

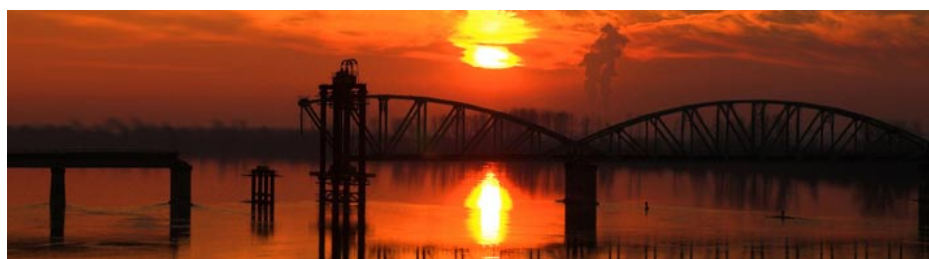
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## Special Issue: African development : The role of traditional and emerging players reconsidered



The growing engagement of emerging economies, notably China, India and Brazil (CIB), in Africa is changing the landscape for development bringing significant new opportunities for Africa: directly, via growing investment, large volumes of development finance and new trade prospects, and indirectly, by spurring lively high-level debates on the differences in cooperation and partnership approaches between emerging and more traditional players when it comes to supporting Africa's own development objectives. Yet, although several would argue that CIB's increasing involvement in Africa is rather positive, many challenges remain, for traditional partners, emerging players, and first and foremost, Africa. In this special issue, TNI brings together key contributions from policy-makers, civil society and experts to further our understanding of the implications of this changing landscape for Africa's growth and development prospects.

The impact of CIB in Africa raises some technical issues related to the substance of CIB's engagement in the continent. Assessing the consequences of emerging players' actions and approaches in Africa requires data that is often missing or imperfect. CIB's cooperation with Africa lacks assistance categories, definitions and data on flows. These inconsistencies in data can lead to a very different picture depending on the study and/or database taken into consideration, as reflected in various articles of this issue.

CIB's growing engagement in Africa also raises some systemic questions relating to the policy processes framing relations between CIB, Africa and Africa's traditional partners. New processes and forums between Africa and CIB benefit from a more vigorous momentum and adhesion in Africa than others supported by traditional partners like the EU, such as the Joint Africa-EU Strategy (JAES) and economic partnership agreements (EPAs).

Despite increasing attention on emerging players in Africa, there is a clear need for deeper analysis,

policy dialogue, and partnership building regarding the implications of the role of CIB in Africa for both Africa's development and its traditional partners. This reflection should be held soon as both traditional and 'new' players have entered an important phase of *respectively* reforming and designing their development policies towards Africa.

This special issue of TNI presents the work ECDPM and ICTSD are undertaking to foster knowledge and debate on this topic, together with other partners such as the South Africa Institute of International Affairs (SAIIA), the German Marshall Fund (GMF) as well as established policy-oriented institutes from the concerned emerging economies. During the first of a series of policy dialogues by ECDPM and SAIIA on the emerging economies in Africa, stakeholders from Europe, Africa and CIB representing government, private sector, civil society and the research community, identified priority themes around which to undertake specific policy-dialogue and research in coming months. These include *inter alia*: natural resources management & corporate governance; regional integration & trade corridors development; food security & the Comprehensive Africa Agriculture Development Programme (CAADP); and international trade preferences for Africa, the WTO & regionalism.<sup>1</sup> These areas provide concrete opportunities for mutual learning, including through possible triangular dialogue, to help each partner to better contribute to the promotion of inclusive growth in Africa.

It is our intention that this special issue launches regular discussions in the pages of TNI on these important questions. Don't miss therefore the follow-up articles in our forthcoming issues of TNI.

*As always, TNI's editorial team welcomes your feedback and/or potential contributions. Feel free to contact us at: [tni@ictsd.ch](mailto:tni@ictsd.ch).*

## Notes:

- 1 For further details, see <http://www.ecdpm.org/ciba>

# News and publications

## In brief

### The European Commission is preparing a new Trade and Development Communication

The European Commission plans to publish before the end of 2011 a new *Communication on Trade and Development*. The new communication will identify how future EU trade policy will integrate the particular developmental needs of developing and least developed countries. A public consultation procedure currently underway will provide many stakeholders with the opportunity to present their views and proposals for the forthcoming communication.

A recent DG Trade ad hoc meeting with civil society held on March 30 in Brussels however suggested that despite some new areas, such as the focus on the recovery of countries that have been hit by natural disasters, the new communication was unlikely to bring about fundamental changes.

For more information please see: <http://trade.ec.europa.eu/civilsoc/meetdetails.cfm?meet=11361> and the discussion paper is available at [http://trade.ec.europa.eu/doclib/docs/2011/march/tradoc\\_147656.pdf](http://trade.ec.europa.eu/doclib/docs/2011/march/tradoc_147656.pdf)

### EU trade deals with Columbia and Peru

On 13 April EU Trade Commissioner Karel de Gucht welcomed the initialing of a comprehensive trade agreement between the EU, Colombia and Peru which analysts estimate will slash up to half a billion euros in duties. Once implemented, the trade agreement will eliminate tariffs on all industrial and fisheries products, increase market access for agricultural products and improve access to public procurement, services, and investment markets. In addition, the pact will reduce technical barriers to trade and establish common disciplines on intellectual property rights, transparency, and competition.

For more information please see: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=698> and <http://ictsd.org/i/news/bridgesweekly/104884/>

### OECD workshop looks at Aid for Trade implementation

During the 28-29 March OECD workshop, important donors such as the US, the UK, Germany, Finland, France, the European Commission, and the World Bank,

along with experts from international organizations and consulting firms agreed that aid for trade efforts have in general been successful, notably in improving export diversity and competitiveness. They however raised concerns about the process for evaluating aid for trade efforts, with evaluations providing little insight as to whether AfT works and why. It was highlighted that some of the shortcomings of aid for trade evaluations include a failure to assess policy linkages and behind the border policies, a lack of realistic timeframes as well as ex-ante economic analysis of projects. The OECD-Development Assistance Committee, the main coordinating body for aid effectiveness, offered some recommendations for how aid for trade evaluations could be improved: defining objectives in a quantifiable manner, requiring recipients to provide disaggregated data to measure completion of those objectives ex-post, and a framework to assess operations impact in a more systematic and thorough way.

For more information please see : [http://www.oecd.org/document/17/0,3746,en\\_2649\\_34665\\_47256401\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/17/0,3746,en_2649_34665_47256401_1_1_1_1,00.html)

## Towards a truly global partnership for development

Peter Craig-McQuaide, Nicholas Costello, Nicolas Köhler

The importance of emerging economies (EMEs) is growing on all levels. Their impact on other developing countries is increasing rapidly, both directly through assistance and loans and indirectly through trade and investment. With multiple high-level events coming up, 2011 is a key year for determining the shape of the future engagement between traditional donors and emerging economies on international development.

Since 2010, the G20 has provided an important new forum where major traditional donors from the OECD Development Assistance Committee (DAC) and emerging economies can discuss how to improve (development) cooperation. Such discussions are set to continue and intensify in 2011 with the Least Developed Countries IV conference in Istanbul in May, the G20 summit in France in November and the High Level Forum on Aid Effectiveness IV in Busan in November/December stressing sustainable and inclusive growth worldwide. This engagement will be helped if we are all talking as much as possible on the basis of a shared picture.

### Setting the scene: the engagement of EMEs in Africa

Table 1 shows that the ties of EMEs with other developing countries have become very substantial.

The impact of EMEs may in fact be far greater than suggested by the figures for assistance/ODA, for three reasons:

1. The latest available data on some of the EMEs, including China, are often three or more years out of date. Given the 10% growth rate of China and the higher growth rate of its international sector, this can quickly lead to substantial underestimation.
2. We may not be comparing like with like. One estimate gives the respective costs of a German and a Chinese engineer in Africa as \$150,000 and \$19,000 per year.<sup>13</sup> From this, one can imagine a comparison at purchasing power parity between traditional and EME assistance. The estimate would not be 150:19 as seemingly suggested here, since many costs are the same for both sides, but nor would it be 1:1 as is implied by straight comparisons of the size of EU and EME aid programmes.
3. EMEs impact on development, especially in African countries, is much more through trade and commercial deals — notably the famous resources-for-infrastructure deals — than through development assistance.

Partial evidence suggests that capital flows from emerging economies to developing countries slowed down or fell in 2009 because of the world economic crisis, as did those from DAC donors. But it is very likely that EMEs are coming out of the crisis with a relative gain, as has certainly been the case with trade flows, and that the slowdown in capital flows was only temporary.

### The benefits of working together

Recently, DAC members have been looking beyond the immediate impact of ODA to take a holistic view of development effectiveness, which links aid to other policy areas such as trade, and also to non-ODA capital flows (public and private). They have also examined how ODA can not only have a direct impact on poverty, but can also perform a catalytic role in helping mobilise larger funding from other sources to the same developmental end.

The most substantial impact of EMEs on poorer developing countries is not through what

**Table 1: Overall Development Assistance (ODA), Other Official Flows (OOF), Outward Foreign Direct Investment (FDI), and trade volumes with developing countries**

	ODA <sup>1</sup>	OOF <sup>2</sup>	Outward FDI <sup>3</sup>	Merchandise Export volume to developing economies in 2009 <sup>4</sup>	Merchandise Import volume from developing economies in 2009 <sup>5</sup>
<b>Brazil</b>	\$1-1,275 billion (2010) <sup>6</sup>	n/a	\$0.15 billion (2007)	\$87.3 billion	\$61 billion
<b>India</b>	\$0.61 billion (2009)	\$2 billion (2010) <sup>7</sup>	\$2.95 billion (2005) [Africa \$2.7 billion in 2008]	\$104 billion	\$164 billion
<b>China<sup>8</sup></b>	\$1.9-3 billion (2008)	[Africa \$6 billion in 2009] <sup>9</sup>	\$13.26 billion (2009) [Africa \$7.8 billion in 2008]	\$556 billion	\$545 billion
<b>Saudia Arabia</b>	\$2.01 billion (2006) \$2.01 billion (2007) \$5.5 billion (2008)	n/a	n/a	\$141 billion	\$38 billion
<b>DAC members</b>	\$129 billion (2010)	\$22 billion (2009) [Africa \$2.9 billion]	\$156.7 billion (2009) [Africa \$14.5 billion]	\$2002 billion	\$2536 billion
<b>EU</b>	\$70 billion (2010) <sup>10</sup>	\$3.2 billion (2009) [Africa \$1 billion] <sup>11</sup>	\$91.7 billion (2009) [Africa \$6.5 billion] <sup>12</sup>	\$717 billion	\$816 billion
<b>Multilateral Institutions</b>	(DAC ODA includes multilateral contributions)	\$53.8 billion (2009) [Africa \$6.1 billion]	n/a	n/a	n/a

DAC countries define as aid. The increasing involvement of EMEs makes the question of how to engage with them even more pertinent in the light of our own thinking on the articulation of ODA with other flows that have an impact on development.

This new thinking raises the question of whether the Paris/Accra framework is the right basis for engagement with new actors and agreement on common standards for global development.

Although it is still work in progress, the framework has already increased the effectiveness of DAC countries' support for development in partner countries. There is clear evidence that aid effectiveness (when it is actually applied) works.<sup>14</sup> It does not make sense to go back to the uncoordinated coexistence that previously characterized the DAC donors. Besides, most of the Paris/Accra principles (notably that the beneficiary country must be in the driving seat) are solidly shared common ground between recipients, DAC members and EMEs.

Up to now EMEs have not shown interest in applying Paris/Accra standards to their development cooperation - at least not without certain reservations. They argue that their contribution to global development is not traditional aid and the framework thus does not apply to them. Nonetheless, if the international development discourse of the past couple of years has shown anything, it is that development is more holistic than just aid. So even though the EMEs so far provide only relatively little aid that would fall under the classical DAC definition of ODA, cooperation amongst all actors providing

non-concessional loans (OOF), private investment (FDI) and especially 'resources-for-infrastructure deals' (usually a mix of ODA, OOF, and FDI) would be helpful to avoid duplication and inefficiencies in our partner countries. In particular, from the point of view of the implementing ministry (e.g. Ministry of Transport, Works, Health or Education), funding and technical assistance under resources-for-infrastructure deals raise exactly the same issues as when they are provided by traditional development assistance: notably coordination within the national plan, coordination with donors and sustainability. Thus, there is more than ever a need for a new common agreement and coordination between DAC donors and emerging economies about how to "do" development.

For this to happen, both 'sides' must be willing to learn. Paris/Accra cannot be regarded as an 'acquis' that emerging partners have to sign up to. It is a solid framework to advance from, rather than the last word. Busan needs to retain all the strengths of Paris/Accra while bringing in new lessons, notably from the experience of EMEs. DAC countries should not forget the principles of aid effectiveness that we had to learn the hard way. But we need a mutual learning process, which requires both sides not only to recognize their comparative advantages but also their comparative disadvantages. The most knowledgeable on what these are would logically be the recipients, who feel best where the shoe pinches and hence have an understanding of who does what best.

It is certain that there is a need to study empirical evidence of impact. The EU and other DAC donors are paying greater attention to results and impact, even though conceptual and methodological difficulties remain. However, a body of evidence does exist for DAC aid, whereas our empirical knowledge on the impact of South-South-Cooperation (SSC) is very limited. There have been some recent attempts to remedy this. The task team on SSC of the DAC working party on Aid Effectiveness is collecting case studies to build up a body of evidence. The OECD has established an open-door policy to gather statistical data from EMEs under which Turkey and Saudi Arabia for instance have been reporting to the DAC and discussions are under way with Brazil. It would be very helpful for the understanding of SSC if more data were available on the SSC provided by India and China as well as other EMEs so that its impact could be assessed.

On the other hand, there are many lessons that DAC members can learn from the experience of successful EMEs. China has lifted 500 million people out of poverty in less than 30 years, an unprecedented success story, repeated in other forms and more recently by Brazil and also India. New partnerships with EMEs such as the China-DAC Study Group, a forum for the exchange of development experiences that was created in 2009, are continuing to challenge prevailing paradigms and can help all partners including DAC members to formulate more effective policies in the future. Triangular cooperation between DAC donors, EMEs and partner countries is

another increasingly important avenue to tap the vast and recent memories and knowledge of poverty reduction in EMEs for the benefit of effective development policy.

### Open questions

In the light of the Green Paper on a modernised EU development policy<sup>15</sup> and as the European Commission prepares a Communication on future EU development policy, we should assess how the EU can position itself, reflect where it stands *vis-à-vis* EMEs and analyse how synergies can be used to create win-win-win solutions for everyone involved. This raises a number of questions:

1. Can our cooperation with EMEs go beyond the country level triangular cooperation already undertaken by some EU member states on a comparatively small scale? Would it not also be necessary to seek agreement on a more general policy level, covering both a clearer division of labour and improved coordination? Are these goals overly ambitious in the short and/or medium term? What can DAC countries bring to the table to convince EMEs of the importance of coordination?
2. Are we entering a competition with EMEs on who delivers the best solutions for development? How efficient are our procedures in terms of achieving results compared with the new actors? How fast are we able to implement programmes on the ground? How would EMEs compare with our development assistance, if they adopted the same transparency and social and environmental standards as DAC donors? How can we define the comparative advantages and disadvantages of traditional and emerging donors?
3. Some EMEs have significantly different values and standards from those shared amongst DAC members. Are we in a competition over values and policies? Even though the EMEs have an experience of what worked for them, is it the right path to re-indebt partner countries without determining debt sustainability? What challenges do EMEs bring to the conditionality applied in our aid programmes and loans? How much technology are emerging economies transferring to developing countries, and to what extent can their technologies in some cases be better adapted to the needs of developing countries?
4. It is important to think in terms of development effectiveness rather than just aid effectiveness. We are more and more thinking of ODA and private sector activity (such as investment and trade) together and are reflecting on blending, and other ways for ODA to perform a catalytic role for loans and FDI. This is similar to some aspects of the thinking of emerging donors. What

challenges does this bring for the current compartmentalization of our relations with developing countries into ODA, OOF, FDI, and trade? Can we overcome this compartmentalization without compromising on our development principles and funding?

### Where can this happen?

Where could such important decisions be taken and global cooperation achieved? Unfortunately, the global governance framework has not provided an easy setting for increased engagement on development issues.

The UN is characterized by a paralyzing North-South divide; we should find ways to overcome the impact of this divide and ensure that constructive engagement on development at conferences and other fora can increase, particularly in the run-up to a post-2015 agenda. The G20 sustainable growth agenda could become an umbrella to define shared global standards on how to support development. It is still too early to assess the G20's contribution in this field, but there is reason to believe it will evolve positively in the future. There has been some more dialogue at High-Level Forums on Aid Effectiveness, but this forum is not a formal decision-making body. The DAC's Working Party on Aid Effectiveness has so far proved to be limited as an attractive setting for EME engagement – a major challenge in the run-up to Busan. However, the DAC has recently received support from significant EMEs for its recent statement on engagement with non DAC donors.

The OECD has increased its engagement with individual EMEs by establishing reflection fora like the China-DAC Study Group and by direct talks with the Indian and Brazilian governments. Moreover, the EU has developed strategic partnerships with China and Brazil including some dialogue on international development that could be reinforced and enhanced by mutually beneficial cooperation in fields like renewable energies which would also be helpful for developing countries. The European Commission could also further engage key OECD partners outside the EU on how to better cooperate with EMEs in the future.

A window of opportunity has opened. Millennium Development Goal 8, establishing a partnership for development that is truly global, can only be achieved if we succeed in involving DAC donors, EMEs and recipients. Development issues are increasingly on the agenda of global policy fora that facilitate discussions with emerging economies, which are calling strongly for the fulfilment of the MDGs. If we can achieve better global coordination on development and together leverage our different experiences, comparative advantages and investment

capabilities, the development of our partner countries in the South could be faster, benefiting all sides involved.

### Authors

Peter Craig-McQuaide is Head of Unit, DG DEVCO/H3 Relations with international organisations and non EU States at the European Commission (EC). Nicholas Costello is the policy officer with responsibility for relations with China as a provider of development assistance and Nicolas Köhler a stagiaire in the same unit. Responsibility for the information and views set out in this article lies entirely with the authors.

### Notes:

- 1 Net ODA. All data from OECD (2011) : <http://stats.oecd.org>. Unless otherwise indicated, estimates for non-OECD countries are from OECD (2010) Beyond the DAC. The welcome role of other providers of development co-operation. DCD Issues Brief May 2010. <http://www.oecd.org/dataoecd/58/24/45361474.pdf>,
- 2 Gross OOF, DAC, EU and Multilateral Institution data from OECD 2011 (<http://stats.oecd.org>). Estimates for non-OECD countries; loans are in many cases tied to goods and services of the lending EME.
- 3 UNCTAD (2010): <http://unctadstat.unctad.org> and OECD (2011) : <http://stats.oecd.org>. UNCTAD FDI data is collected for TNCs only. Data on DAC/EU is by OECD (2011) and also includes SME's
- 4 UNCTAD 2010 : <http://unctadstat.unctad.org>
- 5 *ibid.*
- 6 Lower estimate by Overseas Development Institute (2010) Brazil: an emerging aid player. Briefing Paper 64. <http://www.odi.org.uk/resources/download/5120.pdf> ; upper estimate by German Development Institute (2010), German Development Institute. (2010) Brazil as an Emerging Actor in International Development Cooperation: a Good Partner for European Donors? Briefing Paper 5/2010. [http://www.die-gdi.de/CMS-homepage/openwebcms3.nsf/%28ynDK\\_contentByKey%29/ANES-83EH29/\\$FILE/BP%205.2010.pdf](http://www.die-gdi.de/CMS-homepage/openwebcms3.nsf/%28ynDK_contentByKey%29/ANES-83EH29/$FILE/BP%205.2010.pdf)
- 7 Estimate by Indian officials at meeting with EU Delegation in December 2010
- 8 Note that Hong Kong SAR had TNC FDI of \$5.3 bn into Africa in 2008 and account for \$219 Billion in merchandise export and \$289 Billion in merchandise import volume to and from developing countries. It is not possible to separate mainland Chinese TNCs that might have subsidiaries in HK from other TNCs .
- 9 Estimate by Deborah Brautigam, mostly non-concessional loans and export credits from state banks, in "US foreign aid faces cuts as China's reach grows", AP, 24 March, 2011, see: [http://www.google.com/hostednews/ap/article/AleqM5jDUN8GtPPqw\\_1fYHU\\_BK82sTPvaQ?docId=f08f9e81b8bd4ed6a9dd27d6a0a3c9b8](http://www.google.com/hostednews/ap/article/AleqM5jDUN8GtPPqw_1fYHU_BK82sTPvaQ?docId=f08f9e81b8bd4ed6a9dd27d6a0a3c9b8)
- 10 EU OECD member states
- 11 *ibid.*
- 12 *ibid.*
- 13 This point was made by Ambassador Liu Guijin, BICCS Conference, Brussels, 2010
- 14 Cf. OECD (2008) Synthesis Report on the First Phase of the Evaluation of the Implementation of the Paris Declaration. [http://www.diis.dk/graphics/Subweb/paris\\_evaluation\\_web/index.htm](http://www.diis.dk/graphics/Subweb/paris_evaluation_web/index.htm)
- 15 See for more information Klavert et al (2011) Market-led growth and trade: Towards a modernised EU development policy? TNI, Vol. 10. No 2.

# Emerging donors in Africa: What strategy for U.S. engagement?

Jim Kolbe and Kathryn Ritterspach

Economic development tactics pursued by emerging players – particularly China – in Africa are generally viewed with suspicion in the United States. This suspicion has not, however, spurred U.S. policymakers to design a strategy to either engage or confront these players. Analysis and discussion are robust, but formulation of an overall U.S. response is still missing.

## The U.S. discussion

Most U.S. discussions about international development pay scant attention to the activities of India, Turkey, Korea, Brazil and other emerging investors and donors in sub-Saharan Africa. Instead, the focus is almost exclusively on China. The exact nature of emerging commercial and financial commitments in Africa is often poorly understood. U.S. experts disagree on the basic issue of whether Chinese loans for infrastructure projects should be considered as commercial investments because the funds are loaned and not granted<sup>1</sup>; or whether they are aid because they are state-backed and secured through bilateral agreements, often acting as loss leaders for Chinese companies rather than risk-bearing business transactions. Resolving this disagreement is made more difficult by the fact that reliable Chinese data on the subject is elusive.

Overlaying this technical confusion is the reality that for both geopolitical and more instinctive, intangible reasons, American politicians and business interests are uneasy with the prospect of China (or, for that matter, India or Brazil) as a competitor. Generally, most of this uneasiness centers on high-profile international issues, such as national security and acquisition of vital mineral and energy resources. As a result, much of the energy spent developing an “emerging powers strategy” often ignores economic development policy.

Practically speaking, the activity of emerging powers on the African continent has different implications for the United States. It means that African partners have more options for achieving their priorities, which could result in some actors (new or traditional) being marginalized in economic influence, generally followed by reduced political influence. It means that there is yet another global arena in which U.S. values and practices may be challenged by potential rivals. It means that the American private sector, even if it makes a decision to become more involved in African markets, will have to compete with companies from countries that have often given them a head start in those markets. It means that American development policymakers are faced with alternative models of investing in African economies. All of these pose real and significant challenges, but it is the nature of the strategic response to them that matters.



## Responding to threat or opportunity?

Not surprisingly, official and non-official, “expert” analysis of China’s motivations in Africa often reduce these motivations to simplistic and un-nuanced conclusions. They are frequently tinged with suspicion or distrust, but fall usually short of articulating a proactive strategy. In place of a comprehensive strategy for engagement, we are usually left with scattered responses from missions or embassies on an ad hoc basis, often cooperative and defensive at the same time. When a specific issue or problem in the field does not prompt direct American engagement with emerging players, the tendency is to continue to operate in separate silos.

Undoubtedly, there are elements of China’s activity in Africa that run counter to American (and European) values and approaches. These elements are well-known: willingness to do business with unsavory regimes without any corresponding pressure for reform; importation of Chinese laborers and managers, limiting opportunities for African job creation and skills transfer; heavy investment subsidies, making it difficult for other contractors to compete.

However, a strategic response that continues to view China and — to the extent that they adopt similar approaches — other emerging powers as a threat may not be wise or sustainable policy. It is likely to create added tension in an already delicate and complex relationship. It may be partly for this reason that the United

States has been slow to develop a coherent response: it is easier to carry on as usual and ignore China’s acts and motivations at a strategic level.

The reality of the emerging donors’ activities in Africa is more nuanced and complex than is conceded by rhetoric in the United States. The disagreements are not insignificant. However, it must be remembered that U.S. development policy is meant to benefit Africans, many of whom praise China for delivering results quickly and for readily accepting African priorities to build the physical infrastructure so desperately needed. Furthermore, there may be a window of opportunity to nudge some Chinese practices toward greater alignment with traditional donor priorities. Some experts detect a shift in China’s no-strings-attached approach to deal making in Africa, noting that last year China announced cooperation with the World Bank for the first time and speculating that China may be increasingly concerned with managing business risk and bolstering its reputation.<sup>2</sup> Certainly, recent events in Libya, where thousands of Chinese were forced into a hasty evacuation and billions of dollars of investments went up in smoke, has to give a pause to Chinese policymakers who may have thought they could ignore the political environment in which they operate. Practically speaking, in a time of budget austerity it is simply too costly for the United States not to leverage and coordinate its donor and investment activities to the extent possible with other major players in Africa.

“The reality of the emerging donors’ activities in Africa is more nuanced and complex than is conceded by rhetoric in the United States.”

### Three categories of strategic engagement

There is thus much to be gained from developing a strategy vis-à-vis China in Africa. This strategy could examine emerging power activity in three categories: activities for learning and cooperation; areas of gradually emerging consensus; and outstanding contentious issues.

This approach begins with the recognition that, despite considerable flaws in its development policy, China continues to provide valuable infrastructure and other necessities for the continent. As both a political gesture and a practical improvement to its own development approach, the United States could examine areas where it could learn from the Chinese experience — for example, by sending more business delegations to the continent or increasing the proportion of U.S. investments in infrastructure construction and maintenance.

By acknowledging that the United States can learn from Chinese practices, albeit in a way that remains true to our own values, the United States may be better poised to capitalize on China’s own evolving objectives for engagement in Africa. By emphasizing cooperation, the United States and Europe might succeed in getting China to pay more attention to issues such as governance and debt sustainability. This could capitalize on what the Chinese may already be thinking, namely that these concerns are important for safeguarding their investments. On the debt issue, transatlantic partners could enlist the help of African countries themselves, given recent African protests about the serviceability of some Chinese loans (e.g. in the DRC).

The third category of strategic engagement is the most difficult, and covers those issues where the United States is either unable to accept Chinese practices, or unable to elicit positive progress on reforms from the Chinese government. Likely, this will include issues such as Chinese investment subsidies.

These differences may ultimately prove immune to resolution, but negotiations will have a higher chance of success if the China-U.S. relationship in Africa is based on principles of mutual learning and coordination in other areas. These difficult issues receive most of the attention when U.S. policymakers turn to China in Africa. Our policies might benefit from revising the strategy to focus first on the easier issues where agreement might be more likely.

The United States, Africa and emerging players all stand to gain from this multi-pronged approach. Given China’s general (though not universal) popularity in Africa, perceived American openness to the best elements of Chinese practices could improve U.S. relations with African partners as well as China. This strategy might also coax the Chinese into making larger contributions to the World Bank, critical for austerity-squeezed development budgets. Africa benefits from a strategy that is more likely than the status quo to bring greater development investments. China benefits from an improved reputation as an Africa player, a more stable environment for its considerable investments, and the opportunities presented by partnerships with other development organizations like World Bank.

“China benefits from an improved reputation as an Africa player, a more stable environment for its considerable investments, and the opportunities presented by partnerships with other development organizations like World Bank.”

### Making use of existing forums

One forum for addressing these development issues is the bilateral U.S.-China strategic dialogue already in place. Conversations with African partners should routinely be one element of preparation for these dialogues. This is intended to bring Africans into the conversation about investments in their countries. It is a natural outgrowth of growing acceptance by U.S. policymakers’ of “country ownership” of development plans. Using bilateral U.S.-China dialogues to discuss African cooperation would add an additional, and very significant, forum for these conversations, and allow for a non-public — and therefore likely more candid —

discussion in a neutral setting.

Given the role that Brazil, India and others are also playing in African development, the G20 provides another forum for dialogue and an opportunity to advance adoption of common development principles and approaches. Where the issues at hand apply to multiple players and are not too sensitive, the G20 presents the most logical mechanism for addressing these topics, adhering to the same precondition of bringing Africa’s priorities into the conversation.

### Consistent engagement and positive spillovers

An American strategy for African development policies vis-à-vis China must encourage American officials to understand and respond to both positive and negative aspects of emerging power involvement on the continent, rather than only reacting on a case-by-case basis. It should take cues from Africans in terms of their priorities and concerns, and make use of existing forums for dialogue.

If American and European policymakers and practitioners begin to engage emerging powers in Africa holistically and systematically, it could encourage business and NGOs to follow suit. African development initiatives can only benefit from a discourse and policy strategy that understands and engages all players, rather than one where important donors and investors largely talk over one another.

Accepting the notion that different powers will have different approaches while searching for common ground in areas where synergies exist also provides a training ground for positive engagement on other issues. For better or for worse, development policy is, in geopolitical terms, played in a low-stakes arena. If the United States and the emerging players can learn to cooperate where possible and coexist where agreement is not possible, it could prove to have positive effects far beyond sub-Saharan Africa.

### Authors

Jim Kolbe is a Senior Transatlantic Fellow and Kathryn Ritterspach a Research Assistant in the Economic Policy Program at the German Marshall Fund of the United States. The content of this article represents the opinion of the authors and does not necessarily reflect the views of their organization.

### Notes:

- 1 See, for example, American University Professor Deborah Brautigam’s blog, [www.chinaafricarealiststory.com](http://www.chinaafricarealiststory.com)
- 2 Stan Abrams, “China Shifts its Investment Strategy,” China Tracker on Forbes.com, April 28 2010

# Emerging economies in Africa and triangular dialogue: from aid to development effectiveness

Francesco Rampa and San Bilal

The financial and economic crisis along with the new growth poles in the developing world – China, India and Brazil, as well as Turkey, the Gulf countries and South Korea to name a few – are creating new opportunities for African countries in their relations with external partners. The involvement of emerging players in the continent provides fresh opportunities for Africa and its traditional partners, notably Europe, to engage on new terms that recognise the political and economic transformation of Africa over the last two decades, and that consider its increasingly complex global role. In particular, Europe's response to Africa's new partnerships will determine its own relations with the continent, especially its ability to project its values and influence. On the other hand, African states now have an opportunity to evaluate the form and substance of their engagement with both developed and developing countries, identifying good practices within each of them and seeking to optimise these in other relations.

What also seems to emerge from this new landscape is a need for traditional donors to consider not only aid effectiveness but, more broadly, development effectiveness on the basis of ownership and agenda of low income countries and not that of the donors. This would be an opportunity to initiate real dialogue with the emerging players on how to jointly support development, beyond traditional donors' circles.

## A new landscape

Although the rise of the emerging economies in Africa is no longer new, it has spurred a lively debate in traditional donor countries on the comparison of respective cooperation approaches and impacts (in particular with China), and on the opportunity of triangular dialogue and initiatives.

The changed context for Africa's partnerships relates to recent developments in the international aid debates, linked to the growing role of South-South cooperation and emerging North-South-South triangular cooperation<sup>1</sup>, as well as increasing criticism over traditional aid, which could possibly lead to the emergence of a new development paradigm.

Emerging economies reject the notion that some countries are "donors" whilst others are "recipients" and they are not members of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). In fact, China, India and Brazil are all both donors and aid recipients



simultaneously, as are an increasing number of developing countries (e.g. South Africa). As such, they have tended to be marginal to international aid policy debates and are not necessarily committed to 'aid effectiveness' processes such as the implementation of the Paris Declaration, launched in 2005. However, emerging economies and providers of South-South cooperation have played an increasingly important de facto role in the international development architecture, as donors, trading partners and sources of expertise. Their rising influence has been recognised in 2008 in the Accra Agenda for Action, where OECD traditional donors encouraged emerging players to follow the Paris Declaration and stressed the importance of exchange of experience between developing countries for capacity development.

“ Emerging economies and providers of South-South cooperation have played de facto an increasingly important role in the international development architecture, as donors, trading partners and sources of expertise. ”

Concerns over traditional aid approach have contributed to refocusing the attention towards more systemic factors of development and the engine for sustainable and equitable growth. Indeed, development effectiveness (the output and results of development policies and assistance) is gaining increasing

attention internationally, somewhat at the expense of aid effectiveness (the input and management of aid). This is a new debate and development effectiveness means different things to different people. Since emerging economies do not see themselves as donors, they have not participated in aid effectiveness debates and processes. Thus, intuitively, the emergence of new players and the closer relationship between their commercial, diplomatic and assistance interactions with developing countries naturally link with development effectiveness discussions. This can be seen as a move from a narrow agenda on development cooperation to broader development considerations.

## Responses from Africa to the new landscape

Having different partners entails the application of different business and development support models as well as receiving different degrees of appreciation. There are thematic areas where the EU is still seen as the favoured partner (e.g. peace and security) and others where it is China (e.g. infrastructure), Brazil (social protection) or India (telecommunications). An enlarged pool of partners, beyond the traditional ones, brings the opportunity of simultaneously drawing from different development models and benefitting from comparative advantages of different partners. Some actors, notably government officials from both Europe and Africa, believe that a general tendency emerging in Africa is that of adopting a 'multiple strategy' vis-à-vis different partners based on what each can offer; typically grants and capacity building support from traditional donors and increased investment from emerging players (in all sectors from China, and more concentrated in agriculture from Brazil and in technology transfer/ telecommunications from India).

Other stakeholders (including those from civil society, academia and the private sector) do not believe that competition among partners translates into a clear and coherent strategy to best benefit from each partnership, but rather into ad-hoc reactions to what each partner offers to Africa based on its own policies and interests.

Though a full-fledged, totally coherent and effective strategy vis-à-vis all partners is incredibly difficult to design and implement, the cost of having no strategy is high. The absence of a bold strategy vis-à-vis traditional donors, for instance, led many African countries to make unclear demands to their partners, whilst having scarce capacity to deliver on their side of the partnership. This contributed significantly to some of the drawbacks attributed to traditional donors (e.g. focus only on aid, fragmentation of objectives and programmes, etc.).

At national level, very few African countries (e.g. Mauritius and South Africa) have a coherent-coordinated-complementary strategy, based on national strategic interests and articulated vis-à-vis different partners depending on their comparative advantages. Moreover, existing regional and pan-African plans do not address the new landscape of multi-polar partnerships and therefore do not put forward a more coherent and rational strategy, though some African institutions have started working towards this objective.

### The way forward

A number of conditions should be put in place in order for Africa to implement coherent-coordinated-complementary strategies towards different partners. The most important precondition is the strengthening of institutions and capacity in Africa to design and implement such strategies and to negotiate 'good deals' with partners. High-level political backing in Africa, as well as in traditional and new partner countries, is also critical throughout the process of improving partnerships and implementing agreed plans.

One question is whether African states want to have different fora of dialogue and coordination for each partner, or whether there is value in bringing them all to the same table to dialogue in a North-South-South triangular format.

A 'triangular' process of dialogue led by Africa with two or more partners from the North and South would contribute significantly to the strategic thinking about

the continent's economic strategies and each partner's added value for Africa.

A general air of skepticism remains in Africa over attempts by traditional donors to initiate triangular dialogue. For instance, why should a third party such as the EU deal with Africa's relations with other partners? Why should China try to learn from the EU in terms of engagement? Emerging economies often provide an attractive alternative to traditional donors; greater coherence and coordination among major partner countries/donors is therefore not always welcome in Africa.

A number of incentives for doing things together and improving efficiency can nonetheless be identified. For example, sharing of lessons and practices in order to avoid past mistakes (e.g. quick aid disbursements without real absorption capacity put in place, technical assistance that does not build capacity and management skills, etc.), or better reporting and monitoring cooperation inputs and results (which will also be increasingly demanded of non-traditional donors, both by their own citizens and African stakeholders). Mixing traditional donors' substantial resources with emerging economies' increasing support, drawing on their own experiences, may generate substantial positive spillovers. Furthermore, there is a need to act more in line with developing countries citizens' values, expectations and needs (e.g. supporting regional integration in Africa through both policy frameworks support by the EU and rapid upgrading of regional infrastructure by China). Finally, jointly working with a partner which is already perceived in Africa as credible and having a positive impact in a specific sector can bring benefits to the new partner (e.g. China in mining) in terms of image and trust building.

Given current trends, and in particular the interests of emerging economies and Africa, a realistic objective of triangular dialogue could be to identify possible collaborations at country level, starting from specific sectors, to then draw preliminary conclusions on 'what works and what does not'. Only then would the parties be in a position to move (if possible) towards triangular policy discussions.

Hence, in the new global landscape Africa could utilize triangular dialogue to:

1. Strengthen its ability to influence global decision-making, as the positions of and possible alliances with traditional donors and China,

India and Brazil will determine the global frameworks that will affect Africa in terms of climate change, trade, international tax and financial regulations, etc.

2. Improve the effectiveness of one partner's approach by sharing lessons learnt as part of other partnerships.
3. Identify possible synergies and complementarities among partners towards a more comprehensive and coherent development effectiveness agenda.

In any case, Africa should take the lead in any such dialogue, building on the existing fora and processes.<sup>2</sup>

Better alignment to Africa's objectives and more coherent strategies between Africa and its partners could positively affect the overall international development debate, with a shift of focus from aid effectiveness to development effectiveness. Given the emerging focus on non-ODA flows, non-state actors and development effectiveness, it is possible to conceive a development effectiveness framework to gradually replace, or rather absorb the existing aid effectiveness framework premised on the Paris/Accra Agenda and Declarations, the DAC guidelines for aid management and the DAC peer review system for donors. In this context, a particularly relevant aspect of development effectiveness will indeed be policy coherence for development.

### Authors

Dr. Sanoussi Bilal is the Head of the Economic and Trade Cooperation Programme at the European Centre for Development Policy Management (ECDPM). Francesco Rampa is Programme Associate for ECDPM. This article is based on a longer paper entitled, Emerging economies in Africa and the development effectiveness debate, 2011 available at: [www.ecdpm.org/dp/107/](http://www.ecdpm.org/dp/107/) (the preliminary outcome of a study conducted by ECDPM and SAIIA).

### Notes:

- 1 Triangular co-operation is a partnership between DAC Donors (North) and providers of South-South cooperation to implement development cooperation programmes/projects in beneficiary countries (OECD 2009), e.g. support from traditional donors for the transfer of knowledge and experience between developing countries.
- 2 Possible triangular dialogue could take place for instance at the Africa Partnership Forum, the UN Development Cooperation Forum, the G20 and the 4th High Level Forum on Aid Effectiveness (November 2011).

# Social responsibility of Chinese investment in Africa: What does it mean for EU-China cooperation on development policy towards Africa?

Shuaihua Cheng & Guoyong Liang

Over recent decades, most Western companies have been looking at and then moving to emerging economies where business is perceived to be more profitable and less risky than investing in Africa.

China, on the contrary, has been and will continue to investing in Africa, against the background of closer economic ties between China and African countries. According to a forecast from South Africa's Standard Bank- Africa's largest lender- Chinese investment into Africa may rise by 70 per cent to US\$50 billion by 2015 from 2009 and bilateral trade between China and Africa would reach US\$300 billion by 2015.

In this dramatically contrasting context, China's investment in Africa has drawn a lot of attention. On the one hand, it is recognized that Chinese investment has contributed to Africa's economic growth, trade and employment. On the other hand, questions are raised on how to maximise the development impacts of Chinese investment in Africa, taking into consideration job creation, increasing incomes, gender equity and the environment.

This article will focus on one critical issue in this context: the social responsibility of Chinese investment in Africa and the implications for development policies of the EU towards Africa.

## Current landscape of Chinese investment in Africa

Bilateral trade between China and Africa has risen by more than 30 per cent for eight consecutive years, surpassing US\$100 billion in 2008. After a modest setback in 2009 due to the global financial crisis, bilateral trade jumped to



US\$ 127 billion in 2010, making China a leading trading partner of Africa. In parallel with the deepening trade relationship supported by proactive policies of the Chinese government, investment by Chinese companies in Africa has increased substantially.

China's foreign direct investment (FDI) outflows to Africa rose rapidly from 2003 to 2008, though dropped significantly in 2009.<sup>1</sup> As a result, Chinese FDI stock in Africa reached US\$9.3 billion by the end of 2009, accounting for 3.8 per cent of China's total outward FDI stock (figure 1).

The leading African recipient of FDI from China is South Africa (representing a quarter of total Chinese FDI stock in the whole African continent), followed by Nigeria (with a stock of US\$1.03 billion),

Zambia, Algeria, Sudan, Democratic Republic of Congo, Egypt, Ethiopia, Tanzania and Mauritius (US\$243 million).

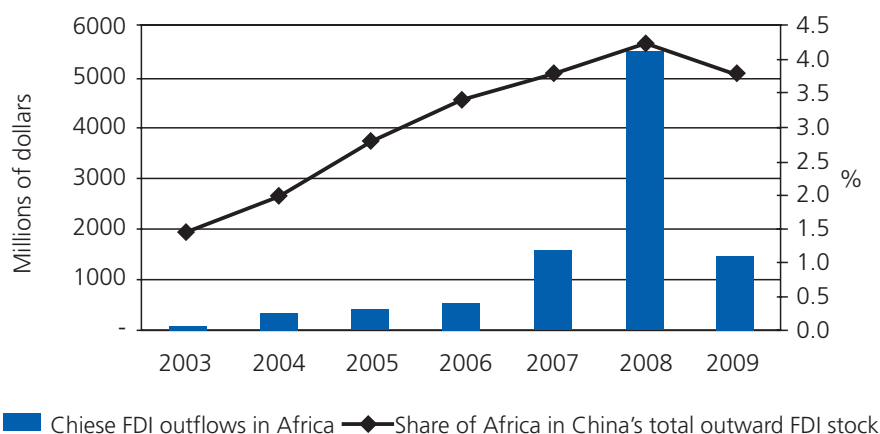
In terms of the industry breakdown of Chinese FDI in Africa, establishing a precisely quantified evaluation is hindered by data limitation. Available information indicates a high share of FDI in extractive industries, driven by the resources-seeking efforts of Chinese oil and mining companies. However, the total number of projects in other industries is large, and the substantial industrial restructuring taking place in China can be expected to lead to increased FDI in manufacturing in Africa<sup>2</sup>.

## The supply-side

There are several driving forces behind the surge of Chinese investment in Africa.

Undoubtedly, the Chinese government has played a critical role in encouraging Chinese companies to invest in Africa. Firstly, China works with African host countries to improve investment climate and by the end of 2010, the country has concluded bilateral investment promotion and protection agreements with 33 African countries along with agreements to avoid dual taxation with 11 African countries. Secondly, China set up the China Africa Development Fund (CADF), an equity fund dedicated to supporting Chinese investors in Africa.<sup>3</sup> Thirdly, drawing from its own experience, China promotes industrial parks, also called Special Economic Development Zones, in Africa. China has invested US\$250 million in infrastructure in 6 industrial parks as

Figure 1. FDI from China to Africa, 2003-2009



Source: UNCTAD, based on the Ministry of Commerce of China.

planned in Zambia, Mauritius, Nigeria, Egypt and Ethiopia. It is reported that the industrial park in Zambia as the first such one invested by China overseas has utilized US\$600 million and created over 6000 local jobs.

### The demand side

Booming Chinese investment in Africa is not just one-way wishful thinking from the Chinese side. From the demand side perspective, many African host countries are fond of Chinese investors who are believed to have the following competitive advantages in comparison to traditional investors:

- Chinese businesses, notably in the sectors of construction and information technology services, normally offer low cost technology and bring skilled workers who are willing to work in difficult environments.
- Instead of a piecemeal project, Chinese investors are able to provide end-to-end solutions combining transportation, energy generation, resources extraction and refining.
- Most Chinese investors have access to long term capital due in part to Chinese government supportive policy.
- Some African leaders appreciate the China model of economic cooperation and development assistance that features high effectiveness, low administrative costs, mutual respect, keeping promise and non-conditionality.

For these reasons why Africa welcomes Chinese investors such sentiments are echoed by internationally independent scholars, such as Brautigam<sup>4</sup> who highlights three 'gifts' that Chinese investors bring to Africa: China's own experience that aid is not central to development; putting infrastructure at the centre of Chinese aid and investment; rebalancing the image of Africa as a continent of hope and opportunity (in contrast with the West's eye-rolling malaise).<sup>5</sup>

### Social responsibility of Chinese investment

Corporate social responsibility (CSR) is the concept that enterprises can and should meet "triple bottom lines"<sup>6</sup> of economic growth, environmental soundness and social progress.

CSR of Chinese business starts from governmental response to irresponsible performance of enterprises within the domestic market. In the wake of seemingly non-stop scandals of environmental disaster and poisonous food around the country, Chinese civil society and government have

urged the business community to take their legal and moral responsibilities more seriously. Two regulatory documents are milestones in the CSR movement in China. The *Corporation Law of China*, which was implemented in January 2006, provides the legal foundation of CSR stating that corporations are obliged to take social responsibility. There is also the *Guidelines for Central State-Owned-Enterprises (SOEs) regarding Implementation of Corporate Social Responsibility* (issued in January 2008) which requires SOEs to establish the necessary mechanisms to fulfil CSR so as to "be human-oriented, stick to scientific development, be responsible to stakeholders and environment, so as to achieve the harmony between enterprises' growth, society and environment."



Chinese civil society and government have urged the business community to take their legal and moral responsibilities more seriously.”



Apart from governmental regulations, pressures from their business partners, investors and local concerns have played a critical role in pushing forward Chinese business to incorporate CSR into business strategy. At home, media investigation (such as *Southern Weekend*) and grassroots movements led by local environmental NGOs have grown more vocal and influential. In 2009, the Shanghai Stock Exchange announced its CSR Index; in 2011, in partnership with *China Business News*, the China Industrial Bank launched an Index for Socially Responsible Investment. A group of Chinese business leaders has also set up an Entrepreneurs Club (*Zhongguo Qiyejia Julebu*) whose primary objective is to build "Green Companies."

Apart from external regulations and pressures, a handful of successful companies are advocating CSR proactively, in particular companies operating internationally (as they are the most exposed to international CSR debates and CSR standards compliance). Some such companies are concerned that their business is suffering from reputation penalties simply because other Chinese companies are involved in various scandals. In 2010, 471 publicly listed Chinese companies published their CSR reports. At the time of this article, 181 Chinese companies have joined UN Global Compact and 4 Chinese financial institutions joined the UNEP Finance Initiative on sustainable banking.

Here are two examples of taking social responsibility of Chinese investors in Africa. Since its first project in Africa in 1997, Huawei Technology has hired over 65 per cent of its total staff from Africa, having created over 10,000 jobs indirectly. Huawei also set up 6 training centres across the continent providing training to 12,000 African engineers and workers every year. Sinohydro invested US\$900 million in 30 projects in Angola including hydro power, agriculture, hospitals, schools and transportation. It has trained and employed over 8200 local workers.

In spite of progressive achievements in the past decade, there are four major challenges faced by Chinese enterprises.

1. The strategic importance of CSR is not always acknowledged in both headquarters and subsidiaries in Africa resulting in shortage of capacity to incorporate CSR into corporate management. Rather than being placed in the core part of corporate strategic management, in many Chinese companies, the CSR department is marginalised. Some business leaders mistakenly view CSR as a form of public relations. This is particularly challenging for emerging private firms (in comparison with big SOEs that normally have more human and financial resources).
2. Although some Chinese companies have good knowledge and strategic planning with regard to CSR, their evaluation system is not sufficient to ensure that frontline managers fulfil long term social responsibility in their daily practices, both in terms of internal responsibility and external impact. Even for those senior managers in local operations, performance scores for promotion are based on the short-term financial performances, regardless of ecological and social performance unless scandals occur. There is less incentive among local staff to take social responsibility when weighed against earning more revenue.
3. The Chinese culture that encourages "actions speak louder than words" sometimes becomes an excuse for Chinese managers not to engage with civil society, media and local community. It is essential for Chinese investors in Africa to know that, for a corporate citizenship, the process of broader partnership and sense of participation are at least as important as final output itself. Words with local stakeholders about what you have done and what you would like to do are valuable actions that are needed.

4. Chinese companies participate in sectoral standards in the areas of responsible investment. Investing in countries where environmental and social regulations are rather loose may reduce compliance costs, but may increase business risks in the long run. For this reason it is important for Chinese investors in Africa to line up with those leading companies in certain regions or sectors in setting standards and helping shape development landscape through peer learning and collaborations.

Largely because of these challenges, some critical issues have not been sufficiently taken into account by Chinese enterprises and their stakeholders. There are notably two priority issues. The first one concerns the sustainable management of national resources, with advocates of resources patriotism suggesting that Chinese investors should try to increase added value to local economies rather than grabbing natural resources in an unsustainable way.

The second thorny issue is employing local workers. Chinese investors are expected to create jobs for the local economy, however many Chinese companies, prefer using Chinese employees for administrative efficiency, even if it means flying in a Chinese worker with the same level of qualification. Based on interviews with various Chinese business leaders, Chinese entrepreneurs are concerned with the lack of flexibility of African workers and high standards of labour laws. It seems there is a need for compromise between Chinese investors and local stakeholders

#### Implications for EU-China cooperation on development policies towards Africa

Social responsibility of Chinese businesses in Africa is becoming an increasingly important topic in today's debate about international development. This is a coin with two intriguing sides. The one side being that the traditional public aid model for African development taken by Western Europe is challenged in terms of effectiveness. Would the Chinese model featured with state-supported investment offer something new for European's international development policies? The other side is that Chinese investors in Africa are faced with major problems of accountability to deliver development outcomes. Would it be feasible to combine European experience of public aid and Chinese private money so as to maximise the development impacts of Chinese investment in Africa?

Europe and China could certainly work together to improve the development approach of Chinese investment in Africa in four ways:

First, the EU and China can join hands to enhance the capacity of Chinese investors in

Africa on CSR, notably by providing training to senior managers (with emphasis on the nature of CSR and its implementation, evaluation, partnership-building etc). It would be strategic to provide such training for future leaders. These people are the first generation of frontline practitioners in Africa and have both Chinese corporate roots and African experiences. They will become senior managers at the corporate level and shape the long term development landscape in Africa.

“...traditional public aid model for African development taken by Western Europe is challenged in terms of effectiveness. Would the Chinese model featured with state-supported investment offer something new for Europe's international development policies?”

Secondly, the establishment of a case study bank of CSR in Africa, comprising CSR stories of European, Chinese, Brazilian and Indian firms would be of value addition. The case study bank of CSR will facilitate experience sharing and spread out best practices, which will encourage and empower Chinese investors to continuously improve their CSR performance.

Thirdly, more opportunities should be provided to Chinese investors to get involved in sectoral discussions on CSR related international standards. Due to cultural, linguistic and sometimes ideological barriers, Chinese companies are not actively engaged in international standards discussions. In the meantime, many international standard coalitions remain a “Western club” style, not so open to newcomers. Therefore, a new way of engagement among private sectors for the development objective is ultimately needed.

Finally, a cross-country public private partnership on project - based cooperation will be an effective entry point. Two principles for this kind of cooperation are 1) the project is technical, without ideological discussion, 2) the project is demand-driven and beneficial for the local community, Chinese investors and European development policy. One example can be a case study and performance enhancement of CSR in Chinese invested industrial parks. It can cover all the above mentioned

issues of trade and financial performance, ecological industrial parks, labour standards and work ethics, improving investment climate, engagement with local community, civil society and media.

#### Conclusion

Social responsibility of Chinese investment in Africa is a phenomenon worth studying because it poses both opportunities and challenges for development in Africa. Lessons can be drawn for Europe's reflection about the ineffectiveness of their development policies in the past decades.

While they have made progress in fulfilling their social responsibility in Africa, Chinese investors are faced with major challenges to deliver development outcomes as much as possible, particularly in bridging the gap between knowledge of CSR and the mechanism to implement it, as well as overcoming the lack of experience in engaging with local communities and setting international standards.

In this context, Europe and China can initiate effective cooperation to maximise development impacts of Chinese investment in Africa. Conducting targeted training for capacity building, establishing a case study bank for experience sharing, facilitating Chinese investors participation in international discussions of CSR and relevant standards setting, and working jointly on selected practical projects such as that on CSR of Chinese invested industrial park, could all be potential options to enhance cooperation for the benefit of all.

#### Authors

Dr. Shuaihua CHENG is Strategic Analysis and China Programme Officer at ICTSD and Dr Guoyong Liang is Economic Affairs Officer, Division on Investment and Enterprise, United Nations Conference on Trade and Development (UNCTAD)

#### Notes:

- 1 The Ministry of Commerce of China established a statistical system for outward FDI (OFDI) on a balance-of-payments basis in 2002. Therefore, reliable and comparable data on Chinese OFDI are available from 2003 onwards.
- 2 In 2009, for instance two Chinese companies, Daheng Holdings Group and Touch International Holdings Group, invested US\$52 in textile manufacturing factory in Botswana.
- 3 With US\$ 1 billion in the phase one, CADF has invested over 30 projects in agriculture, machinery manufacturing, electricity, construction materials, industrial park and port logistics. The Fund will be increased to US\$5 billion.
- 4 Deborah Brautigam (2009). *The Dragon's Gift: the Real Story of China in Africa*, Oxford University Press.
- 5 Deborah Brautigam: *Three Gifts China Brings to Africa*, <http://www.chinatalkingpoints.com/deborah-brautigam-three-gifts-china-brings-to-africa/>
- 6 The phrase of “triple bottom lines” was coined by John Elkington in his 1998 book *Cannibals with Forks: the Triple Bottom Line of 21st Century Business*

# The developmental impacts of chinese zones in Africa: Insights from a case study of the Jin Fei zone in Mauritius

Vinaye Ancharaz and Baboo Nowbutsingz

Following the Chinese government's announcement in 2006 that it would support the establishment of economic and trade cooperation zones abroad as part of its 'Going Global' strategy, many African countries expressed interest in hosting such zones, but ultimately only six countries were selected through a competitive bidding process. Presently, special economic zones (SEZ) are under construction in Egypt, Ethiopia, Mauritius, Nigeria and Zambia. In Algeria, the zone project has stalled, and might be abandoned. Nigeria is hosting two zones with a rather distinctive characteristic: the Lekki and Ogun zones are the only ones featuring some equity participation by the host-country government. The Chambishi zone in Zambia is also unique in that it started much earlier – in 2003 – and is natural resource (copper)-based. However, the Lusaka subzone, currently under development, will be mainly manufacturing-based, as are the other zones, with the notable exception of the Jin Fei zone in Mauritius.

The SEZs have the potential to contribute to industrial development in a continent in dire need of industrialization and where previous attempts at setting up export-processing zones (EPZs) have failed, often with drastic consequences. However, Mauritius stands out as a success story: the country's experience with an industrial policy inspired by the East Asian model and centered on export promotion through the EPZ (established back in 1970) still serves as a model for other African countries. Given Mauritius' status of an upper-middle-income economy, the relatively diversified industrial structure and the orientation towards services, it is pertinent to ask whether the Jin Fei zone will have the same desirable developmental impacts on the local economy that are generally expected of Chinese SEZs elsewhere in Africa. We answer this question through a critical case study of the Jin Fei zone.

## The Jin Fei zone: Overview

The Jin Fei zone has an investment commitment of about US\$ 1 billion covering 362 hectares of land in the region of Riche Terre, close to the port. The project will be implemented in two phases. The first phase, which started in September 2009, consists of physically setting up the industrial zone by concentrating on the development of infrastructure, water and electricity supply, and the construction of residential and industrial buildings. The zone will

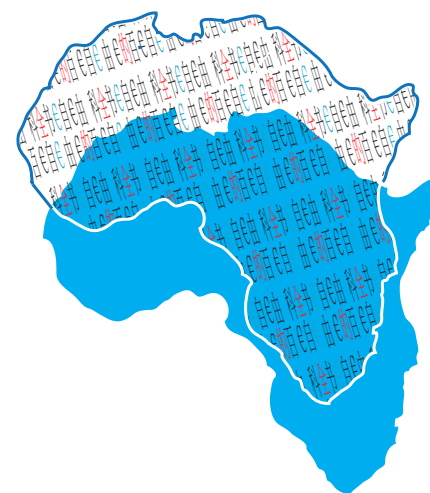
accommodate Chinese companies during the second phase, starting in 2012.

After much confusion about the nature of the industries that the SEZ would attract, it now transpires that the zone will have a predominantly real/commercial estate basis. The Chinese wish to take advantage of the country's distinctive features as a regional business hub to position Mauritius as the headquarters for Chinese investments in Africa. It is for this reason that the Jin Fei project includes important investments in property development, including apartments, hotels, recreational and educational facilities, and high-tech industries that were initially advanced as the locomotive of the zone but that have now clearly taken a backseat.

## Potential impact of the Jin Fei project

The government has declined to reveal details of the Jin Fei project, which, it claims, are protected under a confidentiality clause negotiated with the Chinese developers. This has fueled rumors that the government has little information on what the project will precisely entail since the Chinese themselves do not know yet which companies will be set up. One observer aptly remarks: *"Chinese projects are not normally based on any feasibility study. They have their own way of doing business. They invest money, take over space and wait for enterprises to be set up."*

However, it is clear that the government has made a number of concessions to the Chinese to further their investment in Mauritius. Indeed, it comes as a surprise that the Chinese chose Mauritius, a country with no natural resources, acute labor shortages and high wages, and geographically far from mainland Africa and its traditional export markets, as one of the coveted locations to host a SEZ. The Mauritian government claims that the Chinese wish to use Mauritius as a gateway to Africa and beyond. If this was really the reason for the Chinese to invest in Mauritius, one wonders if they would not have done better by choosing Madagascar, for example, which has become a privileged destination even for Mauritian investors. Madagascar, like several other African countries, offers what Mauritius claims to offer in terms of export market access plus important cost advantages due to abundant labor, low wages and access to raw materials and inputs. On the flip-side, Madagascar



ranks low in terms of business climate compared to Mauritius and presents high levels of policy and political instability.

The main concession made by the government regarding the Jin Fei project is its obligations to provide offsite infrastructure. It is estimated that some US\$ 25 million will be invested to build roads and extend water, telephone, sewerage and electricity networks to the site of the industrial zone. Authorities claim that the central government itself would incur only US\$ 3.2 million of the cost; the zone developers would contribute US\$ 3.3 million, the Central Electricity Board would invest US\$ 8.3 million, and the Central Water Authority and the Waste Water Authority would share the rest of the cost. However, the last three corporations are agencies of the government, thus their debt is part of the national debt. By advertising its share of the cost as a meager US\$ 3.2 million, the government has played down the real value of the concessions made to the Chinese.

In addition, the Jin Fei industrial zone will benefit from incentives generally available to local firms. In addition to a flat 15% corporate tax rate, and duty exemptions on imports of materials and capital equipment, the Chinese enterprises will not pay customs duty or VAT on construction materials and their exports will not be subject to any VAT. Further, for every US\$ 500,000 of investment, the Mauritian government will grant the Chinese investors one Mauritian passport. Another concession made to Jin Fei that has raised some controversy is the lease conditions of the 362 hectares of land put to the disposal of the SEZ by forcing out over 120 planters who have legally

occupied part of the land for many years. The land is leased at a token rate of US\$ 3 per hectare, which, as per the terms of the agreement, will increase by 50% after 10 years and by a further 50% after every 10 years subsequently.

### Do the potential benefits of the SEZ justify the generous concessions made?

In presenting the Jin Fei project, the government initially claimed that it would lead to the creation of some 43,000 jobs, of which 34,000 directly. However, pressed by the opposition and the press, it conceded that only 10 to 15 percent of the jobs would accrue to Mauritians. This means that the employment impact will be much smaller than expected. Moreover, the construction of the industrial zone, currently under way, is utilizing a large number of Chinese expatriate workers. Construction materials are mainly being imported from China. This reduces the multiplier effect of the initial FDI while accentuating the already heavy bilateral trade deficit vis-à-vis China. Finally, the SEZ will produce primarily for the export market. Since the enterprises will be wholly Chinese-owned, the bulk of the export proceeds will likely be remitted to the home country. Consequently, the impact on foreign exchange earnings will be minimal.

Our analysis suggests that the Chinese industrial zone will have little impact, if any, on the Mauritian economy through the traditional channels of jobs, income generation and export earnings. There are three remaining ways in which the SEZ can benefit the local economy: through industrial development, knowledge spillovers and linkages with the local economy. Our case study of Tianli Spinning – one of the rare Chinese manufacturing firms worthy of investigation – suggests that technology spillovers are unlikely from Chinese firms because of the way the Chinese protect proprietary knowledge and other trade secrets. This scenario is likely to recur with the Jin Fei project, and the fact that local firms will not have access to the zone means that any spillover that did occur would not be effectively captured.

The Mauritian EPZ, despite its noted success, has failed to diversify out of textiles and clothing even after 40 years of existence. The government's attempt to promote light engineering, precision works and hi-tech industries, such as pharmaceuticals, on an industrial scale has not proved fruitful. The Jin Fei zone project, as it was initially presented, purported to foster these very industries,

alongside services, such as education and tourism. However, it has now become clear that the zone will be services-based. While the zone's basis as headquarters for Chinese operations in Africa and the proposed building of a university on the Jin Fei site are consistent with Mauritius' aspiration to develop into regional hubs of all sorts, these activities will contribute little to industrial upgrading in the country.

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On the positive side, there is some potential for the SEZ to build linkages with the local economy. However, just as with the existing EPZ, the linkages will be mainly forward, involving logistics, forwarding, and insurance and financial services. Backward linkages will be fostered to the extent that the Chinese companies contract out transportation and catering services for their employees and subcontract with local firms. In any case, the economic value of these linkages is likely to pale in comparison with the value of output generated by the firms in the industrial zone.

To conclude, we believe that the economic benefits arising from the Chinese SEZ will be rather small relative to the costs incurred by government in terms of road infrastructure and utility and telecommunication networks. Environmental concerns aside, there are also fears that providing water to the industrial zone will deprive already-vulnerable areas of the island of this precious commodity, especially in the dry season when water supply runs low and cuts are more frequent. Moreover, the SEZ will consume a tremendous amount of electricity, putting pressure on existing capacity, and inflating the imported oil bill.

The government has brandished the potential economic benefits of the project, and has claimed credit for attracting FDI on such a massive scale.

However, our analysis suggests that the SEZ will bring little in terms of jobs, incomes, export earnings or technology spillovers. On the other hand, the government will certainly lose in terms of tax revenue foregone due to the many fiscal concessions granted to the Chinese operators and face heavier debt service charges as a result of borrowing to finance infrastructure and services. The government had the opportunity to extract a better deal from the Chinese. Unfortunately, it missed the chance.

### Authors

Vinaye Dey Ancharaz is a Principal Research Economist at the African Development Bank and Senior Lecturer at the University of Mauritius

Baboo Nowbutsing is a senior lecturer in the Department of Economics and Statistics, University of Mauritius.

The views and opinions expressed in this article are the authors' own, and should not be attributed to the African Development Bank, its member countries or to the University of Mauritius.

# Is the economic cooperation of emerging countries with Africa a win-win situation?

S.K Mohanty

The recent growth of emerging economies, notably China, India and Brazil (CIB) is unlikely to be a short lived phenomenon. Because of their deep ties with CIB, some African countries have benefited from the unprecedented economic growth of emerging economies, leading to high expectations on the continent. The current economic engagement between CIB and Africa can be traced to three sectors: trade, outward foreign direct investment (OFDI) and development financing. The level of this engagement suggests that emerging countries will play a major role in the improvement of financial resource flows to Africa.

CIB strongly adhere to the principles of South South Cooperation (SSC) and are at the same time part of various global institutions that shape the future direction of global governance. At present, CIB can use their pivotal role to initiate a new round of trilateral dialogue to work towards a new global economic order where more liberal resource flows can be ensured, on a sustained basis, in order to foster growth in the South and provide stability in an interdependent world.

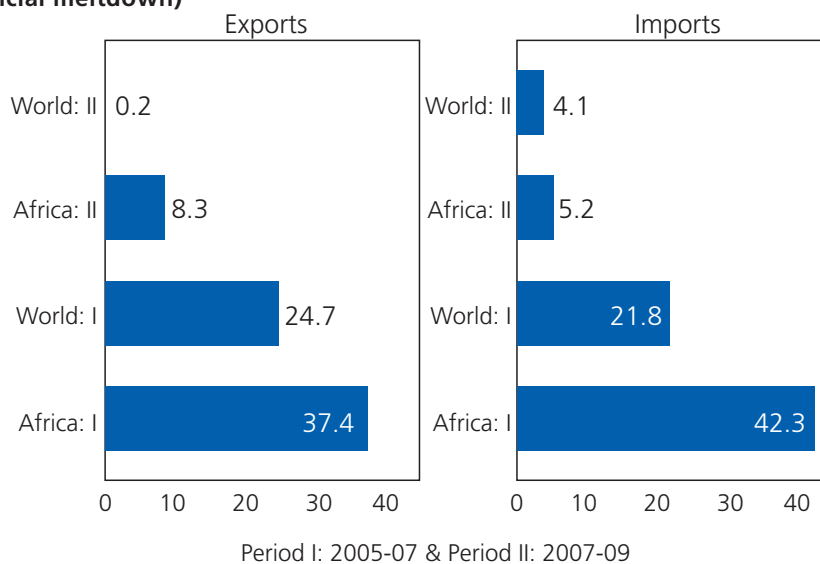
CIB have held economic and political linkages with Africa for centuries, thus giving rise to questions such as: Why is the vibrancy of the relationship only discernable now? What are the factors that drive CIB's high levels of growth? To what extent are the growing linkages between CIB and Africa oriented towards long-term development? And to what extent can other actors at the global level supplement these efforts to make them sustainable? This article is an attempt to address some of these issues.

## Trade linkages between CIB and the South

Certain key factors in the economic resurgence of CIB have been industrialization, domestic demand and trade sector growth during the last two decades. Large-scale production and the export of manufactured goods have led to the efficiency-enhancing restructuring of industries within these economies, leading to a surge in demand for imports. Rising demand for imports has thus been a result of simultaneously meeting the pressing requirements of their growing export sector and increasing domestic demand<sup>1</sup>. As a result, African countries have benefited from wider market access through enhanced commercial integration with these emerging economies.

Africa's sustained high growth is partially due to the transmission of growth impulses from CIB to African economies through trade and

**Figure 1: Growth profile of CIB's trade with Africa (before and during global financial meltdown)**



Graphs by Trade

Data Source: PC-TAS 2011, ITC, Geneva.

investment channels. The emerging trade pattern indicates that CIB have not used the markets of developing countries as their backyard for dumping exports. On the contrary, these countries have provided market access to African countries allowing them to seize the opportunities created within their domestic economies. The rates of expansion of CIB's imports and exports with Africa have remained strong and positive in recent years and have been much stronger than the corresponding figures with the world economy. This phenomenon remains valid before and during the recent episode of recession as shown in Figure 1. It may be noted that import growth of CIB from Africa was much stronger than their exports in the pre-crisis period. However, sustainability of the current trend remains the key issue in the long-run.

Industrialization is a priority for CIB and most of their imports have been composed of industrial intermediates sourced from both developed and developing countries. Significant imports from Africa include minerals, chemicals, base metals and gems. The import of mining products is the single largest component from Africa, although large imports of semi-finished goods are also in the present trade basket.

Increasing engagement in resource-intensive imports has benefited African countries enormously. The rising global demand for imports of minerals, led by emerging economies, has created a steady market for these commodities producing a 'price boom in primary commodities'. This has enabled primary-commodity exporters of Africa to gain increased

leverage in their terms of trade, while also supporting African countries in preventing a reoccurrence of the 1980's 'debt-crisis'.

Moreover, there is an increasing demand for skill-intensive products, particularly medium-technology intensive products. The share of such products in the total imports of CIB from Africa increased to 3.7% in 2009, an outcome of the growing trade and investment linkages of CIB transnational corporations (TNCs) in Africa.

## Outward FDI of CIB to Africa

Emerging countries have a long history of engaging in outward foreign direct investment (OFDI). Since the mid-1990s (the "third wave of OFDI") a radical shift can be observed in the motives, modes of ownership, sectorial composition and typical destinations of OFDI from CIB, with Greenfield investment being the most dominant entry mode in many countries. Although sizable investment originating from emerging countries was directed towards developed countries, investment for developing countries was not undermined. In many cases, the motivations of TNCs from CIB have been to acquire technology, brands, R&D and marketing capabilities, distribution networks, and managerial and organizational competencies, among others<sup>2</sup>.

The impact of the global meltdown has been significant for Africa in terms of inflow of FDI, albeit Sub-Saharan Africa (SSA) was only marginally affected. Inward FDI to Africa declined at a compound annual growth rate of -3.7% whereas the corresponding figure for the SSA was 3.2% during the period

2007-09. Certain regions in the continent such as Central and West Africa received a positive response in terms of continued flow of inward FDI whereas other regions, including East, North and Southern Africa, witnessed negative growth rates during the crisis. Enhanced flow of OFDI from emerging countries cushioned a number of African countries during the recent phase of global recession.

In the context of SSC, the size of OFDI from CIB to low-income countries reached about US\$2.2 billion in 2009<sup>3</sup>. SSA received 40% of these 2.2 billion. Among BRIC countries, sectoral and regional priorities differ significantly in the distribution of OFDI. While FDI flows have been strong in the Asian manufacturing sector, these have been predominantly for the resource-intensive and infrastructure sectors in SSA. Rapid investment flows from BRICs, particularly in the oil and mining sectors, have led to an increase in production, exports, processing capacity and employment opportunities. With rise in the Greenfield ventures by BRICs, there is perceptible increase in manufacturing capacity in many countries.

### Development financing

Development aid has been an important source of finance to support development planning in many developing countries. Recently, some of these emerging countries, including CIB, have engaged in extending bilateral development finance to some developing countries at a minuscule level. The contribution of China in this regard has been much larger than that of other emerging countries. During the 2000-08 period, total development finance (including non-concessional loans) from BRIC countries stood at US\$ 26 billion, while OECD ODA to developing countries was US\$ 296 billion during the same period. With regard to concessional development finance, BRICs contributed around US\$ 4 billion against OECD ODA of US\$ 90 billion to developing countries in 2007<sup>4</sup>. Although the size of

the development finance from CIB has been small compared to that of traditional investors, recipient countries prefer to source from CIB for reasons linked to aid effectiveness. The differences in the level of aid effectiveness vis-à-vis development finance from CIB thus requires examination from the perspective of recipient countries.

“Differences in the attractiveness of development finance for the recipient countries can be attributed to the different approaches adopted by DAC countries on the one hand, and CIB on the other.”

Differences in the attractiveness of development finance for the recipient countries can be attributed to the different approaches adopted by DAC countries on the one hand, and CIB on the other. Under the Paris Declaration on Aid Effectiveness, ODA policies of DAC countries are built around the 'framework approach' based on 'Washington consensus' to strengthen the macroeconomic stability of recipient countries. The imposition of stringent conditionalities, notably with regards to macroeconomic management threatens the sustainability of aid programmes. Development finance provided by CIB, on the other hand, finds its way into small-budget projects under the supervision of a triangular body of the recipient government, local bodies and external development partner for regular monitoring of projects. Aid effectiveness of a project is ascertained on the basis of local audits and becomes the basis for the continuation or termination of

a project. Moreover, the robust approach of emerging economies is evolving toward development finance with a 'human face' within a broad framework of SSC. There are possibilities to build on the triangular dialogue between the DAC, emerging and recipient countries to develop a common approach that may be more meaningful for the participants.

### Conclusions

The remarkable growth of emerging countries has gradually shifted the balance of global economic power and has altered the landscape of interdependence between developing countries. Currently, emerging countries are better placed to deliver comprehensive economic support to African states. With their large domestic markets, CIB would be in a position to offer more market access to invigorate the development process in Africa. Moreover, close economic cooperation of CIB with Africa has created a win-win situation for both, and their economic engagement has been consolidated effectively in the last decade with more policy initiatives originating from emerging countries.

Simultaneous efforts are required to consolidate joint initiatives between the European Union as a traditional partner, CIB as emerging partners, and Africa in order to improve trade, investment and development aid flows in a more transparent and liberal manner. Efforts should be initiated to develop a comprehensive approach to development financing with a 'human face', potentially relying on a judicious amalgamation of various approaches including *inter alia* the framework approach, the neo-liberal 'Washington Consensus' or the ingredient approach, to finally arrive at a new strategy ensuring liberal flow of resources to Africa with high level transparency. This warrants the initiation of triangular dialogue based on mutual learning from each other to optimise development cooperation efforts.

### Author

Dr Mohanty is Senior Fellow at the Research and Information System for Developing Countries, New Delhi, India.

### Notes

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### Patterns of OFDI from CIB

Outward FDI from CIB has been small in comparison with the world total FDI; nevertheless it showed rapid growth over the last three decades. During 1980-2009, OFDI from CIB registered a 142-fold increase whereas global OFDI increased by a mere 21-fold during the corresponding period. OFDI originating from CIB accounted for 4.8% of the world total in 2009, further contributing to the fast growth of their FDI stock.

Growth records of CIB's OFDI have exceeded the global average both before and during the recent global financial crisis. Total OFDI from CIB increased significantly from less than US\$1.4 billion a year in 1990 to approximately US\$ 52.8 billion in 2009, registering a robust compound annual growth rate (CAGR) of 43.6% before the onset of crisis. While global OFDI declined at a CAGR of -30.3%, similar flows from CIB increased by 6.3% during the crisis period of 2007-09. FDI flows from DAC countries were also adversely affected during the crisis.

# Rethinking engagement with Africa: An African perspective

## Uche Igwe

The pace of progress in Africa has been slow when compared to its potential. Efforts both within the continent and outside have failed to produce the expected results. Recapturing some of the missed opportunities for growth and development in Africa will partly depend on the perception of the continent by its current and future partners, as well as their readiness to modify their strategy of engagement.

### A changing picture

The state of infrastructure in many African countries is in a deplorable state; life expectancy is still far lower than desirable and improved development indicators remain a dream. However, the last few years have witnessed an emergence of a few islands of progress that cannot be ignored in the sea of under-development that have flowed across Africa until now.

Twenty years ago, the only thing Africa could stir in the mind of anyone was despair. Unelected and unaccountable dictators threatened to overrun the continent. What the world knew was an Africa of malaria, HIV/AIDS, poverty, conflict and disease; a sad picture that formed the background to every discussion, alliance or partnership involving Africa.

That picture is slowly beginning to change. The era of sit tight dictatorships is fast giving way to a positive wave of democracy. In Nigeria, we just concluded a successful election that will usher a fourth civilian transition. After many months of delusional determination to hold on illegally to power, former President of Côte d'Ivoire Laurent Gbagbo reluctantly yielded to his duly elected successor, Alassane Ouattara, chosen by the will of the people. Across North Africa, trends of citizen-led popular resistance have shown that democracy is not only a preferred form of government in Africa, but a way of life that is acceptable to the ordinary African.

### Africa's natural resources and a changing geopolitical context

The African continent is rich in partially untapped natural resources such as oil and metals useful for global industrial growth. Nevertheless, the continent lacks the technological capacity to profitably exploit these resources and has often depended on outside help to convert these resources into productive commercial use.

Traditionally, Africa's partners originated mainly from Europe and America, having historical political ties with the continent. For instance, most of the oil and gas

produced in Africa were destined for industrially advanced countries in Europe and America.

However, the past few years have seen a radical shift in global geopolitics with the emergence of China and other rapidly growing economies such as Brazil and India. China's double-digit growth has transformed the country into the world's second largest economy and consumer of oil. The Chinese voracious search for natural resource security has taken the country to every nook and cranny in Africa where there is even rumor of natural resource deposits. Beijing has engaged in aggressive so-called natural resource diplomacy, notably in Africa. This development has changed the dynamics of the demand and supply of Africa's resources. Both Africa's traditional partners (Europe and the US in particular) and the emerging countries are now competing to benefit from a share of the market. This competition has led to very interesting debates often colored by emotion and propaganda, whilst providing diverse opportunities nonetheless.

### What's in it for Africa?

As these actors compete for access to, control of, and benefits from Africa's natural resource wealth, it is important to conduct an assessment of these emerging relations and what is in it for Africa.

China has approached Africa with an attractive ideological narrative founded on their alleged proximity in historical experience and political non-interference. However, this does not deter from the fact that every partner that has come to Africa has done so for the sole purpose of satisfying their appetite for natural resources. This rush is being heightened by security challenges in the Middle East.

Europe and other western partners, on the other hand, have led a calculated campaign to promote human rights and good governance which does not necessarily form part of the Chinese agenda in the short term. This is a raging debate and neither Brussels nor Beijing can promote Africa's concerns on behalf of the continent in the global arena. So far, very little was done for Africans to take our destiny in our own hands. Rather than maximizing the opportunities offered by the rising global demand for Africa's natural resources, many African leaders now promote the so-called 'looking east' syndrome. At this stage in the history and evolution of Africa, neither misguided sino-optimism nor hasty euro-skepticism can provide what is needed to move Africa

forward. Africans must ponder over the reasons why its rich endowment has not managed to produce development. The time has come to rethink the absence of sound policies and the preponderance of weak institutions across the bureaucracy. Indeed, the continent needs more, and not less, investment to rebuild the infrastructure and must therefore create an enabling and investment-friendly environment.

Leadership on the continent must halt the pedestrian approach and develop an intelligent, comprehensive and coordinated response to this new wave of interest in order to benefit positively from the emerging opportunities offered.

### Looking ahead

Africa's traditional partners including those within the European Union and those from the emerging countries have a unique role to play in Africa's development. A nuanced approach will mean taking advantage of each partners' niche areas in a coherent manner. A more systematic engagement driven within the African continent needs to commence as soon as possible. It is not smart diplomacy to jettison old friends because of the advances of new ones. On the contrary, Africa must create a platform for fact-based engagement of all partners on the basis of their comparative advantage. All partners should be welcome not only to talk to Africa but also to talk to each other about Africa. This engagement must be based on a new narrative that recognizes the Africa of yesterday and differentiates it from the Africa of today, meanwhile recognizing the continent as a partner in a win-win relationship. The private sector has long been acknowledged as the engine of sustainable growth; therefore, prospective partners must impart the requisite capital order to contribute in revamping the African private sector. Finally, many African countries are at differential levels of growth and they must not be seen as a monolithic entity. Horizontal learning must be encouraged along with viable multi-stakeholder approaches that will involve non state actors alongside political leaders.

### Author

Uche Igwe is a visiting scholar at Africa program, School of Advanced International Studies, Johns Hopkins University Washington DC USA and author of an upcoming book; Africa: In search of good governance.

# WTO Roundup

## With Easter looming, WTO members acknowledge "Huge gaps on Doha"

Enthusiasm for the conclusion of a multilateral trade agreement by the end of the year is waning due to the inconclusiveness of ongoing bilateral and other discussions. Although the EU, Japan and Australia have expressed a positive outlook for the Doha Round, talks over the past week involving senior officials and ambassadors from the so-called G-11 (group of eleven central players in the Doha Round) talks highlighted the magnitude of gaps between countries' substantive positions and have shown no encouraging signs of nearing resolution over the last decade.

WTO chief, Pascal Lamy, touched upon the possibility of a Doha Round failure, urging members to consider the consequences this would entail for both the global economy and the multilateral trading system. He announced that from the 4th of April he would begin consulting with different members in an effort to understand the size of the gaps and with a view of reporting what information has been gathered from these consultations to the entire membership.

Lamy emphasized that the aim of the new draft negotiating texts is to show the convergence achieved thus far and to have an overall picture of what gaps will remain to be addressed nearer to conclusion of the talks. "The absence of progress in NAMA sectorals constitutes today a major obstacle to progress on to the remaining market access issues," he said, while emphasising that unresolved problems remained in terms of agricultural and services market access.

The principal blockage in the negotiations are related to market opening issues between the US and developing countries such as China, India, and Brazil: Washington argues that fast-growing developing countries must offer greater market-opening for manufactured goods as well as farm products and services - demands that China, India, and Brazil have generally rebuffed as disproportionate to the reforms the US is willing to undertake, particularly on farm subsidies.

Nevertheless, skepticism is high amongst US and Brazilian envoys over releasing new drafts in the absence of increased convergence. Brazilian Ambassador Roberto Azevedo suggested that the decisions regarding the texts should be spared until the conclusion of Lamy's consultations as pushing for any earlier might result in an additional blow to the negotiations at this crucial stage.

## Agricultural export restrictions spark controversy at the WTO

Current WTO rules state that export restrictions can be applied *temporarily* by a country in order to relieve or prevent critical shortages of foodstuffs and other essential products domestically. Nevertheless, a number of major food producing nations have applied export restrictions in an effort to keep domestic prices under control when faced with rising global commodity prices.

This behavior, according to some analysts, is a main contributor to soaring international food prices, such as that of meat, cereals, and dairy products, all of which reached prices of a record high in February 2011 figures from the UN food price index.

At a recent meeting of the world trade body's agriculture negotiating committee, representatives of net food importing developing countries (NFIDCs) presented a detailed proposal to ban agricultural export restrictions to NFIDCs and LDCs, in light of soaring food prices. This proposal was submitted as part of the broader Doha Round negotiations at the WTO, claiming that increased food prices "aggravate poverty levels and seriously threaten NFIDCs' food security".

The proposal was widely welcomed by other WTO members, with a suggestion from the Philippines to include in the proposal's coverage other developing countries hurt by export restrictions. Concerns were also raised by Switzerland and Israel with regard to showing consideration for the welfare of importing countries in the face of such restrictions.

A leaked draft report produced by various international agencies for the G-20 meeting of agriculture ministers in June proposes that export bans be defined "as a time-limited measure of last resort, allowed only when other measures, including triggering domestic safety net measures for the poorest, have been exhausted."

The question remains, however, on how the NFIDC proposal will fare given the current state of impasse in the Doha negotiations. The chair of the WTO's agriculture negotiations, New Zealand Ambassador David Walker, is now widely expected to deliver a 'report' on April 21.

## WTO Fisheries chair pauses for reflection on draft text

At a session of the Negotiating Group on Rules, a call was made for government to

support the fisheries sector and to acknowledge developing countries' interest, less than three weeks from the deadline for revised draft agreement texts in the Doha Round negotiations.

At an informal meeting of the Group, Ambassador Dennis Francis of Trinidad and Tobago stated that although progress had been made in several informal plurilateral meetings on fisheries subsidies, advancement in the Doha Round Negotiations is crucial in order for more headway to be made.

Ambassador David Walker of New Zealand, speaking on behalf of Argentina, Australia, Chile, Iceland, New Zealand, Norway and the US, stated that members should not be deterred by lack of progress in other areas of the Round. According to Walker, the issue is simply too critical, pointing to the recently released FAO report "The State of the World's Fisheries and Aquaculture 2010" which highlights the fact that 85 percent of global fish stocks are currently exploited.

Courtney Sakai, senior campaign director for the green group Oceana, praised the initiative, stating that "... there is strong commitment for fisheries subsidies rules that serve global interests and not only protect narrow self-concerns."

However, as pointed out by Marion Vernese Williams of Barbados, there still remains the concern of small and vulnerable coastal states, and island countries. Being a development focused round of negotiations, it must be taken into account that many of these states are highly dependent on their fish resources and have emerging fish industries not responsible for the current situation.

Egypt and Ecuador underlined the crucial need for technical assistance in the fisheries sector. Egypt said that assistance should cover stock assessment, fisheries management, and fulfilling notification requirements.

Brazil and Mexico both supported the concept of a broad prohibition with special and differential treatment (S&DT) for certain developing countries, stating that the asymmetries between developed and developing countries within the sector must be acknowledged and addressed accordingly.

*This information has been summarized from ICTSD Bridges Weekly Trade News Digest.*

# EPA UPDATE

Melissa Julian and Quentin de Roquefeuill

## All-ACP level EPA discussions focus on flexibility in negotiations and rules of origin

The African, Caribbean and Pacific (ACP)-European Union (EU) Subcommittee on Trade Cooperation met in Brussels on 28 March.<sup>1</sup> The European Commission (EC) Co-Chair said that the EC was being more flexible in Economic Partnership Agreement (EPA) negotiations and emphasized the need for flexibility on both sides. The EC is also working on increasing EPA aid for trade packages and stressed that the application of the EU's EPA market access regulation is increasingly unsustainable on legal, political, and financial grounds. The ACP Co-Chair reiterated the ACP's long-standing EPA positions and mentioned the lack of increased flexibility from the EC side in the negotiations.

The EC informed the ACP that cumulation between ACP EPA signatories and signatories to the EU's Generalised System of Preferences (GSP) trade regime or a Free Trade Agreement (FTA) with the EU will be possible under the new rules of origin proposals. However, there are some limitations: for example cumulation on agriculture and fishery products between ACP countries and non-ACP countries that have an FTA with the EU is excluded. The two sides agreed to explore the possibilities of holding a 2-3 day seminar to discuss EPA and GSP rules of origin with international experts.

The ACP called for a series of studies to be conducted on the impact of the EC's proposal for a future EU trade policy. The EC said this Communication focuses on industrialised and developed countries and does not deal with, nor directly impact, the ACP, therefore, there is no need for studies. An upcoming trade and development Communication, due to be published in late 2011, will deal with the ACP. The EC will launch a related public consultation in April.<sup>2</sup>

## Central Africa and EU hold another round of EPA negotiations

European and Central African negotiators met from 12-15 April in Brazzaville to continue technical negotiations which were resumed last February.<sup>3</sup> Market access, rules of origin and accompanying measures were discussed. Negotiators also reviewed several articles of the main text.

The Central African side was reportedly satisfied by the EC's new offer on cumulation provisions, where the parties could secure an agreement. Central Africa is still working on its market access offer, to be presented at the next meeting in June.

The working group on accompanying measures is still deliberating on the methodology to be adopted to assess the fiscal impact of the agreement. The question is whether to adopt a

partial equilibrium model or a computable general equilibrium model. This is further complicated by the important gaps in data in many Central African countries. The EU side still has to formally respond to Central Africa's analysis based on a partial equilibrium model. Terms of references for consultants tasked with assisting the region in formulating the EPA development programme have also been discussed as well as the overall scoping note on the aforementioned programme.

Some discussions revolved around the clauses on the dispute settlement mechanism contained in the agreement, but bracketed text remains on this section of the agreement.

The Central African side will hold a preparatory meeting from April 25th to 29th on services and investment in Douala, Cameroon, ahead of the next joint negotiation meeting scheduled for early June in Brussels.

## West African summit expresses concern over EPA deadlock

Heads of State and Government from the Economic Community of West African States (ECOWAS) meeting in Abuja from 23-24 March<sup>4</sup> expressed deep concern about the deadlock in the EPA negotiations due to persistent divergences between the EU and West Africa parties. In that regard, the Heads of State and Government affirmed their common position that includes preservation of independent resources of regional organisations through levies, a maximum of 70% market opening over a period of 20 – 25 years and additional financial resources from the EU for the financing of the EPA Development Programme.

## East and Southern Africa regional consultations continue in preparation for next round of EPA negotiations

There have been no Eastern and Southern Africa (ESA)-EU EPA negotiating meetings held since December. ESA is currently consulting within the region on the joint draft text. As TNI goes to press, there is no date set for the next round of EU-ESA technical meetings.

## East African Community EPA negotiations stalled as Council calls for release of EPA funds

The East African Community (EAC) Council of Ministers meeting in Arusha from 11-15 April<sup>5</sup> took note of the conclusions of its previous meeting held in Kigali from 25-30 March<sup>6</sup> which noted that the EPA negotiations had stalled as a result of the objection by East African Legislative Assembly (EALA) Members to the use of funds mobilised by the EAC Secretariat from Sweden to facilitate the negotiation process. EALA objects on the grounds that this would not only compromise the negotiations to the Partner States' detriment, but would also prejudice

and weaken any stronger stance the latter may adopt on the negotiations. The Council requested EALA to reconsider its position. The Council directed the Secretariat to ensure that the Ministers of Finance are requested to allocate and earmark funds for EPA negotiations, if necessary, when the Ministers meet in May 2011. This would enable the Partner States to resume the EPA negotiations and stay within the deadline for conclusion of December 2011. The Council directed the Secretariat to ensure this issue is brought to the attention of the EAC Summit on 19 April. TNI has no information on the results of this meeting as we go to press.

## EU still considering response to SADC EPA requests as region focuses on integration

The response to the Southern Africa Development Community (SADC) EPA Group's request for tariff concessions (mainly in relation to South Africa's agricultural market access) is still under consideration at the EU despite expectations that it would have been put forward the first week of April. The EU also needs to propose its interests for enhanced market access to the Southern Africa Customs Union (SACU) market.

## Caribbean to reform EPA governance institutions

The first meeting of the joint EU-Caribbean Forum of African, Caribbean and Pacific States (CARIFORUM) EPA Trade and Development Committee – the Caribbean-EU EPA institution responsible for supervision of the implementation of the provisions of the Agreement – scheduled to be held from 28-31 March has been further postponed to 9-10 June in Barbados.<sup>7</sup>

The Caribbean Community and Common Market (CARICOM) Secretariat's EPA Implementation Unit, and the EU, continue to host awareness-raising meetings on EPA implementation in CARIFORUM states (CARICOM member states plus the Dominican Republic) to develop CARIFORUM positions ahead of the joint Trade and Development Committee meeting.<sup>8</sup> Most CARIFORUM states missed the January 1, 2011 deadline for reduced tariffs on EU goods as set out in the EPA.<sup>9</sup> At the end of March, Branford Isaacs, trade-in-goods specialist with the CARICOM EPA Implementation Unit, said that only St. Kitts-Nevis and Guyana had notified the secretariat about tariff reductions. The rest are understood to be in the process of making efforts to effect their reduction. There are indications though that some countries may maintain restrictive measures invoking balance of payments and external financial difficulties or the threat thereof.

The Dominican Republic continues to call for a formal CARIFORUM EPA implementation

structure since the country is not a member of CARICOM. At the 1 April CARIFORUM Council of Ministers meeting held in Belmopan, the Dominican Republic proposed that the CARIFORUM group appoints its own Secretary General that would report directly to the Council.<sup>10</sup> According to Antigua and Barbuda's trade coordinator, Clarence Henry, member states were "overwhelmingly clear that CARIFORUM must take the lead role in the implementation of the EPA". "As such it is necessary to increase the capacity of the Directorate and, as a consequence, make some changes to its structure" he said. During the meeting, both Barbados and Jamaica supported the creation of a new head of CARIFORUM in the form of a Director General who would also be the EPA coordinator. There is disagreement amongst CARIFORUM member states as to whether the CARICOM Secretary General should continue to be the Secretary General of CARIFORUM. Proposals also include the establishment of additional CARIFORUM directors and an EPA implementation Unit. A team, chaired by Belize, and comprising Barbados, Jamaica, Suriname, Antigua and Barbuda, and the Dominican Republic, has been established to examine the legal implications of these proposals. The team will report back in June.

#### First meeting of the Pacific-EU trade committee before the next round of EPA negotiations

EU and Papua New Guinea representatives held the first meeting of the Pacific-EU Trade Committee on 15 April in Port Moresby.<sup>11</sup> The EC indicated that the EU remains committed not only to support PNG in implementing the Agreement, but also to strengthen it further by deepening its coverage – to include provisions on development, services, investments and sustainable management of fisheries – and by widening its membership to other Pacific Island States. However, according to PNG's Foreign Minister Don Poyle, a comprehensive regional EPA with the EU may not be possible.<sup>12</sup>

At the end of March, lead spokesperson for the PACP EPA Negotiations, the Minister for Labour, Commerce and Industries for Tonga, Lisiate 'Aloveita 'Akolo, wrote a letter to EU Trade Commissioner Karel De Gucht. Work is underway in the region on the consolidated PACP-EU Draft EPA text and to prepare market access offers to the EU, but flexibility will be required from both sides if contentious issues are to be resolved the Minister said. The letter followed the visit of the EU Trade Commissioner to Papua New Guinea earlier in March to discuss a comprehensive regional EPA.<sup>13</sup> Minister 'Akolo requested that a joint PACP-EU Ministerial level meeting be held to progress the negotiations. The EU has proposed holding a stock taking exercise at senior officials' level during the second quarter of 2011.

#### Authors

Melissa Julian is ECDPM Knowledge Management Officer; Quentin de Roquefeuil is ECDPM Research Assistant Economic and Trade Cooperation.

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Chief Executive:  
Ricardo Meléndez-Ortiz

Editor:  
Kiranne Guddoy

Additional support:  
Ndagha Sikanda

Address:  
7 Chemin de Balexert  
1219 Geneva, Switzerland

Tel: (41-22) 917-8947  
Fax: (41-22) 917-8093  
Web: [www.ictsd.net](http://www.ictsd.net)

#### European Centre for Development Policy Management

Editor:  
Sanoussi Bilal

Address:  
Onze Lieve Vrouweplein 21  
6211 HE Maastricht,  
The Netherlands

Tel: (31-43) 3502 900  
Fax: (31-43) 3502 902  
Email: [tni@ecdpm.org](mailto:tni@ecdpm.org)  
Web: [www.ecdpm.org](http://www.ecdpm.org)

Editorial team:  
Melissa Dalleau  
Quentin de Roquefeuil

Design:  
Oleg Smerdov

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# Trade Negotiations Insights

## Calendar and resources

### ACP-EU Events

May	TBC	EAC Council of Ministers to discuss EPA funding (venue TBC)	29	PACP Trade Ministers' meeting, Port Moresby, Papua New Guinea
2-5 Pacific Regional Market Access Workshop on EPA negotiations, Nadi, Fiji	TBC	EPA seminar, Ghana		<b>August</b>
9-13 UN LDC4 Summit, Istanbul, Turkey	TBC	EU-ESA technical meeting on EPA, Brussels, Belgium	TBC	SADC Council of Ministers and Summit of Heads of State and Government
11-19 24th Session of the ACP Parliamentary Assembly and 21st Session of the ACP-EU Joint Parliamentary Assembly, Budapest		<b>June</b>		<b>Should also be held soon :</b>
13 EU trade ministers council meeting, Brussels, Belgium	9-10	Joint EU-CARIFORUM EPA Trade and Development Committee, Barbados	TBC	ACP-EU EPA Joint Ministerial Trade Committee meeting to assess progress in the negotiations and in EPA implementation, Brussels
16-17 Pacific Forum trade officials meeting and Forum trade ministers meeting, Tonga	15-24	Central Africa technical and Senior Officials negotiation round, Brussels, Belgium	TBC	Second COMESA-EAC-SADC Tripartite Summit, South Africa
17-19 Structured Dialogue for an efficient partnership in development – Final Conference, Budapest	TBC	Pacific-EU joint negotiation session (venue TBC)	TBC	ACP-EU Committee of Ambassadors, Brussels, Belgium
24 EU Foreign Affairs Council FAC/Development ministers session, Brussels, Belgium	TBC	EU - SADC Technical and Senior Officials meeting on EPA, Lesotho	TBC	ACP-EU Development Finance Cooperation Committee at ministerial level, Brussels, Belgium
30-31 Joint ACP-EU Council of Ministers, Brussels, Belgium		<b>July</b>		
	1-4	Annual meeting of the Conference of Heads of Government of CARICOM, St. Kitts/Nevis		

### WTO Events

May	June
2 Committee on safeguards	7-8 Council for trade related aspects of intellectual property rights
2 Council for trade in services	15-16 Committee on technical barriers to trade
2 Working party on the accession of Vanuatu	16-17 Committee on regional trade agreements
3 Committee on subsidies and countervailing measures	20 Dispute settlement body
4-5 General Council	28+30 Trade policy review body – Nigeria / Zimbabwe
5 Committee on anti-dumping practices	29-30 Committee on sanitary and phytosanitary measures
5 Sub-committee on LDC	
10 Sub committee on trade, debt and finance	
12 Committee on market access	
24 Dispute settlement body	
25+27 Trade Policy review Body- Canada	

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