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Economic development in Africa: South–South cooperation: Africa and the new forms of development partnerships[1]

Overview

Executive summary

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. The *Economic Development in Africa Report 2010* analyses the institutional framework guiding Africa's new and evolving partnerships with non-African developing countries. It also examines trends and features of trade, investment and official flows between Africa and non-African developing countries, and offers recommendations on how the new partnerships could be managed for better development results. The report argues that South–South cooperation opens new opportunities for African countries to address their development challenges. However, realization of the potential benefits requires the adoption by African countries of effective strategies reflecting national as well as regional interests. Furthermore, 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. There is also the 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 better dialogue with developing country partners.

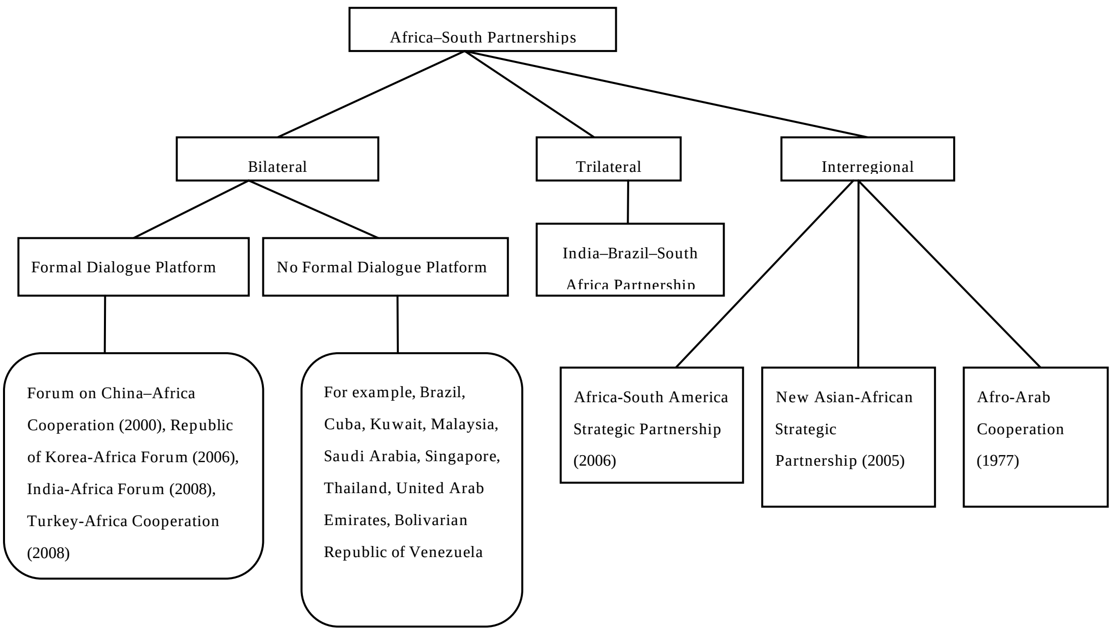
[1] This overview should be read in conjunction with the full report (UNCTAD/ALDC/AFRICA/2010).

I. Africa–South cooperation: initiatives, patterns and challenges

1. 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.

2. Africa’s cooperation with the South is generally of three types. The first form of cooperation arrangement is bilateral, between African countries and a developing country in another region. 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 third is at the regional level between Africa and other developing country regions. Figure 1 provides an overview of the main cooperation frameworks.

Figure 1
Patterns of Africa’s cooperation with the South



A. Distinctive features of the new partnerships

3. The distinctive or novel features of Africa–South cooperation relative to Africa’s relations with traditional partners include:

(a) The new partnerships often have established forums and dialogue platforms and are generally supported by frequent high-level official visits;

(b) 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;

(c) The big Southern partners generally use official flows to promote trade and investment activities in Africa; and

(d) The Southern partners do not consider their financial contributions to other developing countries as aid.

B. Challenges and the way forward

4. African countries are facing a number of challenges in managing the new relationships and using them to further their long-term development objectives. Among these challenges are (a) the lack of an articulated coherent regional approach to harnessing and managing these partnerships for their benefit; (b) the concentration of the engagement of the Southern partners in a few countries, in particular in resource-rich countries; (c) the enormous burden on the already weak capacity in the region, due to the increase in initiatives, structures and processes to support the new relationships between Southern partners and Africa; (d) the involvement and representation of local stakeholders such as parliaments, the private sector and civil society in the partnerships; and (e) the lack of information on the activities of Southern partners in the region.

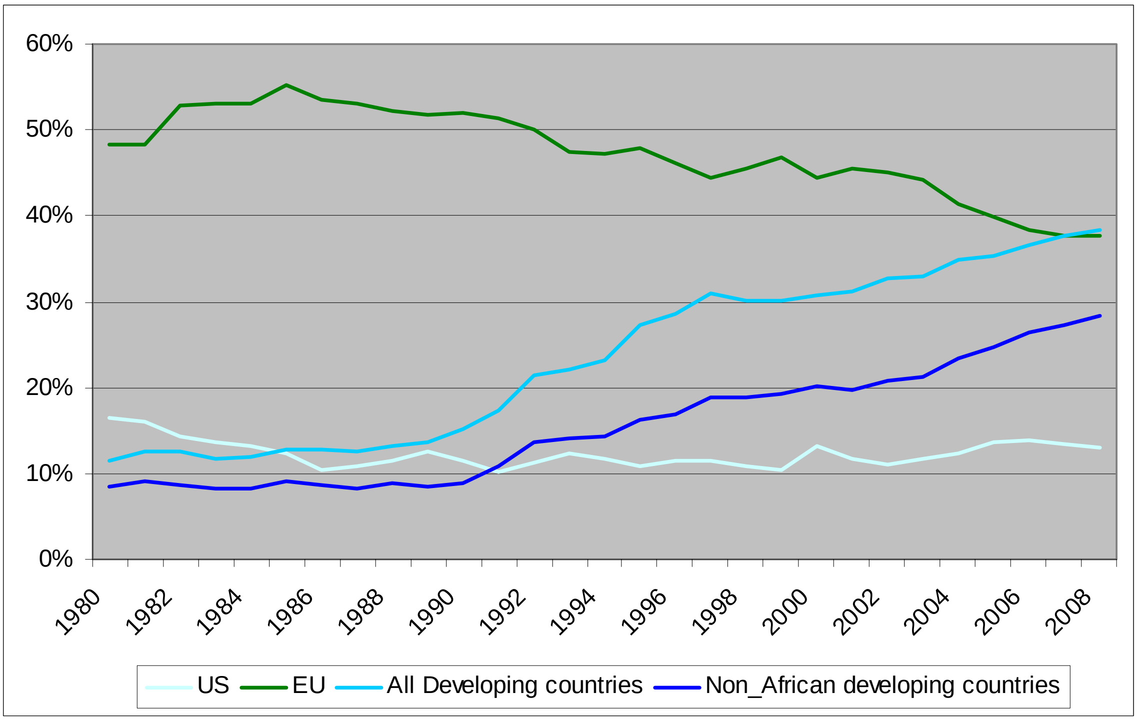
5. The growing relationship between Africa and Southern partners has great potential to support the development of productive capacity and contribute to the achievement of sustained growth and poverty reduction in the region. However, this potential can only be realized to the extent that African countries 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.

II. Africa’s trade with developing countries

6. 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 extraregional trade increased from 19.6 per cent in 1995 to 32.5 per cent in 2008 (see fig. 2). 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.

7. 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.

Figure 2
Share of Africa's total trade accounted for by selected partners, 1980–2008



Source: Computed using International Monetary Fund *Direction of Trade* data.

A. The composition of Africa–South trade raises concerns

8. Africa's exports to other developing country regions are increasingly dominated by primary products while imports are increasingly dominated by manufactures (see figs. 3 and 4).

Figure 3
African exports to developing countries outside Africa, 1995-2008

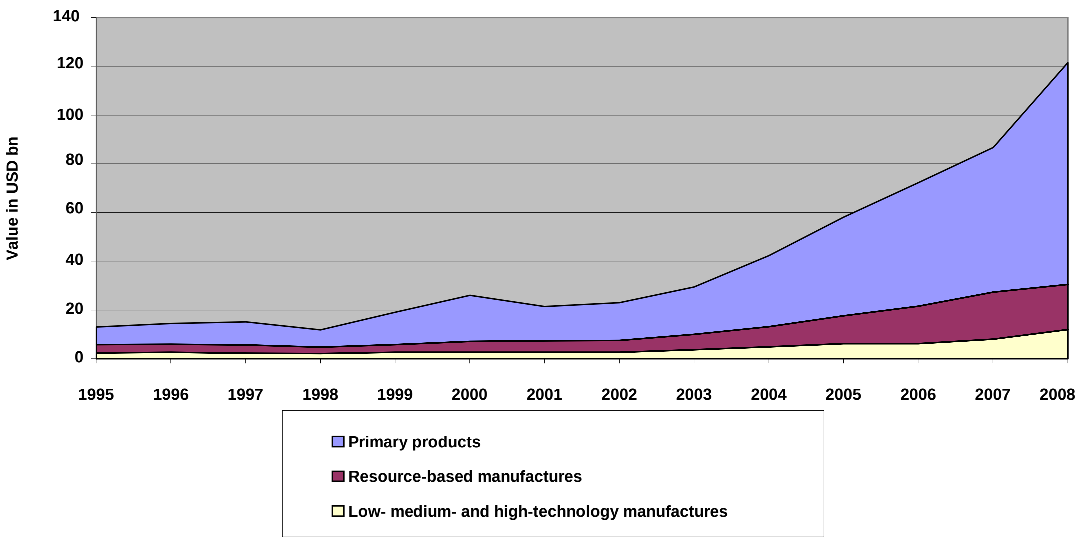
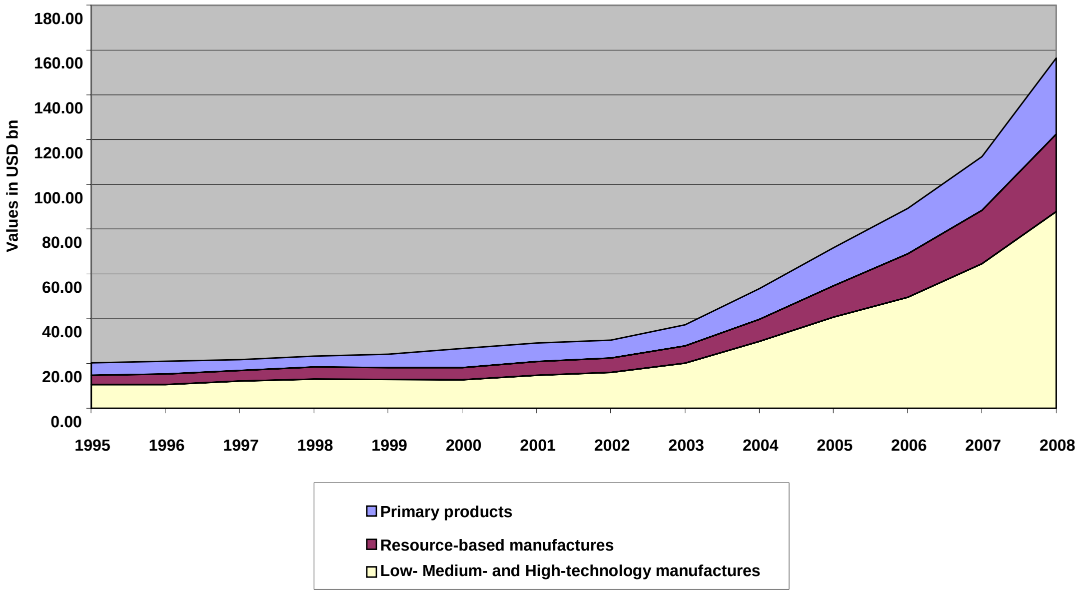


Figure 4
African imports from non-African developing countries, 1995-2008



9. 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. This pattern of trade has potentially dire consequences for Africa's ability to create its own internationally competitive manufacturing sector. There is therefore 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.

B. Africa–South cooperation in multilateral trade negotiations

10. Africa's growing cooperation with developing countries on trade issues is also evident in ongoing multilateral trade negotiations. Although 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, it has had a significant impact in three key areas: (a) it has enabled developing countries to influence the agenda and pace of the World Trade Organization's Doha Round of trade negotiations; (b) the formation of alliances between Africa and other developing countries has increased their level of participation in the negotiation process; and (c) 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 least developed countries, most of which are in Africa.

III. Southern official flows to Africa: trends, features and challenges

11. 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 Organization for Economic Cooperation and

Development–Development Assistance Committee (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, 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.

A. Features of official flows from Southern partners

12. Official flows from developing countries are increasingly channeled to the infrastructure and production sectors of African economies (see table below). 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.

Sectoral focus of Southern official flows

	Sectors
Republic of Korea	Health, education, rural development, information and communications technology, governance, Industry and energy, environment and disaster relief
Turkey	Education, health and water
Arab countries (Kuwait, Saudi Arabia and the United Arab Emirates)	Transportation and telecommunication, energy, agriculture, industry and water
China	Infrastructure, agriculture, industry, health and education
India	Agriculture, infrastructure and energy, information and communications technology, small and medium-sized enterprises, human resources and institutional capacity development
Brazil	Agriculture, livestock, environment, energy, health, education, culture, urban development, professional training and information technology

Source: UNCTAD.

13. The focus of Southern support on the infrastructure and production sectors 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.

14. Developing country partners 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.

B. Maximizing the benefits

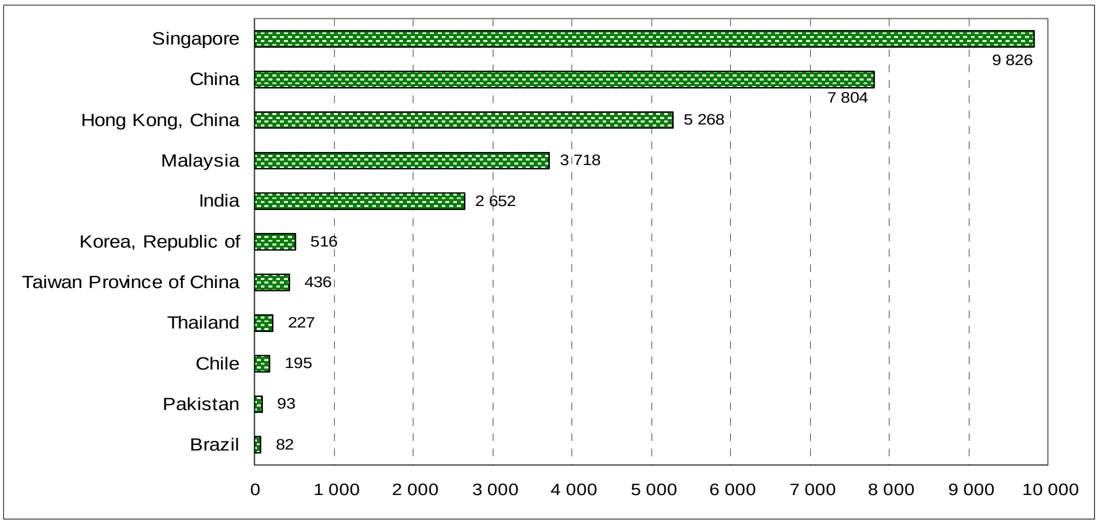
15. The challenge facing Africa is how to harness these new financing options for better development results. This requires African governments to be more proactive in their relations with Southern partners to ensure that support goes to their priority sectors, contributes to the development of productive 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.

16. 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. Southern support is seen as complementary to those of traditional donors.

IV. Southern foreign direct investment to Africa

17. Developing countries are increasingly important sources of foreign direct investment (FDI) to Africa. The share of developing countries in total FDI inflows to Africa (including intraregional FDI), 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 2000–2008. In addition, their share of inward FDI stock in the region raised from 6.9 per cent in 1999 to 7.4 per cent in 2008.

Figure 5
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 latest year available. Data for India and Taiwan Province of China are on an approval basis. Singapore’s investments are mainly in Mauritius.

18. 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 is 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).

A. Cooperation in international investment agreements

19. There has been an increase in Africa–South international investment agreements. The number of bilateral investment treaties 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 double taxation treaties as of end 2008, of which 113 were with developing countries from other regions.

B. Challenges and policy options

20. 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, such as 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.

21. 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.

V. Making South–South cooperation work for Africa: main findings and policy recommendations

22. African countries should mainstream South–South cooperation within their national development strategies. This will require African countries to be more proactive in seeking to secure their strategic interests through their partnerships with developing countries. A clear vision of objectives and the ways to attain them can greatly help countries in the region to ensure that their partnerships with Southern countries contribute actively to their development. 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. Effective regional coordination will, however, be needed to ensure that national interests do not jeopardize the achievement of broad development objectives in the region. Better coordination is also needed to ensure that cooperation with developing countries complements existing partnerships with

developed countries. Similarly, it is necessary for African countries to enhance their capacity to negotiate and benefit from the multilateral trading system. Though alliances with other developing countries have served African countries well, better negotiation skills and a more strategic approach to negotiations could yield greater benefits for them.

23. African countries should seek to involve more local stakeholders in partnerships with the South to ensure better national ownership. Broadening the partnership from the government level to include parliament and civil society representation could improve the transparency and legitimacy of partnerships between African and other developing countries.

24. African countries need to develop their productive capacities in order to diversify their export products and compete more effectively in national and international markets. In order to overturn the current pattern of trade, African countries will need to improve their business environment, provide better infrastructure, enhance access to credit and foster transfer of technologies and skills.

25. Better coordination of support from different partners can help African countries to lower the transaction costs involved and increase the developmental impact. In this regard, there is a clear need to strengthen existing national and regional aid management and coordination frameworks. A key part of aid management should be to ensure that current support does not lead to an accumulation of unsustainable debt. Developing country partners should also consider increased coordination and consolidation of their development initiatives to ease the administrative burden on African countries.

26. African countries should adopt a developmental approach in seeking FDI. This requires them to attract investment by creating a dynamic and attractive business environment rather than by lowering standards and requirements. They should also seek to ensure that FDI has linkages with the domestic economy that can improve productive capacity or create employment. Targeted incentives and the promotion of joint ventures are possible instruments to promote FDI in sectors with high development potential.

27. Developing country partners should seek to broaden the scope of their engagement with African countries beyond extractive industries. In this regard, they could use their resource flows to enhance technology transfer and technological learning between African countries and other developing countries. Developing countries should also explore ways to enlarge the geographical scope of their partnership, especially to include more least developed countries. One measure that could help the poorest countries in the region to develop is the provision of full duty-free and quota-free access to the domestic markets of developing country partners.

28. Developing country partners should provide more information on their development activities in the region. Greater transparency is an important step towards improving accountability and establishing a sustainable relationship with the region. Further, Southern partners should pay more attention to the environmental consequences of their activities in Africa. Conducting environmental impact assessments of their activities and encouraging their domestic firms to be environmentally responsible in their investments in the region could improve the quality and sustainability of Southern investments in Africa.

29. Developed countries have and will continue to be important development partners for Africa. Consequently, it is important that the region’s engagement with developing countries complements rather than substitutes for relations with traditional partners. Developed country partners of Africa can also play an important role by providing support for Africa–South cooperation through triangular cooperation activities. They can also strengthen their dialogue with Southern partners in order to enhance coordination and sharing of experiences and best practices.

30. Regional and multilateral institutions can also help to ensure that Africa–South partnerships participate actively in the region's development. Notably, they can coordinate the development of statistics and collection of information on these partnerships. More research support into the development effectiveness of Southern partners' development activities is also needed. At present, lack of reliable information makes it difficult to get a comprehensive picture of the trends, scale and features of Southern support to Africa. Better information will increase transparency and allow identification of best practices. Regional and multilateral finance institutions should also consider making more resources available for support of South–South cooperation projects.