially through land acquisition, poses challenges for African policymakers. There are concerns that it could disrupt traditional economic systems, affect the environment and land rights and have adverse effects on food security in host countries. There is the need for African countries to be cautious in making land deals with foreign investors. They should conduct an assessment of the social and environmental impacts of these investments, have regulations to discourage speculative land acquisitions, step up efforts to secure local land rights and be transparent in making investment decisions.

B. Cooperation in international investment arrangements

In addition to the increase in FDI between Africa and developing countries, there has also been an increase in cooperation in international investment agreements (IIAs). These agreements strengthen the regulatory framework and ensure a favourable, predictable and stable regime for FDI flows across national borders. They are also important because studies suggest that they are among the factors that influence companies' decisions on where to invest (UNCTAD, 2009c). In general, based on what they cover, IIAs can be categorized as follows:

- Bilateral investment treaties (BITs) and some recent free trade agreements (FTAs) with investment provisions cover areas such as scope and definition of investment, admission and establishment, national treatment, most favoured nation treatment, fair and equitable treatment, compensation in the event of expropriation or damage to the investment, guarantees of free transfers of funds and dispute settlement mechanisms, both state–state and investor–state;

- Double taxation treaties (DTTs) avoid the same income from being taxed by two or more states. Such double taxation occurs, for example, when a company resident in a country is taxed on its worldwide income, including income derived from an affiliate in another country on which that country has already levied a tax;
- Other IIAs are framework agreements that lay down general principles with respect to committing to further investment liberalization, promotion and protection and pave the way for more elaborated investment agreements in the future.

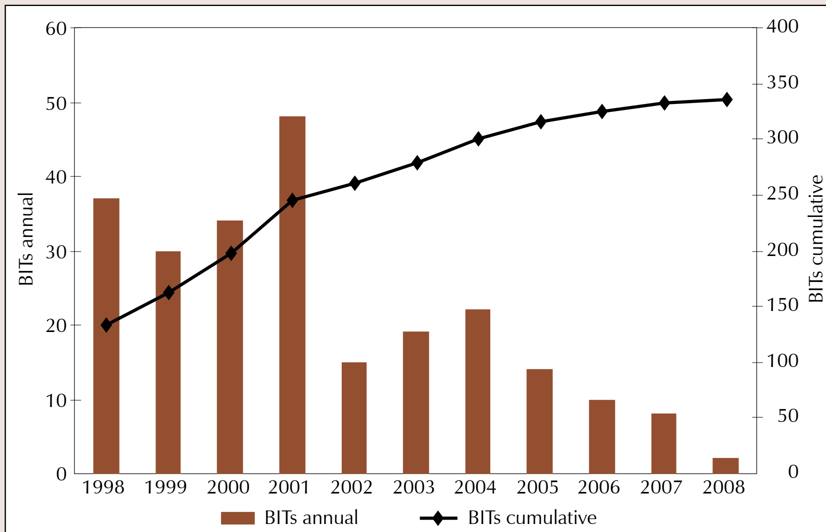
African countries participate actively in international investment rulemaking by concluding BITs, DTTs and other economic agreements with investment provisions, including regional integration agreements.[24] This phenomenon is occurring as developing countries are increasingly becoming home countries for FDI flows and their companies start to figure more prominently among the world's major TNCs. As a result, African countries and other developing countries have become part of a parallel growth trend of South–South FDI flows and of South–South investment agreements that may be mutually reinforcing. Increasing FDI flows may provide an impetus to strengthen the protection of investment by means of IIAs, while IIAs, in turn, may play a role in promoting and facilitating investment flows (UNCTAD, 2009c).

The number of IIAs — particularly in the form of BITs — between African countries and developing countries (including in Africa) increased substantially in the years around the turn of the millennium, both in number and geographical coverage, pointing to growing South–South cooperation in investment. For instance, the number of BITs between African countries and developing countries leapt from 133 in 1998 to 335 by the end of 2008 (figure 19). It should be noted, though, that a significant number of the BITs have yet to be ratified. A peak in the number of BITs concluded between African countries and developing countries was reached in 2001 when 48 BITs were signed in one year. However, since 2004, the number of BITs concluded between African countries and developing countries has been declining. A tentative explanation for this trend is that the earlier increase was a reflection of the incipient stronger investment relationship between the South and Africa, so that by the early 2000s most of the significant BITs had been concluded.

As of end 2008, Africa accounted for about 27 per cent of all BITs. Furthermore about 28 per cent of the region's total BITs were with non-African developing

Figure 19

BITs between developing countries and African countries

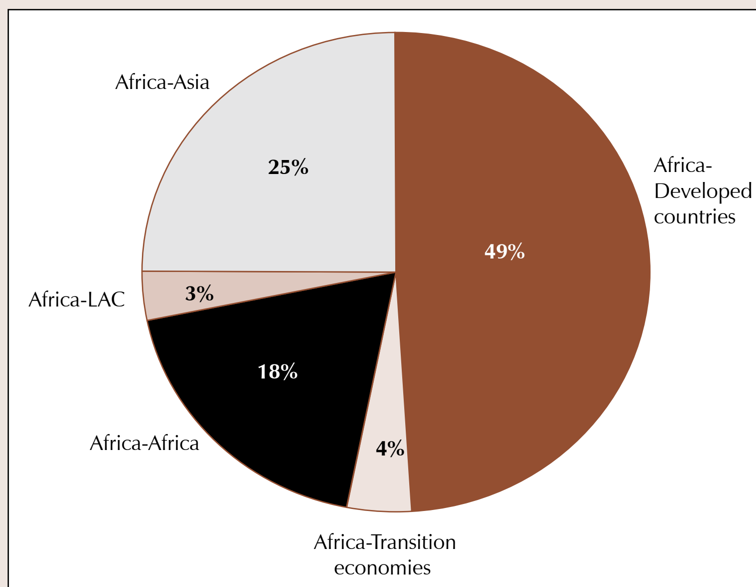


Source: UNCTAD, www.unctad.org/iia.

countries (figure 20). As for agreements among African countries, about 18 per cent of Africa's total BITs were within the region. These facts indicate that almost half of Africa's total BITs were with developing countries. With regard to other regions, BITs concluded by African countries with developed countries accounted for almost half of the total at the end of 2008, with the remaining share (4 per cent) being accounted for by agreements with transition economies. Figure 21 shows that Egypt is the African country that has concluded the most BITs with developing countries from other regions. This is not surprising because it is among the top 10 signatories of BITs worldwide[25] (UNCTAD, www.unctad.org/iia). Similarly, the fact that the five most active African countries are from North Africa is to some extent a reflection of their greater worldwide engagement in such agreements compared with other African countries. Overall, 40 of Africa's 53 countries had concluded at least one BIT with developing countries from other regions. Conversely, 36 non-African developing economies had concluded

Figure 20

Distribution of BITs concluded by African countries, end 2008



Source: UNCTAD, www.unctad.org/iia.

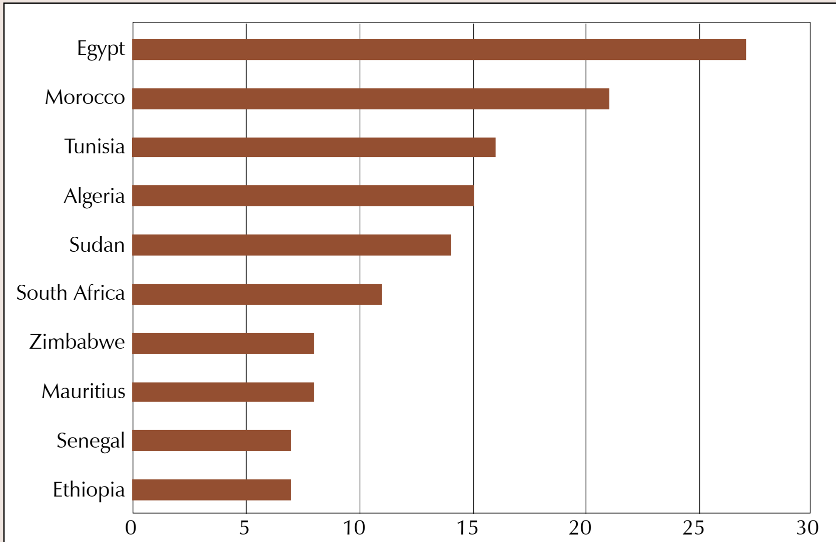
Note: LAC = Latin America and the Caribbean. Percentages do not add up due to rounding.

at least one BIT with an African partner, with 16 from South, East and South-East Asia, 12 from West Asia and 8 from Latin America and the Caribbean.

With regard to DTTs, African countries had concluded a total of 467 DTTs as of end 2008, out of which 113 had been concluded with developing countries from other regions. A majority of these agreements cover income and capital (60), with a little more than a fifth of them relating to income only (24). Almost a quarter of them are unspecified (26). Finally, there are two DTTs on air and sea transport and one DTT on air transport only. About 26 African countries have signed at least one DTT with developing countries from other regions. Seven of these countries were signatories to 10 or more such agreements, with four coming from North Africa.[26] As for developing country partners, a total of 29 had concluded at least one DTT with an African country. Sixteen of these were from South, East and South-East Asia and 12 from West Asia. Interestingly, only

Figure 21

Top 10 African countries in terms of the number of BITs concluded with non-African developing countries, end 2008



Source: UNCTAD, www.unctad.org/iia.

one country from Latin America and the Caribbean (Barbados) had signed DTTs with African partners as at the end of 2008.

With respect to other economic agreements with investment provisions, African countries had concluded a total of 41 agreements as of end 2008. These agreements appear under a variety of names, for example FTAs, economic partnership agreements, regional economic integration agreements or framework agreements on economic cooperation. Most of these bilateral treaties were concluded between a developed and an African country and often go beyond the obligations that African countries are required to meet under existing multilateral rules. However, various regional economic integration agreements within Africa include investment-related provisions or protocols on investment.[27] As for bilateral agreements with investment provisions (other than BITs and DTTs) involving an African country with a non-African developing country, there have been very few of them to date. Turkey appears, however, to have been

particularly active, concluding FTAs with three North African partners: Morocco and Tunisia in 2004 and Egypt in 2005.

In general, there is no significant difference in terms of substance between the IIAs African countries have with developing countries and those they have with developed countries. Put differently, although there exist some variation in the details, the IIAs that African countries have concluded with Southern and Northern partners generally cover the same type of provisions (UNCTAD, 2005).

C. Challenges and policy options

FDI flows from developing countries to Africa have increased significantly in recent years, but the scale is still low relative to potential. The region currently receives a small proportion of outward FDI from the large developing countries that are increasingly important drivers of global economic activity. For example, it accounted for only 4.2 per cent of Chinese FDI stock abroad in 2008. In addition, it is not a major recipient of investments from sovereign wealth funds created by several middle-income developing countries (UNCTAD, 2008c). It is estimated that these funds have assets of $2 to $3 trillion and their investments have been primarily in developed countries. In recognition of the potential of sovereign wealth funds in meeting Africa's financing needs, the World Bank President recently made a proposal to invest about 1 per cent of their assets in Africa through the International Finance Corporation. It is estimated that this would increase flows to the continent by about $30 billion.

Success by African countries in boosting investment flows from other developing countries will depend on the extent to which they are able to address the factors inhibiting FDI to the region (Dupasquier and Osakwe, 2006). These include poor infrastructure, low human capital development, political and macroeconomic instability, regulatory bottlenecks and lack of information and transparency. In this regard, it would be desirable for African countries to make more efforts to reduce the costs of investing in the region by investing in infrastructure, improving the economic policy environment, protecting property rights as well as the rule of law and providing more and better information on investment opportunities available in the region. Efforts should also be made by African governments to stimulate South–South FDI by developing regional markets through regional integration.

While African countries need more FDI from developing as well as developed countries, it is important that they avoid a race to the bottom in the pursuit of their goals. Competition for FDI often leads African countries to offer unnecessary fiscal incentives to foreign firms that erode the revenue base, with dire consequences for domestic investment, growth and poverty reduction. In this regard, African countries need to recognize that ultimately the most effective way to attract FDI is to have a dynamic and growing domestic private sector. Furthermore, if African countries wish to attract market-seeking or efficiency-seeking FDI, instead of resource-seeking FDI, they have to create a growing and efficient domestic market coupled with a policy environment attractive to both domestic and foreign investors.

In this context, the focus should not be on attracting Southern FDI per se, rather it should be on how to create linkages between FDI and the domestic economy and also how to direct it to sectors where it can boost productive capacity, catalyse domestic investment, create employment, spur regional integration and enhance integration into the global economy. The use of targeted incentives to encourage foreign investors to source inputs locally is one way to promote linkages between Southern FDI and the domestic economy. The promotion of joint ventures between African and Southern firms could also facilitate the diffusion of knowledge to local entrepreneurs and contribute to structural transformation. Another means through which developing countries could promote investment and boost industrialization in Africa is through the creation of special economic zones (SEZs). These zones have played an important part in China's economic development and have also been used by Mauritius as a source of surplus to develop the rest of the economy. It is interesting that China has recently taken the lead in establishing SEZs in the region (box 9).

African governments should also pay more attention to the environmental consequences of FDI from developing countries to ensure that it does not degrade the already fragile environment in the region. The establishment of environmental standards as well as appropriate regulatory frameworks for FDI could provide important safeguards in this respect. Developing countries should also create an incentive for their firms to make environmentally responsible investments in Africa through, for example, support for corporate social responsibility initiatives and the establishment of environmental standards for firms investing abroad.

Box 9. China and special economic zones in Africa

An interesting development that could potentially contribute to enhancing productive capacities in Africa is China's involvement in building SEZs in the region. These zones are supported with preferential policies aimed at boosting foreign investment in manufactures. The approach has been successfully implemented in China since the 1980s, with positive impact on China's own economic development (Broadman, 2007).

At the 2006 FOCAC, China introduced measures to promote the establishment of trade and economic cooperation zones in Africa. Furthermore, it has encouraged Chinese companies to form 3–5 such zones in the region over the next three years. Currently, China is assisting in developing seven SEZs in African countries: two in Nigeria and one each in Egypt, Ethiopia, Mauritius, Zambia and, possibly, Algeria (Brautigam, 2010).

The first SEZ to be developed in Africa was in the Chambishi copper belt region in Zambia. The announcement of its establishment came in 2007, with the claim that it would eventually result in the creation of 60,000 jobs (Corkin *et al.*, 2008). More recently, it has been reported that the Egyptian Government is in talks with the Tianjin Economic-Technological Development Area – one of China's most successful SEZs – that would see the latter acquire a stake in the Suez Economic Zone, which is currently under development (*Financial Times*, 2010).

Chapter 5

MAKING SOUTH–SOUTH COOPERATION WORK FOR AFRICA: MAIN FINDINGS AND POLICY RECOMMENDATIONS

A. Main findings

There have been significant changes in the structure of the world economy and in the role of large developing countries. Brazil, China and India are increasingly playing important roles in global trade, finance, investment and governance. These changes have opened up opportunities for further cooperation between Africa and other developing country regions, as evidenced by the plethora of new initiatives aimed at fostering political, economic and social relations with the region. This report has examined the nature as well as features of these partnerships and how African countries could manage them to address their development needs. The main findings of the report are as follows.

1. ***There has been a significant increase in the importance of developing countries in Africa's merchandise trade.*** The region's total merchandise trade with non-African developing countries increased from $34 billion in 1995 to $283 billion in 2008. As a result of these developments, the share of non-African developing countries in Africa's extra-regional trade increased from 19.6 per cent in 1995 to 32.5 per cent in 2008, while their share of the region's total trade rose from 15.4 per cent to 28.7 per cent over the same period. A large part of this increase is due to trade with China, which accounts for about 11 per cent of the region's external trade and is the second largest trade partner after the United States.

2. ***Africa's exports to developing countries are concentrated by country of origin and its imports are concentrated by country of destination.*** In 2008, the five largest African exporters to developing countries accounted for 68 per cent of the region's total exports. Furthermore, five African countries accounted for 57 per cent of the region's imports from other developing countries in 2008.

3. ***Africa's exports to other developing country regions are increasingly dominated by primary products while imports are increasingly dominated by manufactures.*** Over the period 1995–2008, the share of primary commodities in Africa's exports to non-African developing countries increased from 55 to 75 per cent, while the share of low, medium and high technology manufactures fell from 18 to 10 per cent. With regard to imports, the share of low, medium and high technology manufactures in the region's imports from non-African developing countries increased from 47 to 56 per cent, while the share of primary products fell from 32 to 22 per cent over the same period. As a result of these developments, Africa's trade with developing countries is reinforcing commodity dependence and replicating the current pattern of trade with developed countries.

4. ***There has been an increase in official flows to Africa from developing countries.*** Although data constraints do not permit a comprehensive and reliable estimate of the scale of official flows to Africa from developing countries, it is estimated that aid to the region from developing countries, based on the OECD-DAC definition, was about $2.8 billion in 2006. It should be noted however that since 2006 several developing countries have made financial commitments to the region and so it is likely that the figures for 2007 and 2008 are much higher. The support provided by developing countries has increased resources available to the region as well as diversified its financing options.

5. ***Developing countries often use official flows to promote trade and investment activities in Africa.*** For example, China and India use their export-import banks as channels for providing finance and promoting commercial interests in trade and investment. One consequence of the link between official flows and the commercial activities of large Southern partners is that the development impact of their support to the region cannot be assessed adequately without taking into account its catalytic effect on trade and investment flows in recipient countries.

6. ***Official flows from developing countries are increasingly channelled to the infrastructure and production sectors of African economies.*** In terms of scale, China is the most significant source of support to Africa in the infrastructure and production sectors. Available evidence suggests that Chinese infrastructure finance commitments in sub-Saharan Africa rose from $470 million in 2001 to $4.5 billion in 2007. Furthermore, it is estimated

that 54 per cent of its support to Africa over the period 2002–2007 was in infrastructure and public works.

7. ***Developing countries are increasingly important sources of FDI to Africa.*** The share of developing countries in total FDI inflows to Africa, based on data for reporting host countries, increased from an average of 17.7 per cent over the period 1995–1999 to 20.8 per cent for the period 2000–2008. In addition, their share of inward FDI stock in the region rose from 6.9 per cent in 1999 to 7.4 per cent in 2008.

8. ***FDI to Africa from developing countries is mostly in natural resources, but there are significant investments in infrastructure, finance, agriculture and light manufacturing.*** FDI to Africa from developing countries are concentrated in the natural resource sector. However, developing country investors are also active in areas such as transport, telecommunications, finance and light manufacturing (clothing and textiles). For example, data on cross-border M&As in African countries concluded by developing country transnational corporations over the period 1991–2008 suggest that about 32 per cent of their investments went into finance, 25 per cent into mining, quarrying and petroleum, and 21 per cent into transport and communications.

9. ***There has been an increase in Africa–South international investment agreements.*** The number of BITs between African countries and developing countries leapt from 133 in 1998 to 335 by the end of 2008. Furthermore, African countries had concluded a total of 467 DTTs as of end 2008, out of which 113 were with developing countries from other regions.

B. Policy recommendations

The bourgeoning relationships between Africa and Southern partners have increased resources available for development in the region, enhanced its bargaining power in multilateral negotiations and diversified export markets, thereby reducing vulnerability to country-specific external shocks. But there are also potential risks for Africa from the new partnerships. For example, there are concerns that it could reduce environmental quality and weaken governance. Consequently, the net benefit of these partnerships will depend on the extent to which African countries are able to take advantage of the opportunities and

minimize potential risks. Against this background, the report makes the following policy recommendations for consideration by African countries, development partners, regional and multilateral institutions.

1. Recommendations for African countries

(a) ***Mainstream South–South cooperation into national development strategies.*** Africa's cooperation with developing countries opens new options and these can be opportunities that need to be seized. Cooperation with other developing countries has the potential to enhance Africa's capacity to deal with the challenges of poverty, poor infrastructure, development of productive capacity and emerging threats associated with climate change as well as the food, energy, financial and economic crises. These potential benefits of cooperation are however not automatic. They accrue to countries that have taken adequate and proactive steps to exploit them. In this regard, African countries should adopt a well-defined strategy for South–South cooperation to ensure that it furthers rather than hinders the achievement of national and regional development goals. This means that South–South cooperation should be mainstreamed into national development strategies as well as efforts to promote regional cooperation within Africa.

(b) ***Take a proactive approach to the partnership process.*** The main challenge facing African countries is how to harness and use these partnerships more effectively to further their long-term development goals. Addressing this challenge requires that African countries be more proactive in the partnership process and use the leverage they have with developing country partners to persuade them to strike a balance between their strategic interests and Africa's development needs. The scale and scope of interaction between African countries and developing country partners has expanded rapidly in the last 10 years. A proactive approach by African governments and sharing of experiences with developing country partners will accelerate mutual policy learning, which should enhance the effectiveness of interactions for both parties. In addition, effective coordination at the regional level is needed to reconcile national interests and ensure that they do not jeopardize the achievement of the broad development objectives of the region. In this context, the AUC and the regional economic communities have important roles to play in coordinating the region's relations with Southern partners to avoid a race to the bottom. Furthermore, the AUC should be more assertive

in negotiations with Southern partners to focus attention on regional priorities and ensure a wider spread of the benefits of these partnerships;

(c) ***Ensure that cooperation with developing countries complements existing partnerships with developed countries.*** Developed countries have been and will continue to be important development partners for Africa. Consequently, it is important that the regions' engagement with developing countries complements rather than substitutes for relations with traditional partners. In this context, it is interesting to note that one consequence of Africa's growing partnership with developing countries is that areas neglected by traditional partners are now being addressed. These include protecting the interests of African countries in the international economic, financial and trading systems, and infrastructure development.

(d) ***Involve more local stakeholders in partnerships with the South.*** To ensure effective national ownership of the process and outcomes of the evolving partnerships between Africa and developing countries, African governments should make efforts to get parliaments, the private sector and civil society more involved in the process. For example, when negotiating partnership agreements with developing country partners, they should ensure that parliament and other relevant stakeholders are represented. This will increase transparency and accountability and increase the likelihood that resources will be used in pursuit of national development goals and priorities. It will also reduce public scepticism and give more credibility to the partnerships.

(e) ***Strengthen efforts to develop productive capacities.*** For African countries to achieve the average 7 per cent growth rate needed to meet the MDGs, they have to produce goods with high income elasticities of demand and that present greater opportunities for export market expansion. This requires public and private investment, structural transformation and the development of productive capacities. The current pattern of trade with developing countries is reinforcing commodity dependence and replicating the existing pattern of trade with traditional partners. African countries should reverse this export pattern and transform the structure of their economies. This requires improving the business environment, addressing the problem of poor infrastructure, enhancing access to credit and transfer of skills and technology by, for example, providing targeted incentives to encourage foreign firms to train local employees. It also requires encouraging

developing country partners to redirect part of their official flows to the development of productive capacities in the region.

(f) ***Enhance capacity to negotiate and benefit from the multilateral trading system.*** African countries have formed alliances with other developing countries to pursue common interests in multilateral trade negotiations. Overall, these partnerships have served the region well. However, to derive more gains from these partnerships African countries need to enhance their capacity to negotiate as well as take advantage of opportunities created in the multilateral trading system. They should also be more strategic in the formation of alliances to ensure that they protect their national interests.

(g) ***Play a more active role in coordination of support from partners.*** It would be desirable if African countries play a more active role in the coordination of support from developing and developed countries to reduce transaction costs and increase the development impact. In this regard, there is a need to develop or strengthen existing national aid management and coordination frameworks to enhance local ownership of aid processes and outcomes. Aid management policies within African countries can offer an effective mechanism to strengthen aid effectiveness and ensure complementarities between official flows from developing and developed country partners. The Development Cooperation Forum also provides a framework within which national experiences could be shared.

(h) ***Avoid accumulation of unsustainable debt.*** The availability of concessional loans from developing country partners has increased access to finance for several countries in the region and should be welcomed. However, African countries should ensure that new borrowing from developing country partners is used to finance projects that enhance domestic capacity to repay. There is also the need to pay more attention to the structure as well as management of external debt to avoid a debt crisis.

(i) ***Adopt a developmental approach in seeking foreign direct investment.*** FDI is not an end in itself. It is useful to the extent that it enables African countries to achieve their development objectives. African countries should recognize that ultimately the most effective way to attract FDI is to have a dynamic and growing domestic private sector. If they wish to attract market-seeking or efficiency-seeking FDI, instead of resource-seeking FDI, they have to create a growing and efficient domestic market coupled with

a policy environment attractive to both domestic and foreign investors. In this regard, the focus of African countries should not be on attracting Southern FDI per se, rather it should be on creating linkages between FDI and the domestic economy and also directing it to sectors where it can catalyse domestic investment, create employment, spur regional integration and boost productive capacity. The use of targeted incentives to encourage foreign investors to source inputs locally is one way to promote linkages between Southern FDI and the domestic economy. The promotion of joint ventures between African and Southern firms could also facilitate the diffusion of knowledge to local entrepreneurs and contribute to structural transformation.

2. Recommendations for developing country partners

(a) ***Broaden the scope of engagement to include sectors other than the extractive industries.*** One of the stylized facts about developing countries' engagement in Africa is that their trade and, to a lesser extent, investment activities are heavily concentrated in the natural resource sector. While this is understandable given their growing need for resources, it replicates the pattern of economic relations between Africa and its traditional development partners, characterized by the export of primary commodities by Africa and the import of manufactures from traditional development partners. It would be desirable for official flows of developing country partners to seek to counteract rather than reinforce this pattern. In this regard, developing country partners should use their resource flows to enhance technology transfer and technological learning between African countries and other developing countries.

(b) ***Strengthen support for regional integration in Africa.*** Although several developing country partners have established frameworks for cooperation with Africa, their actual engagement is at the country level, with little or no link to regional development priorities. It would be desirable for developing country partners to provide more support for regional projects as an important step towards developing regional markets and laying the foundation for a sustainable and mutually beneficial relationship with the region. One regional project that calls for more support by developing country partners is the development of regional infrastructure, needed to reduce transaction costs, improve export competitiveness, boost South–South trade and enhance growth and development in the region.

(c) ***Enlarge country coverage.*** There is the tendency for trade, investment and official flows between Africa and developing country partners to concentrate in resource-rich, politically strategic and large countries in the region. This is making it difficult for small countries to derive significant benefits from the partnerships. It would be desirable for developing country partners to explore ways and means to involve more countries, particularly the LDCs, in their partnerships with the region. For example, developing country partners should consider directing more official flows to LDCs in the region. They could also increase trade with LDCs by offering 100 per cent duty-free and quota-free market access for exports of LDCs. This should be supported by the provision of export credit designed to reduce their cost of borrowing. These actions will facilitate South–South trade and ensure that the gains are more evenly distributed across countries.

(d) ***Provide more information on development activities in the region.*** Developing country partners do not provide information on their development assistance in the region, thereby making it difficult to know the exact scale and nature of these activities and their potential impact in the region. This has led to misunderstandings and tension between African governments and other local stakeholders such as parliaments and civil society. Developing country partners should increase transparency in their development cooperation with Africa as an important step towards improving accountability and establishing a sustainable relationship with the region. This would complement actions taken by African countries to improve transparency and accountability by integrating local stakeholders into the partnership process.

(e) ***Ensure that projects have positive impact on the environment.*** Developing country partners should pay more attention to the environmental consequences of their activities in Africa. In particular, it would be desirable if they conduct proper environmental impact assessments for proposed activities in the region before they are approved. They should also enact measures to encourage their domestic firms to make environmentally responsible investments in the region.

(f) ***Address the transactions costs associated with the multiplicity of partnership initiatives.*** In recent years, there has been an increase in the number of initiatives supporting and promoting cooperation between Africa

and developing countries. Each of the large developing country partners has its own process and framework for cooperation with Africa. This multiplicity of initiatives places an undue burden on the already weak human and financial capacity of African countries. It would be desirable for developing country partners to coordinate and consolidate these initiatives to reduce participation costs for Africa for better development results. For example, developing country partners in Asia could agree to use the New Asia–Africa Strategic Partnership as their joint forum for engagement with the region. Similarly, partners in South America could use the Africa–South America initiative for their joint engagement in the region.

3. Recommendations for developed country partners

(a) ***Provide more support for Africa–South cooperation.*** Traditional development partners increasingly provide support for Africa–South cooperation by financing triangular cooperation activities. There is a fear that the financial and economic crisis may have a negative impact on funding for these projects from traditional partners. It would be desirable for Africa's traditional partners to resist any pressures that may arise to reduce financing for triangular cooperation projects in response to the global economic slowdown. It would also be desirable if they consider increasing resources available for Aid for Trade and earmarking part of it for strengthening South–South trade.

(b) ***Strengthen dialogue with Southern partners.*** The growing role of developing country partners in Africa has increased the number of projects and countries involved in development assistance in the region. It has also increased aid fragmentation and made coordination more difficult. Traditional partners should strengthen dialogue with developing country partners to enhance coordination and sharing of experiences and best practices.

4. Recommendations for regional and multilateral institutions

(a) ***Coordinate the development of statistics and collection of information on Africa–South cooperation.*** Lack of reliable information on the development finance activities of developing country partners has made it difficult to get a comprehensive picture of the trends, scale and features of their support to

the region. African regional organizations, in collaboration with the United Nations, should develop a database on Africa–South cooperation. This will increase transparency as well as allow an identification of best practices;

(b) ***Provide more research support.*** Despite the increasing engagement of developing country partners in Africa, there are relatively very few studies on the development effectiveness of their activities. There is the need for rigorous and systematic country and regional studies of the impact and sustainability of developing countries' activities in the region. This will give African policymakers the information needed to make decisions on cooperation with developing country partners. In this regard, African regional organizations as well as the United Nations and other multilateral institutions should scale up their research activities in this area.

(c) ***Establish financing facilities for Africa–South cooperation.*** Regional and multilateral finance institutions should make more resources available for support of South–South cooperation projects. Inadequate resources due to poor access as well as the high cost of borrowing in international financial markets continue to inhibit the growth of Africa–South cooperation. It would be desirable if regional and multilateral finance institutions establish and enhance existing facilities for finance of South–South cooperation. In this regard, the recent establishment of a South–South financing facility by the World Bank to encourage sharing of development knowledge is welcome.[28]

C. Conclusion

The bourgeoning partnership between African countries and other developing countries is changing the development finance landscape and has great potential to contribute to sustained growth and poverty reduction in the region. The challenge is for African countries to find ways to harness and manage these relationships for better development results. This requires the adoption of effective strategies reflecting national as well as regional interests. It also requires ensuring that the evolving partnerships with developing countries complement rather than substitute for relations with traditional partners.

Notes

1 According to Tejasvi (2007), South–South cooperation is about "developing countries working together to find solutions to common development challenges". For a review of South–South cooperation and related concepts, see UNDP (2004).

2 It should be noted that South–South cooperation is a much broader concept than either technical cooperation among developing countries or economic cooperation among developing countries. The former focuses on the cooperative exchange of knowledge, skills, resources and technical know-how and the latter refers mainly to cooperation in trade, investment and finance (UNDP, 2004).

3 Although it is mostly associated with relations between governments, actors such as the private sector and civil society are increasingly playing important roles.

4 The AERC also has a series of country-level studies on the impact of China on Africa. For more information on these studies, please see the AERC website: www.aercafrica.org.

5 African representatives at the conference were Egypt, Ethiopia, Liberia and Libyan Arab Jamahiriya.

6 The G-77 is a platform used by developing countries to articulate and protect their interests in the United Nations system.

7 For more information on the history and developments in South–South cooperation, see United Nations (2009a and 2009b).

8 Since the Beijing summit, it has sent about 1,200 medical personnel to 42 African countries. Furthermore, the number of African recipients of Chinese scholarships reached 4,000 in 2009, representing a 100 per cent increase relative to 2006.

9 African leaders from the following countries attended the summit: Burkina Faso, Democratic Republic of the Congo, Ethiopia, Ghana, Senegal, South Africa, Uganda and the United Republic of Tanzania.

10 African countries are increasingly concerned that relations with Southern countries take place mostly at the bilateral level without appropriate safeguards to ensure that the outcomes are consistent with the regional integration agenda. In this context, the emphasis on regional integration in the framework of India–Africa cooperation is welcome.

11 Traditional partners are concerned that the new approach of Southern partners undermines established norms and standards of democracy, human rights and good governance (Manning, 2006; Paulo and Reisen, 2009).

12 Throughout this chapter, "trade" refers to merchandise trade.

13 It is interesting to note that while other developing country regions trade more with themselves, Africa trades over twice as much with other developing regions as it does with itself. In 2008, intraregional trade accounted for about 10 per cent of Africa's exports, 20 per cent of developing America's exports and 45 per cent of developing Asia's exports.

14 The second largest African exporter to developing countries in 2008 was South Africa with 13 per cent of the total, followed by Nigeria with 12.5 per cent. Sudan is the only country in the top 10 African exporters to developing countries in 2008 that is not one of the top 10 exporters to developed countries. The biggest African exporter to developed countries in 2008 was Algeria, with 19.4 per cent of Africa's total. In the

same year it was Africa's fourth largest exporter to developing countries with 8.1 per cent of the total. The high concentration of source countries is even more pronounced in Africa's exports to individual developing countries. Shares of the biggest five exporters to Africa's main developing country partners vary between 84 and 93 per cent, while shares of the top 10 go from 93 to 99.7 per cent. The only exception among Africa's major developing country partners is the United Arab Emirates, where the shares of the top exporters are closer to Africa's average for developing countries.

15 This classification of products follows Lall (2000) and groups exports according to their technological structure. Primary products are unprocessed raw materials. Resource-based manufactures are mainly simple and labour-intensive manufactures based on the processing of primary products. They include agriculture-based products such as wood products and beverages, as well as processed minerals such as ore concentrates or refined petroleum. Low technology manufactures tend to have relatively low skill requirements and well-diffused technologies. They include textiles and clothing, leather manufactures, furniture and simple plastic products. Medium technology manufactures tend to be both skill- and scale-intensive and have complex technologies requiring advanced skills. They include automotive products, advanced chemicals and synthetic fibres as well as engines and industrial machinery. High technology manufactures have advanced and fast-changing technologies and require sophisticated technology infrastructures and specialized technical skills. They include electronics and electrical products as well as pharmaceuticals, aerospace and optical equipment.

16 Note that the reported figures include country programmable and non-country programmable aid. The former refers to aid available to recipient countries for financing development projects and programmes, while the latter refers to support in the form of debt relief, food aid, humanitarian aid and technical cooperation. In 2008, net debt relief to the region was about $2 billion, food aid $1.3 billion, humanitarian aid $5.5 billion and technical cooperation $5.4 billion. Taken together, non-country programmable aid accounted for about 32 per cent of total flows to the region in 2008.

17 It should be noted that the Republic of Korea and Turkey, as well as the Arab countries, do provide information on their aid flows to the OECD. However, for Arab countries, the data is often at an aggregate level and not disaggregated by donor country.

18 Note that the 2008 figure represents a decline in the share of technical assistance in DAC aid budget. For example, in 2000, the share of technical cooperation in gross aid disbursement was 32 per cent in the DAC countries, 9 per cent in the Republic of Korea and 27 per cent in Turkey.

19 It was officially admitted as the twenty-fourth member of DAC in January 2010.

20 Recent assessments by researchers found no convincing evidence that the availability of Southern aid encourages poor governance in the region (Woods, 2008; Brautigam, 2008).

21 In response to these concerns, the international community adopted the Paris Declaration on Aid Effectiveness in March 2005 with quantifiable targets against which progress could be measured and monitored. This was followed by the adoption of the Accra Agenda for Action in September 2008.

22 Note that investment from West Asia is not reflected in the figure due to data limitations.

23 In this report, West Asia is comprised of Bahrain, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Turkey, United Arab Emirates and Yemen.

24 Regional economic integration agreements with investment-related provisions include: the Common Market for Eastern and Southern Africa (COMESA): Angola, Botswana, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Seychelles, Somalia, Swaziland, Uganda, United Republic of Tanzania, Zambia and Zimbabwe; the Economic Community of the Great Lakes Countries: Burundi, Democratic Republic of the Congo and Rwanda; the Economic Community of West African States: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo; the Southern African Development Community (SADC): Angola, Botswana, Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, the United Republic of Tanzania, Zambia and Zimbabwe; the West African Economic and Monetary Union: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

25 Thus, at the end of 2007, Egypt was the fifth most active BIT signatory in the world (UNCTAD, 2006: 15).

26 In descending order: Egypt (14 DTTs), Morocco (14), Mauritius (13), Tunisia (11), Algeria (10), South Africa (10) and Sudan (10).

27 See, for instance, the SADC Protocol on Finance and Investment signed in 2006 and the Investment Agreement for the COMESA Common Investment Area signed in 2007.

28 The facility was launched by the World Bank on 11 October 2008. For more on this please see http://go.worldbank.org/5AH40BUOA0.

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The increasing role of large developing countries in global trade, finance, investment and governance, coupled with their rapid economic growth, has stimulated debate on the implications for Africa's development. The *Economic Development in Africa Report 2010* examines recent trends in the economic relationships of Africa with other developing countries and the new forms of partnership that are animating those relationships.

The report discusses the variety of institutional arrangements that are guiding and encouraging these new economic relationships. It provides up-to-date information on African trade with other developing countries outside Africa, as well as on official financial flows and foreign direct investment into Africa from those countries. Finally, it assesses important policy issues that arise from the new relationships in each of these areas.

The report places the new relationships and multiplying partnerships within the context of South–South cooperation. It argues that South–South cooperation opens new opportunities for Africa, and the main challenge facing African countries is how to harness these new relationships more effectively to further their long-term development goals. There is a need for policies at the national level to ensure that Africa–South cooperation does not replicate the current pattern of economic relations with the rest of the world, in which Africa exports commodities and imports manufactures. In this regard, African countries and their developing country partners should manage their growing and evolving relationships in a manner that supports and enhances technological progress, capital accumulation and structural transformation in the region.

The report also stresses the need to broaden the country and sectoral focus of cooperation with the South to ensure that the gains are better distributed across countries. Furthermore, it argues that South–South cooperation should be seen as a complement rather than a substitute for relations with traditional partners, and that the latter can make South–South cooperation work for Africa by strengthening support for triangular cooperation as well as through better dialogue with developing country partners.

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