The G20 and African Development[1]

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List of acronyms

ACP	African, Caribbean and Pacific
AfDB	African Development Bank
AGOA	African Growth and Opportunities Act
AICD	Africa Infrastructure Country Diagnostic
AMU	Arab Maghreb Union
AU	African Union
BASIC	Brazil, South Africa, India and China
BBC	British Broadcasting Corporation
BCEAO	Central Bank of West African States
BEAC	Central Bank of Central African States
BIT	Bilateral Investment Treaty
BPO	Business Process Outsourcing
BRIC	Brazil, Russia, India and China
C10	Committee of African Finance Ministers and Central Bank Governors
CGIAR	Consultative Group on International Agricultural Research
COMESA	Common Market for East and Southern Africa
DFI	Development Finance Institution
DFQF	Duty-Free Quota-Free
DRC	Democratic Republic of Congo
EAC	East African Community
EBA	Everything But Arms
EC	European Commission
ECOWAS	Economic Community of West African States
EME	Emerging Market Economy
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FIEG	Financial Inclusion Experts Group
FOCAC	Forum for Cooperation between Africa and China
FTA	Free Trade Area
GDLN	Global Development Learning Network
GDP	Gross Domestic product
GER	Gross Enrolment Ratio
GHG	Greenhouse Gas
HYV	High-Yield Variety
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IEPA	Interim Economic Partnership Agreement
IFC	International Finance Corporation
IGAD	Inter-Governmental Authority for Development
ILO	International Labour Organization
IMF	International Monetary Fund
IDA	International Development Association
IT	Information Technology
JBIC	Japan Bank for International Cooperation
KOFEC	Korea–Africa Economic Cooperation
LBT	Labour-Based Technology
LDC	Least-Developed Country
LIC	Low-Income Country
M&A	Mergers and Acquisitions
MDB	Multilateral Development Bank
MDG	Millennium Development Goal

MFEZ	Multi-Facility Economic Zone
MNE	Multinational Enterprise
NEPAD	New Partnership for Africa's Development
NiGEM	National Institute of Economic and Social Research Global Econometric Model
OAU	Organisation of African Unity
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum-Exporting Countries
PFI	Press Freedom Index
PPI	Private Participation in Infrastructure
PPP	Public–Private Partnership
PTVE	Percentage of Technical/Vocational Enrolment
REC	Regional Economic Community
RTA	Regional Trade Agreement
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SARB	South African Reserve Bank
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SSA	Sub-Saharan Africa
SWF	Sovereign Wealth Fund
TICAD	Tokyo International Conference on African Development
TNC	Transnational Corporation
TVET	Technical and Vocational Education and Training
TVSD	Technical and Vocational Skills Development
UK	United Kingdom
UN	United Nations
US	United States
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNEVOC	International Centre for Technical and Vocational Education and Training (UNESCO)
UPE	Universal Primary Education
WTO	World Trade Organization

Executive summary

This paper discusses how the G20 can support African[7] development. It suggests that African economic development should be seen as central to the G20 objectives, both in terms of legitimacy and as part of the G20's efforts on global rebalancing. Both the G20 core actions and the G20's development agenda can positively affect African growth. The paper also contains case studies of African regional economic integration, South African outward foreign direct investment (FDI) in Africa and export processing zones (EPZs) in Africa to illustrate how the G20 could help.

The paper focuses on relevant G20 actions in three areas:

- The G20 development agenda, which focuses on growth;
- The G20 core agenda; and
- G20 process issues.

So far, the development agenda has focused on pillars of economic growth identified in the Korean scoping paper, narrowing down the multiyear action plans for development in each of these pillars. It has not generated a geographical focus, unlike the G8, which did have an Africa focus in its approach towards development.

The G20 development agenda: Support for African infrastructure and regional integration

The table below summarises what the G20 can do to help African growth. It is important to examine exactly where the G20 could add value, which needs to take into account the following observations:

1) The G20 is not the G8, which focused its Africa policy particularly on aid announcements on health and education. Rather, it focuses on 'beyond aid' issues (trade, investment, etc.).
- The G20 includes emerging market economies (EMEs), which are important partners for poorer countries, so it is crucial to take into account the opportunities the EMEs offer.
- The G20 operates the G20 framework for strong, sustainable and balanced growth, in which African growth can play a role (e.g. it can inject capital arising through surplus reserves in profitable opportunities into sustainable infrastructure).
- The G20 is essentially a network, building bridges and influencing others (e.g. other countries and multilateral institutions).

The G20's development agenda and support for African countries

	Examples of policy issues	**African interests in G20 actions**	**How the G20 can support Africa**
Infrastructure	Infrastructure financing (e.g. sovereign wealth funds (SWFs); private participation in infrastructure/public–private partnerships PPI/PPPs)	• Leverage G20 FDI and SWFs (especially G20 EMEs multinationals) for sustainable infrastructure • Ensure development finance institutions (DFIs) have right instruments to support infrastructure (blending, International Bank for Reconstruction and Development (IBRD) increases)	Organise a G20 supported infrastructure financing meeting in Africa in 2011 and invite SWFs and G20 firms; Initiate a high-level panel on infrastructure; Call for a study to review financial instruments for regional infrastructure.

[7] Africa is meant as Sub-Saharan Africa excluding South Africa.

	Examples of policy issues	African interests in G20 actions	How the G20 can support Africa
		• Initiate a high-level panel for sustainable infrastructure in Africa to identify financing constraints and monitor implementation of G20 commitments	
Private investment and job creation	Promoting FDI through streamlining Doing Business indicators	• Leverage G20 FDI (international investors from G20) and link to Invest in Africa Initiative •	Ask G20 outward investment promotion agencies to promote their outward FDI to attend the Invest in Africa initiative in 2011 Support SEZ's which include local supplier linkage promotion programmes
Human resource development	Promote employment-relevant skills (matching efforts on demand and supply sides of the labour market) and (youth) transformative entrepreneurship training (to small and medium enterprises (SMEs)) and innovative business ideas	• Developing skills through enterprise-level training and interaction between foreign firms (transnational corporation (TNC) affiliates) and public/private training institutions • A more balanced approach towards skills development with more attention to technical and vocational education and training (TVET), secondary and tertiary skills	G20 to promote TVET programmes Review G20 support for education sector to include support for post secondary schooling
Trade	Aid for Trade (e.g. lending to regional blocs) and duty-free quota-free (DFQF)	• Promote regional integration and take stock of G20 programmes for Africa • Remove G20 trade restrictions with reformed Rules of Origin and include imports of skills in	G20 to take stock of Africa support programmes Reform G20 RoO schemes
Financial inclusion	Financial Inclusion Experts Group (FIEG); remittances	• Ensure the poorest countries and most credit constrained firms in Africa have access to finance	G20 to follow up the G20 finance challenge
Growth with resilience	Risk-mitigating instruments and shock absorbers	• Raise capabilities to deal with shocks and improve shock absorber facilities	G20 to review shock absorber facilities and ensure vulnerable countries have immediate access to capital when needed (a Financial Safety Net)
Food security	Agricultural productivity	• Promote agricultural productivity e.g. through increased support to the consortium of Consultative Group on International Agricultural Research (CGIAR) centres	Support agriculture including through the previous Aquila pledges, including the promotion of agriculture investment.
Governance	Regulatory reform, anti-corruption and a deepening of the existing tax base	• C10 coverage of domestic resource mobilisation • G20 has a key role to play in enhancing tax collection administrative capacity	G20 to support implementation of tax reform programmes
Knowledge	Platform for	• Regional-level knowledge-	G20 to kickstart knowledge

	Examples of policy issues	African interests in G20 actions	How the G20 can support Africa
sharing	knowledge sharing	sharing platform	sharing platforms including at regional level (including learning lessons and exchanging officials)

Note: C10 = Committee of African Finance Ministers and Central Bank Governors.

The G20 core agenda: Consider African prospects

Core G20 actions also affect African growth prospects, although so far there has been little attention to this in the G20 Development Working Group. It is important to note that Africa can play an important role in global rebalancing, e.g. by promoting capital flows from surplus countries to profitable opportunities in sustainable infrastructure and climate finance opportunities. The table below summarises the main links between possible G20 core policies and African interests.

Core G20 policies and African growth

	G20 polices	Effects of G20 actions on Africa
Fiscal stimulus	Fiscal consolidation	Undoing of G20 stimulus could reduce African incomes (gross domestic product (GDP)) by 2.5%
Rebalancing	More Chinese imports, fewer US imports	Demand for African raw materials may increase more than for processed goods, so this is a challenge
Flexible exchange rates	A Chinese renminbi appreciation of 10%	African incomes (GDP) would gain 0.25%
Financial regulation	Stricter capital adequacy ratios	Lower lending owing to higher capital requirements would lower African incomes by around 1.5%
Trade	Doha Round conclusion	A modelling study suggests Africa would gain from a possible Doha Round by around 0.1% of GDP
Climate finance	Provide finance, technology transfer and reduce emissions in G20	One modelling study suggests that a possible Copenhagen deal (technology transfer, climate finance and cuts in emission) could improve African incomes by 6% More climate finance to low-income countries (LICs) can also help rebalance the global economy
Financial safety nets	Support a financial safety net	Support countries hit by shocks (e.g. global financial crisis)
Transparency in natural resource revenues	Promote codes of conduct in G20 companies in Africa	More transparency on how companies pay taxes in Africa

The G20 process: A voice for Africa

Two African countries (beyond South Africa) were part of the G20 Summit in Seoul: Malawi, representing the African Union (AU), and Ethiopia, representing the New Partnership for Africa's Development (NEPAD). Yet such consultations are on an *ad hoc* basis, and in the future there needs to be a discussion about how the G20 relates to African countries in a more structured way. The Seoul consensus suggested that the G20 will invite five non-members, of which at least two will be African countries. Moreover, while nearly every individual G20 country has an Africa strategy, there is no combined G20 strategy for Africa. It is the task of the G20 to build bridges among G20 countries, but also to ensure that Africa is represented permanently at the G20 table to improve the G20's legitimacy. The G20 could initiate an Africa consultation with African leaders just ahead of the next G20 Summit in Cannes in November 2011. It could also ensure that individual policy suggestions are followed up on by including African representatives, for example in the high-level panel on sustainable infrastructure for Africa.

Specific policy suggestions for the G20

Bearing in mind the specificities of the G20, and the analysis in this paper, including in the case studies, we suggest that African development would gain from the following G20 policy actions:

Process

- Argue for permanent seats for Africa at the G20 because the inclusion of Africa fits with the G20 objectives, including the G20 framework for strong, sustainable and balanced growth, and enhances the G20's legitimacy;
- Ask the G20 to organise an annual event in Africa involving more structured consultations between the G20 and Africa;
- Ensure that Africans are consulted in the implementation and monitoring of G20 commitments, for example in a new high-level panel on sustainable infrastructure for Africa, which could link the relevant stakeholders.

Infrastructure

- Consider looking at the financing of infrastructure in more detail. The G20 could eliminate inefficiencies in the financing of infrastructure projects to free up significant resources that would reduce the need for additional funding in the short term. Initiatives like the African Financing Partnership could be supported;
- Give greater support to infrastructure to promote new technologies and network services (which, according to our analysis, has not received much ODA in the past few years);
- Ensure the ongoing maintenance of existing infrastructure, rather than just being involved in high-profile, large infrastructure projects that support regional economic integration;
- Reflect on the type of infrastructure needed for the services sector and the uptake of newer technologies, such as mobile telecommunications;
- Enable DFIs to step up activities in African infrastructure, especially regional infrastructure, with an eye to leveraging G20 outward FDI and sovereign wealth;

Skills and knowledge sharing

- Promote sharing of knowledge in Africa on policy tools that have been successful in the G20 EMEs, for example on how to grow and innovate, use SEZs effectively, etc.;
- Focus on skills and technology development, which can help countries grow, build resilience and obtain the benefits from G20 inspired investment. This requires a more balanced approach towards the education sector, including TVET and higher education, where EMEs may gave useful suggestions for LICs;
- Take stock of G20 foreign relations with Africa: most G20 members have a specific Africa-focused strategy and the G20 could provide a platform of learning on policy coherence;
- Consider the development impact of G20 core actions related to financial regulation, rebalancing, climate financing and transparency issues;

Trade

- Even though there is no clear G20 agenda on trade policy, acknowledge that one of the underlying objectives of regional economic integration is to increase the involvement of African countries in global trade. The conclusion of the Doha Round of negotiations could make a contribution in this regard but would not be sufficient. A specific G20 focus on

addressing the barriers to intra-African trade could be useful, as well as the harmonisation of existing preference schemes for African countries;
- Support measures to increase intra-African trade, not just focusing infrastructure investment around extractive industries that largely support exports to developed countries and Asia;
- Consider including new suggestions on rules of origin in preference schemes to make schemes such as DFQF more useful, and take into account specifics on services trade, such as temporary migration;

Including the private sector

- Cooperate at the level of governments but also involve the private sector in a more structured way to ensure that its contributions are taken into account and inefficiencies are reduced. It would be helpful to have such a framework for those countries that are 'newcomers' to funding African development initiatives, to better leverage their contributions;
- Link the business arm of the G20, the B20, with African business and promote the C10-supported Invest African Initiative. This could involve the EMEs in particular (including South African outward FDI).
- Promote the use of codes and standards among businesses to improve environmental, tax and SEZ-related standards (B20).

Details on and motivations for these and other suggestions can be found the paper.

Conclusion

Having analysed the links between G20 and African development, and provided a number of policy suggestions, we conclude with three key suggestions on how the G20 can help African development as part of the development agenda and we suggest these would be implemented, monitored and evaluated by the time of the next G20 summit in Cannes in November 2011 consistent with the Seoul consensus on development:

- G20 to support an *Investment in Africa initiative* (which links G20 outward FDI and skills formation) and initiate a high-level panel for African infrastructure with African participants to review financing constraints;

- G20 to kickstart *knowledge exchange platforms* (e.g. which involves the transfer of senior policy staff across countries and involves lessons from emerging markets on economic policy). This could build on emerging Africa think tanks and research institutes and link them with think tanks around the world. It could also promote south-south co-operation by facilitating the transfer of policy staff.

- G20 to promote a review of *intra-regional trade barriers in Africa*. The G20 could liaise with the regional economic communities in Africa and assist them in identifying and removing intra-regional trade barriers such as non-tariff barriers.

1. Introduction

Since its transition from a meeting of Finance Ministers to a forum that operates at the level of Heads of State, the G20 has adopted a much broader agenda and has become the 'premier forum for international economic cooperation' (Toronto Declaration, 27 June 2010). The initial focus of the G20 was on addressing the global economic crisis, but it is now driven by the objective of creating strong, sustainable and balanced global growth. In Toronto, G20 leaders recommitted themselves to narrowing the development gap and established a Development Working Group under the co-chairmanship of Korea and South Africa. The Development Working Group was tasked to prepare multiyear action plans. The Seoul Summit of 11-12 November 2010 adopted the multi-year action plans, which have been termed the Seoul consensus on development.

This paper discusses how the G20 can support African development so that both its core actions and its development agenda can affect African development positively. We include case studies of African regional economic integration, South African outward foreign direct investment (FDI) in Africa and export processing zones (EPZs) in Africa to illustrate how the G20 could help. The development agenda focused on the pillars of economic growth detailed in the Korean scoping paper, narrowing down the multi-year action plans for development for each of these. The G20 agenda does not have a geographical focus, unlike that of the G8, which did have an African focus in its approach towards development.

This paper aims to conceptualise the G20 development agenda from an African perspective. It is structured around a number of key themes. Section 2 examines key pillars of growth emerging from the Korean scoping paper in the context of African growth. We focus on growth for a number of reasons, in part because it is important for development and in part because growth issues fit with the focus of the G20. Section 3 discusses development at the G20 and possible links between G20 policies and African development focusing on growth.

The paper also includes three case studies to give examples of how the G20 could engage in supporting African growth. These cover regional economic integration and G20 involvement in supporting hard and soft infrastructure development (Section 4), as one way to operationalise the trade pillar behind growth; G20 outward FDI in Africa (Section 5), which relates to the private investment pillar; and the role of special economic zones (SEZs) (Section 6), which relates to a number of pillars. Section 7 concludes.

2. Key pillars of African growth

The Seoul G20 summit has added development firmly to upcoming G20 agenda. This is quite an achievement and was the result of the hard work of the Korean presidency. A paper to stimulate thinking on development issues was published by the Presidential Committee for the G20 Summit in Korea on 17 June 2010. This proposed a focus on the economic aspects of development for the G20 and argued that economic growth is a necessary condition for achieving poverty reduction. Winters et al. (2010) provide a further discussion. This section focuses on these eight key pillars of economic growth (infrastructure; private investment and job creation; human resource development; trade; financial inclusion; growth with resilience; food security; and governance. Knowledge sharing is sometimes mentioned as a ninth pillar) from an African perspective.

Growth is crucial for development and poverty reduction. Over the longer term, it will not be possible to reduce poverty without sustained economic growth. However, over the short to medium term, some patterns of growth may reduce poverty faster than others. Moreover, in some cases, reductions in poverty and inequality are instrumental to growth (World Bank, 2008).

The extent to which growth reduces poverty has been disputed for at least 30 years (Deaton, 2003) because it depends on countries and periods and by definition the type of growth. One view is that Africa cannot make substantial reductions in poverty without economic growth. Since the second half of the 1990s, a period of relatively high growth has helped reduce poverty in many African countries. However, in several countries, owing to the persisting unemployment and highly unequal income distribution, the poor did not benefit from GDP growth. This explains the complexity of the relationship between economic growth and poverty, because while growth does affect poverty, there are many other confounding factors at play. Poverty is both much higher and less elastic to growth in Africa than anywhere else.

The mean poverty rate in terms of headcount index for SSA remains nearly four times that of non-SSA developing countries' trends (Ravallion, 2009). Kalwij and Verschoor (2007) confirm this and find that poverty is twice as responsive to economic growth in East Asia as in the SSA region. Similarly, Fosu (2009) finds that on average the same growth rate accompanying a 1% decrease in the USD 1 headcount poverty index in non-SSA is associated in SSA with a mere 0.39% reduction (AfDB and OECD, 2010). He suggests that the growth impact is likely to differ by country in SSA, depending primarily on the inequality attributes of countries. Thus, understanding the inequality-generating characteristics of individual countries could help in designing the most effective poverty-reducing strategies for Africa. While economic growth appears to be a precondition for poverty reduction, it is by no means sufficient. For governments to be able to undertake pro-poor strategies strategies, the quality of growth matters as much as its intensity. Pro-poor policies therefore remain crucial for translating aggregate GDP growth into real increases in available income for the majority. Such real increases could include improving access to land, enhancing labour and capital markets, and promoting investment in basic social services, social protection and infrastructure (AfDB and OECD, 2010).

It is also worth asking whether growth (and the G20's support to growth) could be more inclusive and what, if any, the G20's role is in this. There are at three ways through which the G20 can promote growth that benefits the poor:

- Promote the interest of the poorest indirectly by promoting economic growth through progress in the growth pillars; given that growth is crucial for sustained poverty reduction national governments would need to put in place complementary policies to benefits the poorest.

- Promote the interest of the poorest economic growth by emphasising those pillars that are the most binding constraints to growth and most binding to poverty reduction.

- Promote the interest of the poorest by promoting progess in each pillar only when it has a direct impact on the poor.

This paper does not analyse in detail which options is best for poverty reduction in the long-run as this will depend on many other aspects including country, time period, type of poor, etc, as well as the comparative advantage of the G20. However it provides broad options and in order to make the choice visible we also include in each section how each pillar relates in broad terms to poverty reduction. We provide suggestions for the comparative advantage of the G20 in development in section 3.

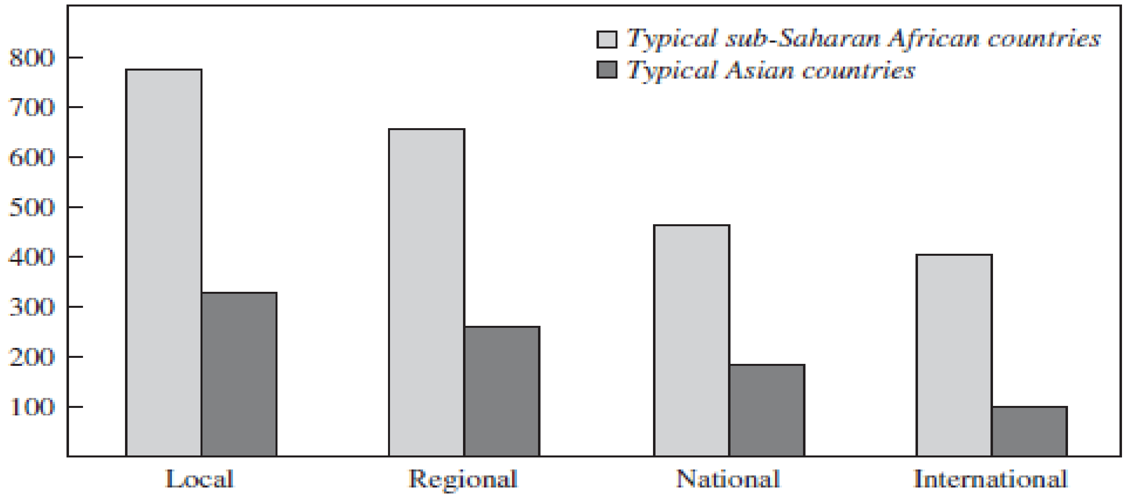
2.1 Infrastructure development and transport costs

A large proportion of Africans live in the interior of the continent and face enormous transport costs, for geographical and other reasons. The small market size of many African economies compounds problems of isolation and landlockedness. With the exceptions of South Africa and Nigeria, most African countries had a GDP of less than $30 billion in 2005. Average annual GDP per capita in Africa is around $1,000 (Radwan et al., 2010). Small developing countries with little access to global trade tend to grow more slowly than countries with large internal markets or with easy access to trade (such as Singapore) (Sachs et al., 2004).

Transport costs and lack of (power) infrastructure are key impediments to development in the region. Evidence suggests that SSA is facing very high transport costs (e.g. Figure 1). Meanwhile, Limao and Venables (2000) estimate that halving transport costs could increase the volume of transport by a factor of five. There is a large literature on the link between infrastructure and growth suggesting that power in particular is an important pillar. Estache (2006) suggests that *economic* returns on investment projects average 30-40% for telecommunications, more than 40% for electricity generation and more than 80% for roads. Cross-country estimates by Esfahani and Ramirez (1999) suggest an elasticity of per capita output with respect to power generation capacity of 0.15. Deininger and Okidi (2004) examine growth and poverty reduction in Uganda during the 1990s. They suggest that a doubling of electricity coverage (through a doubling in generating capacity) from 7% to 14% would lead to an annual increase in incomes of 3.6%. Calderon and Serven (2008) provide new empirical estimates on the effects of infrastructure on growth in Africa using econometric regressions for a wider panel of 100 countries.

Hence, growth requires, among other things, large investments in infrastructure to break down these internal barriers holding Africa back, from rural roads and small-scale irrigation to regional highways, railways, larger power projects and information and communications technology (ICT).

Figure 1: Transport costs in typical SSA and Asian countries ($ per ton per kilometre)



Source: Sachs et al.(2004).

The Africa Infrastructure Country Diagnostic (AICD) finds that Africa trails other regions in infrastructure, and that this deficit hampers growth and productivity (Foster, 2008). The study in 24 African countries shows that the poor state of infrastructure in SSA – its electricity, water, roads and ICT – cuts national economic growth by 2 percentage points every year and reduces business productivity by as much as 40%. If SSA could achieve the infrastructure development of Mauritius, annual GDP growth in the region would rise by 2.3 percentage points. The AICD finds that Africa spends $45 billion a year on infrastructure, two-thirds of which is financed domestically from taxes and user charges. However, most financing for capital investment is obtained from external sources. According to recent estimates (Foster and Briceño-Garmendia, 2009), Africa needs $93 billion per year to build the infrastructure it needs to support growth and meet stated development goals. Two-thirds of this sum is for investments and the remaining third for maintenance. It is also important to ensure efficient transport services by promoting competition principle in the transport sector. Section 4 discusses regional integration and African infrastructure in particular.

Whilst infrastructure is good for growth, different types of infrastructure could have different effects on poverty. Kingombe (2010) argues that the benefits that roads bring to rural areas are often seen as so obvious in the development literature that they are listed rather than discussed. However, infrastructure and the construction sector could be seen as a catalyst for labour-based pro-poor growth: The lack of up-gradation of productive, social and access infrastructure hampers economic development, and generally isolates poorer remote communities. Infrastructure represents a significant proportion of GDP, public investment, and donor support in developing countries. The potential for labour absorption is particularly high in this sector: Labour-Based Technology (LBT) methods account for 50-60% of total costs in several country case studies.

2.2 Private investment and job creation

Most investment in African occurs through the domestic sector. However, there is also a considerable amount of foreign investment, and this is not just from developed countries and does not relate to FDI alone. A recent paper by Brambila-Macias and Massa (2010) examines the relationship between economic growth and four different types of private capital inflows (cross-border bank lending, FDI, bonds flows and portfolio equity flows) in 15 selected African countries in 1980-2008. They find that FDI and cross-border bank lending have promoted SSA growth.

FDI is no longer an activity undertaken exclusively by firms from developed countries. The growth of multinational enterprises (MNEs) and international investors, especially from the emerging market economy (EME) members of the G20, such as China, India, Russia, Brazil and South

Africa, has begun to focus attention around the world on the role of these new players. The rise of outward investment from EMEs has contributed to the growth in FDI globally. In 1980, global FDI outflows totalled $52 billion; EMEs accounted for only 6% of this figure. By 2007, global FDI outflows approached $2 trillion, and EMEs accounted for over 15% (or $300 billion) of the total (Sauvant et al., 2010; UNCTAD, 2010b). Section 5 discusses South African FDI in the rest of Africa and Te Velde et al. (2010) discuss EME investment in Africa more generally.

There are a number of barriers to FDI in Africa. While there is a literature on the determinants of FDI based on a cross section of countries (see e.g. Te Velde and Bezemer, 2007). These relate to infrastructure, skills, administrative procedures, availability of natural resources, the regulatory framework and governance. However, the most pressing barriers are often country-specific, needing country-level diagnostics.

FDI has direct employment effects and also indirect effects, through job creation among suppliers and service providers and through increasing incomes (Lee and Vivarelli, 2004). Such positive employment effects of 'greenfield' FDI have to be compared with the crowding-out of non-competitive domestic firms and with the possible reduction in employment associated with FDI operating through mergers and acquisitions (M&A). According to Spiezia (2004), FDI is more labour-intensive than domestic investments in only a minority of countries. Moreover, estimates suggest that the impact of FDI on employment is increasing with per capita income of the host country (Santarelli and Figini, 2004). Based on research conducted into the effects of FDI on wages in five East Asian countries and the effects of foreign ownership in five African countries, Te Velde and Morrissey (2002) find that, although FDI contributes to growth in developing countries, there is evidence that the benefits are not distributed equally. Foreign firms tend to pay higher wages in developing countries, but skilled workers tend to benefit more than less-skilled workers. This is in part because FDI brings a bundle for technological change, skills and innovation. Te Velde (2004) argues that the effects of FDI on equity and poverty reduction is greatest when complementary domestic policies are put in place, such as promotion of domestic suppliers and domestic skills.

2.3 Human resource training and development

While there has been considerable attention to universal primary education (UPE) in African countries, this may have come at the cost of a more balanced approach to the whole education sector. The International Labour Organization (ILO, 2008) suggests that inadequate education and skills development keep economies trapped in a vicious circle of low education, low productivity and low income.[8] Skills development is central to improving labour productivity. In turn, labour productivity is an important source of improved living standards and growth. Effective skills development systems, which connect education to technical training, technical training to labour market entry and labour market entry to workplace and lifelong learning, can help countries sustain productivity growth and translate that growth into more and better jobs.

Te Velde (2005) discusses the links between globalisation and education. South Africa developed its automobile industry from a protected industry in the mid-1990s to a world class exporter of automobiles by the mid-2000s thanks to links between the skill providers and the automobile sector. The attraction of skills to Mauritius helped it develop the off-shored ICT sector. The availability of skills also helped Kenya develop its back office and call centre sector.

Skills development or technical and vocational education and training (TVET) have become more important for a number of reasons (King and Palmer, 2008): 1) the success of UPE and the consequent pressures for the expansion of post-basic education; 2) an increasing emphasis on

[8] Skills development is understood in broad terms to mean, as spelt out in the conclusions concerning human resource training and development (ILO, 2008, para 5), basic education, initial training and lifelong learning.

skills for global competitiveness and for poverty reduction; 3) a growing emphasis on holistic, sector-wide approaches to education and training and not just UPE; and 4) in many developing countries, a strong political assumption that skills development can tackle unemployment.

Skills development systems that are linked closely to labour market requirements play an important role in the work–growth–poverty reduction relationship. The ability of individuals to access full and productive employment and decent work is a critical factor in their ability to benefit from economic growth. If access to full and productive employment and decent work can be improved, at least in part, by quality technical and vocational skills development (TVSD), it follows that an individual's ability to access skills development is critical (King and Palmer, 2008).

Cross-country evidence suggests that more technical and vocational education and improvements in learning outcomes can lead to gains in GDP and social outcomes (OECD, 2010). UNESCO-UNEVOC (2006) shows that the greater a country's GDP per capita, the greater the secondary PTVE (Percentage of Technical/Vocational Enrolment in secondary). For instance, the three counties with the highest PTVEs – Australia, Belgium and the UK – also have very high GDP per capita; meanwhile, Malawi, Niger and Nigeria have low values for both GDP per capita and PTVEs. There is a similar association when analysis is restricted to upper secondary education only. A country's secondary Gross Enrolment Ratio (GER), the greater the PTVE at the secondary level. Eritrea, Gambia and Niger all have very low GERs and PTVEs in secondary education, and a similar pattern occurs in upper secondary education.

In most of the 48 SSA countries, in spite of a large growing labour force and an abundance of slack labour looking for jobs, foreign investors have difficulties finding workers who possess the right skills for the jobs they can offer. The lack of appropriate training programmes exacerbates these problems. To address these, a recent Investment Policy Review of Sierra Leone suggests the following (UNCTAD, 2010d):

- Establish a human capital development strategy, which should focus on formal education, vocational training, mobilisation of the diaspora and measures to attract foreign skilled workers (e.g. from the diaspora).
- Facilitate the entry of skilled workers by simplifying procedures to issue work and residence permits, and accompany this measure with an incentive package to attract workers. These measures should extend to the important community in the diaspora to incite them to return and contribute to the development of the country.
- Provide incentives to business to engage in vocational training. Formal education is a necessary but not sufficient condition to ensure that workers have the required skills.
- Revise, over the medium term, labour laws that foster a flexible and competitive labour market that reflects best practices in comparator or neighbouring countries.

When skills development leads to growth and innovation it will generate incomes to pay for basic education. UNESCO (2006) argues that skills development, together with other social protection measures, can certainly constitute a powerful tool for poverty reduction. Of course this should not be seen as a way to reduce support for primary education - education for all is an important initiative and skills development can only be successful when there are good basic education levels. Higher and vocational education, adult learning, and teacher training needs to be supported within a balanced overall education system which include primary education.

2.4 Trade

Openness and growth go hand in hand, although there is some debate on the direction of the causation. The challenge for many African countries is not just the volume of trade, though, but also the type of trade.

African countries face two major constraints to trade: lack of high quality products and trade (especially non-tariff) barriers which, directly or indirectly, hamper trade. To improve its capacity to trade, Africa needs to make internal changes: improving its transport infrastructure to reduce transportation costs, simplifying tariff systems and reducing non-tariff barriers among African countries. This includes reforming excessive bureaucracy and cumbersome customs procedures and working to eradicate corruption by public servants, wherever these exist, to increase the ease of doing business. This could also improve regional economic integration within Africa.

There are three ways that African countries might be better able to capture trade benefits. First, Africa as a whole would benefit from an ambitious Doha Round, although the benefits are minor. The benefits are perhaps lower than expected because Africa already faces special preference schemes with the European Union (EU) and the US, etc., and now also with some EMEs. The key for Africa now is not to gain new preferences but also to keep existing preferences and to be compensated for preference erosion through Aid for Trade. There is one way changed trade rules could help African exports: the rules of origin facing African exports could be improved on the European side. So far, rules of origin have not been conducive to processing activities in Africa because they require a relatively large proportion of the value addition to take place in Africa itself, which is a challenge and not conducive to South–South activities.

Second, African countries have put up high tariff and non-tariff barriers against each other (Keane et al, 2010). This suggests that the lack of (deep) regional integration deters trade. The small populations of most African countries and the large number of landlocked countries reinforce the need for deepening regional integration and investments in cross-country transport, energy and communications infrastructure. Not only does SSA have extremely low per capita density of rail and road infrastructure, but also existing transport systems were largely designed under colonial rule to transport natural resources from the interior to the nearest port. As a result, cross-country transport connections within Africa tend to be extremely poor and are in urgent need of extension, to reduce intraregional transport costs and promote cross-border trade (Sachs et al., 2004; UNCTAD, 2009).

Meyn and Te Velde (2008) survey the evidence on regional integration covering narrow and deep trade liberalisation as well as other forms of cooperation. The lack of regional cooperation leads to increased growth constraints, and this non-integration has a cost in terms of foregone growth. For example, key growth constraints in Uganda have a regional dimension; if they were overcome, growth would likely increase by 2-4 percentage point (World Bank, 2007). There is at present a severe shortage of electricity-generating capacity in the country. This could be overcome through the use of effective regional electricity grids. There are also regional rail constraints. Uganda's imports and exports make heavy use of the port in neighbouring Mombasa. Uganda–Kenya railways operate under a private franchisee, which requires more effective regional approaches towards safeguarding a stable investment environment in order to stimulate more investment. The rail link was broken at the time of conflict in Kenya, with big effects for Uganda. Finally, road connections are poor, including in the regional context. Better roads and other transportation would enhance exports to the region. Keane et al (2010) study impediments to intra-regional trade suggesting that non-tariff barriers can be significant barriers to intra-regional trade.

Third, economic policies in African countries may help promote trade. Lack of an active approach to trade and finance diversification hampers trade opportunities. This is harmful, not only because of general development concerns but also it makes it more difficult to make growth more crisis-resilient and to reduce exposure to shocks. For example, Te Velde et al. (2010) suggest that regional exports in Uganda helped generate resilience to the crisis (which resulted in a drop in exports to developed countries), which was boosted by a regional integration policy as well as road building. In the case of Mauritius, ICT exports helped counteract a fall in other exports, and active government engagement helped it diversify into services exports. In general, though, few African countries have been successful in their diversification efforts.

There is a well established literature on trade and poverty which emphasises that trade alone is often not enough to benefit the poorest, but also that using trade policy directly to target poverty might not be efficient. Some highlight that the link between increasing trade and economic growth and that there is a one-to-one relationship between growth and poverty alleviation, conclude that trade is good for growth and growth is good for the poor (Dollar and Kraay, 2001a and 2001b). Others suggest that globalisation is quite uneven in its impact and gives rise to negative counter effects on the previously protected sectors, the marginalization of entire regions of the world economy and possible increases in within-country income inequality (Rodrik, 2000; Lee and Vivarelli, 2004). Te Velde (2006) suggests that complementary policies are needed to benefit for the poorest to benefit from trade such as education, infrastructure and social policies.

2.5 Financial inclusion

Empirical evidence suggests that improved access to finance is good for development. Cross-country regressions have shown that economies with better developed financial systems experience faster drops in income inequality and faster reductions in poverty levels (Gross, 2002). In fact, the importance of increasing the supply of savings in the financial system by making financial services available to the population has long been recognised by developed economies. The evolution of the banking system in many European countries has seen the rapid spread of banks, including savings banks and rural banks targeted at the poor (Davies, 1996).

The financial system cannot develop to its potential and monetary policy cannot be effective if the majority of the population continues to be excluded from access to financial services. The Bank of Ghana has placed high priority on ‘banking the unbanked’ through the facilitation of a common platform and technology (the ezwich biometric smartcard) for banks and other non-bank institutions, to allow access to financial services by the unbanked in the context of overall payment system reform. Other technologies (like mobile phones) are also available to deliver mobile banking services and should be encouraged in the context of the central bank’s regulatory framework for branchless banking (Bawumia, 2010).

A unique ID number, an address system and financial inclusion (banking the unbanked) are some of the key unwritten rules for effective monetary policy and financial sector development in particular and overall development in general. Bawumia (2010) argues that, without these, no monetary policy framework will be sufficient in the long run to engender a financial sector that can be critical in the growth process.

Ellis et al (2010) provide new evidence from micro level data in Kenya and Tanzania that access to financial services enables households to invest in activities that are likely to contribute to higher future income and, therefore, to growth. Access to finance are often mentioned as major constraints to firm performance. But contrary to popular ideas, this is most important for SMEs and large firms rather than micro level firms who contribute less to growth and poverty reduction (Kingombe, 2010a).

2.6 Growth with resilience

It is important to focus not only on promoting growth but also on actions to sustain growth in low-income countries (LICs). Evidence shows the problem is not just a failure to record periods of positive economic growth (Winters et al., 2010). Rather, poor countries appear to remain poor because they are plagued by volatile growth, with frequent periods of deeply negative growth that more than cancel out prior periods of positive growth. LICs are often poorly equipped to deal with, and recover from, adverse shocks, which could range from global economic shocks, to severe commodity price volatility, to famine and other devastating natural disasters (Aiello, 2009).

Te Velde et al. (2010) provide a number of examples of why some African countries were less vulnerable than others:

- Financial transmission mechanisms to LICs initially appeared limited, and attention quickly focused on real (trade and remittance) transmission mechanisms. However, it is now clear that bank lending, stock market contagion and worsening banking systems did propagate the crisis. One lesson is that some LICs are more integrated financially than is often thought, and the more integrated the more exposed to financial crisis.
- Another myth expelled by the crisis is that FDI is always resilient in crises (or more resilient than other flows). In fact, FDI fell significantly in countries such as the Democratic Republic of Congo (DRC). In others, such as Uganda and Kenya, portfolio flows changed quickly.
- While certain types of openness have left countries more exposed to crisis (especially those exporting products whose prices dropped), this may not always have meant increased vulnerability, as some countries have also become more resilient (e.g. Tanzania, through good macroeconomic management). It is important that countries promote crisis-resilient growth, as in this way they are better prepared for recovery.
- In particular, diversification (products and destinations) is important for growth and resilience to crises. This should be promoted and could draw more attention than has previously been the case – of course in a market-friendly way, so that policy is not delinked completely from policies. It may also be important to diversify sources of capital flows, such as FDI inflows. For example, Chinese FDI is now making up for some of the losses in mining in Zambia.
- Good macroeconomic management allowed for more scope for policy responses later. This requires good institutions in managing finances.
- Indeed, the crisis highlights that flexible institutions are important in dealing with crises. There are examples of task forces that led to policy responses to the crisis in Tanzania and Mauritius, and these were set in a more institutionalised way.
- This global financial crisis has increased the importance of links between EMEs and African countries, which need to be used to improve growth and resilience.

The fall in commodity prices and export volumes led to a worsening of trade and current account balances in 2009. Despite the deterioration, foreign reserves continued to grow in many countries, although at declining rates. However, several countries, such as Angola, Nigeria, Sudan, Equatorial Guinea and Chad, lost significant amounts of foreign reserves. Because in many African countries both current account balances and fiscal balances deteriorated at the same time, twin deficits emerged (AfDB and OECD, 2010). So, even though the majority of countries did withstand the worst of the shock, a number of countries needed assistance.

The IMF's Regional Economic Outlook on Sub-Saharan Africa (IMF, 2010) argues that the region's resilience through the global financial crisis owes much to sound economic policy implementation. Before the 2007-2009 global shocks, most of the region's economies were in good shape: steady growth, low inflation, sustainable fiscal balances, rising foreign exchange reserves and declining government debt. When the shocks hit, countries were able to use fiscal and monetary policies nimbly to dampen the adverse effects of the sudden shifts in world trade, prices and financial flows.

Two factors that helped to underpin SSA's resilience during the global recession are likely to be of continuing importance in sustaining the region's recovery. First, the improved economic fundamentals and policy space that provided room for the effective use of countercyclical macroeconomic policy in the global downturn will continue to provide some protection from future fluctuations. Second, insofar as trade remains a crucial factor for sustained growth in many countries, the pronounced shift in the region's trading pattern toward faster-growing parts of the global economy should help to maintain export growth, as it did increasingly during the mid-2000s.

By limiting the direct impact on the region's economies of the global recession, these factors also make it less likely that potential growth will be permanently affected (IMF, 2010).

Better resilience will protect growth and the poor. However, equity and reduction in poverty can also help resilience. Too much inequality undermines macroeconomic resilience because it depresses aggregate demand, stimulates conspicuous consumption, leads to excessive risk taking in financial markets, entrenches special interests that delay policy reforms, impedes counter-cyclical measures and affects the operating of institutions (see, e.g., Vandemoortele, 2010).

2.7 Food security

Africa has been the world's great laggard in terms of technological advance, notably in the areas of agriculture and health. For instance, most of the developing world experienced the Green Revolution – a surge in crop yields in the 1970s through the 1990s as a result of scientific breeding that produced high-yield varieties (HYVs), combined with increased use of fertilisers and irrigation. Africa's uptake of HYVs was the lowest in the developing world. The reasons are very clear. Green Revolution HYVs were designed for the conditions of Latin America and Asia and did not easily transfer to the agronomic and economic conditions of Africa's rain-fed, fertiliser-scarce, sub-humid and arid tropics. Whereas HYV research focused mainly on wheat, maize and paddy rice, Africa produces maize but little wheat and paddy rice. It depends much more on sorghum, millet and tubers (cassava, coco yams and sweet potatoes) (Sachs et al., 2004).

The Commission for Africa (2005) suggested that donors make a major investment to improve Africa's capacity, starting with its system of higher education, particularly in science and technology. Conway et al. (2010) discuss the crucial role that science can play in reducing poverty. Looking at the importance of national scientific capacity, the authors make the following key suggestions to policymakers and development practitioners: train and empower scientists; strengthen science innovation systems in developing countries; ensure that new technologies are accessible to science for development; design and deliver research for impact; and raise the profile of science in governments.

Meanwhile, high transport costs and a combination of unfavourable geo-hydrology and topography still hinder increases in the use of fertilisers and irrigation. The absence of a Green Revolution in Africa has clear implications for food productivity. SSA has the lowest cereal yield per hectare of any major region and has experienced the slowest gain in yields during the past two decades.

SSA's 'technological backwardness' compared with other developing regions led Conway et al. (2010) to argue that science for sustainable agriculture needs to focus on five broad needs: new crop varieties (and livestock breeds) that are more productive and of better nutritional quality; improved soil fertility and crops and livestock better able to use existing nutrients; maximising water use; better pest, disease and weed control without environmental damage; and cropping and livestock systems that combine these qualities in ways that bring benefits to both small- and large-scale farmers. They emphasise that solutions should be drawn from the full range of sources for innovation, including conventional, traditional, intermediate and new platform technologies.

In addition, African countries now have to deal with the dual challenge of adapting to climate change with limited resources while taking a low-carbon development path without compromising economic growth and development. Despite their minor historical role as emitters of greenhouse gases (GHG) responsible for anthropogenic global warming (World Bank, 2009), developing countries together are projected to bear 75-80% of the cost of climate change-related damage. A 2^0 temperature rise above pre-industrial levels could result in a permanent reduction in GDP of 4-5% for Africa and South Asia (Stern et al., 2006).

Food security is helped by more investment in agriculture which also has the potential to reduce poverty. Investment in agriculture will increase its productivity and contribution to growth. According to DFID (2004), there are four ‘transmission mechanisms’ which critically link changes in agricultural performance, productivity increases and progress in reducing poverty:

- direct and relatively immediate impact of improved agricultural performance on rural incomes;
- impact of cheaper food for both urban and rural poor;
- agriculture’s contribution to growth and the generation of economic opportunity in the non-farm sector; and
- agriculture’s role in stimulating and sustaining economic transition, as countries (and poor people’s livelihoods) shift away from being primarily agricultural towards a broader base of manufacturing and services.

Over the longer-run agriculture could be seen as a sign of poverty (poverty is often associated with agriculture or agricultural societies, whilst rich countries tended to have a more diversified economic base) and investment in agriculture needs to be accompanied by investment in the other sectors. The growth pillars such as infrastructure and skills need to be targeted in those sectors which have the highest growth and poverty reduction potentials in a dynamic sense, not in a static sense.

2.8 Governance

The agenda for growth tends to emphasise the accumulation of physical and human capital in a climate of macroeconomic stability, with less emphasis on the institutional context in which this takes place. Yet, the institutions and policies that determine the economic and political environment within which individuals accumulate skills and firms accumulate capital and produce output is crucial for growth (Te Velde, 2010a).

The standard diagnosis behind missed growth opportunities is still that Africa is suffering from a governance crisis: since the early 2000s, incidents in the region suggest it has not improved much. Large countries such as Kenya and Nigeria have suffered democratic setbacks in recent years. Mozambique, South Africa and Uganda, three darlings of the African renaissance, have also slipped backwards. Coups were held in Togo in 2005, Mauritania and Guinea in 2008, Madagascar in 2009 and Niger in 2010, after a period in the 1990s when the number of coups declined. Another *de facto* coup took place in Guinea-Bissau in 2010 (Gilley, 2010). With these highly visible examples of poor governance, there is an impression of a continent-wide governance crisis.

Yet such a standard diagnosis is misconceived. Many parts of Africa are well-governed, despite being stuck in poverty. Governance is a problem, but Africa’s development challenges run much deeper. Africa has also undergone some positive evolution in terms of freedom of press and media, such as in Zimbabwe, Libya and Sierra Leone. In fact, for the first time in years, the 2009 Freedom House Press Freedom Index (PFI) shows more improvements than setbacks in SSA.

New empirical evidence shows that governance matters for African growth. Some argue that current growth prospects have been inflated by rising commodity prices and growing trade and investment links between Africa and EMEs, but African growth prospects had already turned around in the mid-1990s, long before the more recent upturn in commodity prices and growth spurt in EMEs, which suggests it has been doing other things right all along. Sen and Te Velde (2009) show that structural factors have also helped African countries grow, highlighting the nature and scope of state-business relations as a key institutional feature behind growth in a panel of African countries over 25 years. African countries have implemented a series of reforms and better macro policies, and have, with some notable exceptions, improved institutions and governance over recent decades. Further, despite popular assumptions, services and their reform have driven economic growth more than sectors such as agriculture.

In addition, over the past three years, monitoring studies of the global financial crisis (Te Velde et al., 2010) have shown that Africa has kept reforming and improving its investment climate, and has not become protectionist. Pro-investment reforms, as measured by Doing Business indicators, have kept pace with Organisation for Economic Co-operation and Development (OECD) countries, which were backsliding on reforms. Why is this? It is linked partly to the way state-business relations in Africa have improved, which has led, in turn, to better economic policies. From Mauritius to Tanzania, countries have put in place coordinating mechanisms, helping them find appropriate and well-considered policy responses to the financial crisis, rather than having to fall back on *ad hoc* policy decisions.

Beyond effective state-business relations, efforts to improve domestic tax revenues are important for improving governance and accountability. In 2002, the UN's Monterrey Consensus on Financing for Development acknowledged that external financial resources would not be enough to meet the Millennium Development Goals (MDGs), and that it was necessary to develop new strategies by mobilising domestic resources. In fact, development success stories often go hand in hand with better mobilisation of a country's own resources and less dependence on aid and other foreign finance (AfDB and OECD, 2010; UNCTAD, 2007). Moyo (2009) illuminates the way in which overreliance on aid has sometimes trapped developing nations in a vicious circle of aid dependency, corruption, market distortion and further poverty, leaving them with nothing but the 'need' for more aid. Yet, aid can also be effective, e.g. Aid for Trade can reduce transportation costs and increase exports (Calì and Te Velde, forthcoming).

The average African tax revenue as a share of GDP has been increasing since the early 1990s, mostly because of taxes on the extraction of natural resources. On the other hand, income taxes (mainly personal and non-resource corporate) have stagnated over this period. At the same time, trade liberalisation in Africa has led to a reduction in revenues from trade taxes. Indirect taxes, corporate taxes and resource-related tax revenues have increased since the late 1990s (AfDB and OECD, 2010; UNCTAD, 2007).

The African Economic Outlook 2010 report suggests that African countries face three types of challenges to creating more effective, more efficient and fairer taxation systems: structural bottlenecks (e.g. high levels of informality); eroded existing tax bases; and an unbalanced tax mix, with many countries relying excessively on a narrow set of taxes. Policy options include removing tax preferences, dealing with abuses of transfer pricing techniques by multinational enterprises and taxing extractive industries more fairly and more transparently (AfDB and OECD, 2010).

Moore and Schneider (2004) suggest that tax reform can contribute to improved governance and poverty reduction both directly and indirectly: by redistributing income, and by helping establish stronger *fiscal social contracts* in poorer countries. Toye (2000) argues that more efficient and equitable taxation regimes would both change the distribution of income in favour of poorer people and, where needed, permit governments to raise more financial resources to address poverty (Toye 2000). The *fiscal social contract* tends to be weak in many poorer countries. There is little engagement of citizens in decisions about how public revenues are raised and spent.

3. The G20 and African growth

3.1 The G20, development and Africa

The G20 is a financial and technical grouping which emerged from the fallout of the East Asian financial crisis. The 2008 global financial crisis then led to unprecedented coordinated action by the G20, which has helped development. The 2009 London Summit announced fiscal stimulus packages which have indirectly helped developing countries; injected more liquidity into the financial system (with explicit guarantees for LICs); and agreed, with some success, not to increase protectionism.

The Korean G20 presidency has put forward a number of agenda items for the G20 Summit in Seoul on 11-12 November 2010:

- Ensuring global economic recovery;
- A framework for strong, sustainable and balanced growth;
- Strengthening the international financial regulatory framework;
- Global financial safety nets;
- Business; and
- Development.

Even though ‘development’ has been put as a separate item on the agenda, it does not include an African focus. However, many topics, in addition to development, are relevant for Africa. Kumar (2010) notes that, despite their preoccupation with the global financial crisis, G20 leaders also referred to development issues in earlier summits. The rationale for including them is to try and achieve a more balanced outcome from globalisation and to increase legitimacy. This will make the G20 more relevant and acceptable to non-G20 developing countries.

The Seoul consensus on shared growth (following the summit of 11-12 November) sets out a number of principles through which the G20 engages on development and includes an annex with a number of actions falling under nine pillars of growth (infrastructure, human resource development, trade, private investment and job creation, food security, growth with resilience, financial inclusion, domestic resource mobilisation and knowledge sharing).

Here, we discuss how the G20 can promote an African dimension as part of the development agenda (Section 3.2) and the G20 core agenda (Section 3.3). Section 3.4 discusses the G20 and process issues in relation to Africa.

3.2 The G20’s development agenda and African growth

The development agenda aims to help accelerate growth in developing economies. The G20 Developing Working Group has followed the development issues paper, which introduced nine pillars or aspects of growth. Table 1 summarises these and the types of policies considered, and also some specific suggestions by the G20 which may benefit Africa. We follow this up in the case studies in Sections 4-6.

Table 1: The G20's development agenda and support for African countries

	Examples of policy issues	African interests in G20 actions
Infrastructure (Sections 4and 5)	Infrastructure financing (e.g. sovereign wealth funds (SWFs); private participation in infrastructure/public–private partnerships PPI/PPPs)	• Leverage G20 FDI and SWFs (especially G20 EMEs multinationals) for sustainable infrastructure • Ensure development finance institutions (DFIs) have right instruments to support infrastructure (blending, International Bank for Reconstruction and Development (IBRD) increases) • Initiate a high-level panel for sustainable infrastructure in Africa to identify financing constraints and monitor implementation of G20 commitments.
Private investment and job creation (Section 6)	Promoting FDI through streamlining Doing Business indicators	• Leverage G20 FDI (international investors from G20) and link to Invest Africa Initiative • Streamline administrative procedure and promote appropriate complementary policies
Human resource development (Section 6)	Promote employment-relevant skills (matching efforts on demand and supply sides of the labour market) and (youth) transformative entrepreneurship training (to small and medium enterprises (SMEs)) and innovative business ideas	• Develop skills through enterprise-level training and interaction between foreign firms (transnational corporation (TNC) affiliates) and public/private training institutions • A more balanced approach towards skills development with more attention to TVET, secondary and tertiary skills
Trade (Section 4)	Aid for Trade (e.g. lending to regional blocs) and duty-free quota-free (DFQF)	• Promote regional integration and take stock of G20 programmes for Africa •
Financial inclusion	Financial Inclusion Experts Group (FIEG); remittances	• Ensure the poorest countries and most credit constrained firms in Africa have access to finance
Growth with resilience	Risk-mitigating instruments and shock absorbers	• Raise capabilities to deal with shocks and improve shock absorber facilities
Food security	Agricultural productivity	• Promote agricultural productivity e.g. through increased support to the consortium of Consultative Group on International Agricultural Research (CGIAR) centres
Governance	Regulatory reform, anti-corruption and a deepening of the existing tax base	• C10 coverage of domestic resource mobilisation • G20 has a key role to play in enhancing tax collection administrative capacity
Knowledge sharing	Platform for knowledge sharing	• Regional-level knowledge-sharing platform

Note: C10 = Committee of African Finance Ministers and Central Bank Governors.

G20 member states have designed a number of proposals in each of these areas, up to nearly 100. Successive meetings of the G20 Development Working Group have narrowed these down to a smaller number and these have now appeared in the Seoul consensus. Some outsiders have criticised this development agenda approach, which proposes that the G20 oversee practically the entire range of development activities. It is therefore important to examine where the G20 could add value. Criteria could include the following:

- The G20 is not the G8, which focused its Africa policy especially on aid announcements on health and education; the G20 is focused especially on 'beyond aid' issues (trade, investment, etc.).
- The G20 includes EMEs, which are important partners for poorer countries, so it is crucial to bring the opportunities offered by the EMEs.
- The G20 is essentially a network, building bridges and influencing others (e.g. other countries or multilateral institutions).

Below, we describe G20 policies that may benefit Africa, following the Korean scoping paper. We conclude with three key suggestions on how the G20 can help African development as part of the development agenda and we suggest these would be implemented, monitored and evaluated by the time of the next G20 summit in Cannes in November 2011 consistent with Seoul consensus on share growth:

- G20 to support an *Investment in Africa initiative* (which links G20 outward FDI, SEZs and complemented by skill formation) and initiate a high-level panel for African infrastructure with African participants to review financing constraints;

- G20 to kickstart *knowledge exchange platforms* (e.g. which involves the transfer of senior policy staff across countries and involves lessons from emerging markets on economic policy). This could build on emerging Africa think tanks and research institutes and link them with think tanks around the world. It could also promote south-south co-operation by facilitating the transfer of policy staff.

- G20 to promote a review of *intra-regional trade barriers in Africa*. The G20 could liaise with the regional economic communities in Africa and assist them in identifying and removing intra-regional trade barriers such as non-tariff barriers.

3.2.1 Infrastructure

Africa is growing rapidly and has opportunities in infrastructure. In Pittsburgh, G20 leaders charged the World Bank, in cooperation with regional multilateral development banks (MDBs) and other international organisations, to strengthen support for infrastructure in LICs. The G20 could consider the following discussions:

- G20 investors (foreign direct investors, SWFs) from both developed and EMEs could together focus on Africa to link to opportunities identified in the New Partnership for Africa's Development (NEPAD) and mentioned by the recent C10 communiqué.
- The G20 could improve effective utilisation of private capital, including by better leveraging public finance and ODA and improving the cost effectiveness of PPPs.
- The G20 could assist LICs to improve infrastructure-related governance issues, including:
    - Tax reforms to better mobilise domestic finance resources;
    - Implementation of regulatory and property rights reforms; and
    - Addressing regionally integrated infrastructure needs.

While it is important that the G20 focuses on promoting private investment, it can also use a number of official instruments to leverage FDI. For example, it could use blending (grants and loans) as done through the EU–Africa Infrastructure Trust Fund. This would be quite a radical shake-up of current grant facilities, which are not used to blending grants to loans such as those by DFIs. One further advantage of such a new approach is that access to grants can be made available to finance packages with the most desirable development outcomes (of course based on discussions with recipient countries). For example, grants could be made available to build green infrastructure (or produce green power, equivalent to an advance market commitment), which could be executed by project promoters that abide by certain rules and regulations. In effect, grants would be used to subsidise desirable outcomes while leveraging private sector investment to poor countries, a core preoccupation of the G20 development agenda.

Not all challenges are related to financing new infrastructure. There should also be institutional development to ensure that infrastructure is maintained and well-planned. Further, it is important that transport services are efficient, which involves effective completion policies to ensure that transport cartels do not abuse their market power.

We should also ask a question on the type of infrastructure projects. There are differing ways to promote infrastructure, and some are better for the poorest people or more environmentally friendly than others. The G20 is not in a good position to impose certain ways of promoting infrastructure but it could help African countries formulate answers to such questions.

All in all, it seems important to initiate a G20–Africa high-level panel on infrastructure that can identify the gaps in financing of sustainable infrastructure and ensure that constraints to follow-up are removed (whether it is linking investors with African countries or removing constraints to blending or constraints in DFIs to regional financing) and which could monitor implementation of G20 commitments.

3.2.2 Private investment

Local investment is crucial, and the G20 can support this by promoting good quality FDI that abides by globally set rules. Developed country multinationals and increasingly companies from EMEs sign up to a range of codes and conducts (e.g. the UN Global Compact). The spread of MNCs and state companies from EMEs towards African countries is increasingly important, and the G20 is the right forum to cover this. A business forum attached to the G20 (the B20) consists of the 120 largest businesses; this has met just before the Seoul Summit in November. One item on the agenda is the promotion of outward FDI (the areas covered included revitalising world trade, encouraging FDI, funding SMEs, supporting economic growth, reducing monetary and fiscal stimuli, infrastructure and natural resource funding, energy efficiency, renewable energy, green jobs, technology, youth unemployment, and access to health care). It could be useful to link this group in future with African ideas such as the Invest in Africa event (see outcome of the C-10 meeting, as explained later in this paper).

The investment climate cannot be changed overnight, even if there is enough domestic capacity. In this case, it could be useful to start with SEZs, which, with the right complementary policies, could provide a conducive environment for companies to invest in and benefit the host companies. African countries could learn from examples in EMEs.

3.2.3 Human capital formation

A healthy and skilled workforce is a more productive one. It would therefore be useful to review support to the education sector in the context of skills for development (see AfDB and OECD, 2008, which is one attempt at this).

The G20 could help African countries formulate skills development strategies. It would be opportune to use the G20 summits to capitalise on the role of EMEs in terms of both financing and lessons. EMEs have valuable lessons on how to grow, diversify and innovate. Korea, for example, has benefited from TVET and, for this reason, is promoting TVET in its Africa programme. Knowledge about growth policy is not generated in one single country or institution. By nature, this needs a decentralised network approach, and the G20 can endorse knowledge exchange on skills development.

3.2.4 Trade

Africa already has reasonable market access to the EU, through preferences as part of Everything But Arms (EBA) and interim economic partnership agreements (IEPAs). Africa stands to lose such preferences with more trade liberalisation. While multilateral trade liberalisation may still bring some benefits to Africa, with the Doha Round stalled it might be more effective to focus on regional integration and how Aid for Trade can enhance African capacity building, including infrastructure and economic reforms on the supply side. There is a particular demand at the regional level. The G20 can provide regional aid for trade and in particular, as shareholders, could ensure that DFIs are equipped with volumes and instruments (e.g. blending, regional lending) to fund African infrastructure while leveraging in private investment.

There has been a particular lack in provision of regional Aid for Trade. Regional projects often face higher transaction costs and donor funds are often not suited for regional projects, while mandates and thinking tend to be on national lines (IMF and World Bank, 2006). Developing countries may not agree on an appropriate costs benefit scheme, e.g. in the presence of the free-rider effect for non-participants. It is argued that ‘The national focus of development assistance makes it more difficult to realize the potential benefits of cross-country cooperation in trade-related areas.’

The World Bank/IMF highlighted the difficulties of securing regional loans for trade related issues: ‘Lending for regional trade-related projects is limited owing to the difficulties in securing agreement between countries and the appropriate guarantees for multi-country loans … More fundamentally, a key issue is that regional projects are less likely to find their way into national development plans as a result of coordination problems.’ Several regional development banks have some funding available for regional issues, but multi-country programmes constitute only 2-6% of their portfolio. Only $1 billion out of $34.4 billion of IDA-14 was earmarked for regional projects.

The G20 can link the provision of regional aid for trade with the proposed high-level panel on sustainable infrastructure for Africa. We discuss this further in Section 4.

3.2.5 Financial inclusion

There are several ways to enhance access to finance for the vulnerable and increase private sector investment in SMEs:

- Access to finance for SMEs and larger employers – not just through innovation but also more broadly, by analysing the barriers impeding access to affordable financing.
- While recognising that international remittances also represent an important source of capital for the most vulnerable, considering ways to support a reduction in barriers to remittance flows.

The G20 finance challenge aims to address this. It is important to monitor the allocation of finance so that Africa has been included appropriately.

3.2.6 Growth and resilience

G20 donors could focus on assisting LICs to have buffers to improve resilience to adverse shocks. This would help protect the gains achieved by African countries through economic growth. While in many cases it will be more efficient to reduce exposure to a shock, for example by diversifying the real economy, rather than taking out insurance against a shock, in other cases improved resilience though larger financial buffers can be important (as long as this does not contribute to a large macroeconomic mismatch of reserves). This needs an appropriate shock absorber architecture, which could combine grants from the EU with loans from the IMF and domestic resources.

Another component of resilience is the ability to cope with a shock. The G20 could promote a number of resilience-building programmes in those countries hit most by the recent shocks (e.g. DRC and Sudan, see Te Velde et al., 2010). This involves helping share knowledge on diversification, building social protection programmes and improving capacity to respond to a shock, for example in the form of good macroeconomic policies.

3.2.7 Food security

In Pittsburgh, G20 leaders endorsed the L'Aquila (2008) Agriculture and Food Security Initiative and tasked the World Bank to establish the Global Agriculture and Food Security Programme:

- To continue to play a significant role in catalysing ongoing work to improve food security, including efforts to close agricultural productivity gaps and mitigate the deleterious effects of food price volatility on LICs.
- To seek ways to support the development of more innovative solutions to global food security challenges, such as through promotion of technological advances that boost agricultural productivity and more effective mobilisation of private sector resources.

It will be important to maintain this pledge and to invest more in agriculture. Needless to say, such support should not get in the way of diversification into a more developed economy which is good for growth and resilience.

3.2.8 Governance

There is little the G20 can do directly to improve the quality of African governance, which is largely a home grown matter. The G20 could support efforts to promote domestic resource mobilisation in African countries by targeting a larger share of aid for this purpose. The G20 also has a key role to play in enhancing capacity within the African tax administration. It could also promote the use of effective state-business relations by investing in capacities in the public and private sector to engage constructively on issues of substance.

3.2.9 Knowledge sharing

This is exciting new area emphasises the need for the G20 to support knowledge exchange by sharing experiences in growth policies with G20 countries and to identify and promote best practices, as well as undertaking interventions to build capacity across G20 and African countries. This could be done by encouraging African countries to assess their own performance and develop their own indigenous responses. It could also involve support for exchange programmes targeted at civil servants concerned with growth policy. The G20 could devote attention to lessons learnt from middle-income countries and EMEs members. By combining lessons, the G20 can act as facilitator and build bridges among relevant networks. Korea, located between developed countries and the BRICs (Brazil, Russia, India and China), may be well placed to take this on.

The G20 could emphasise the importance of networks and knowledge sharing, a niche in development support, so that it does not duplicate but instead builds on the mandates of existing international financial institutions, as a truly different approach which can add value.

Finally, it is important that G20 members learn from each others' approaches to Africa. Achieving collective action in the G20 to achieve this ambitious proposed development agenda coherently and to provide relevant support for African countries might just be the trigger that gives the G20 a major boost, so as to convince the G20 leaders of the forum's continued usefulness. Focusing on a limited number of urgent development issues on the G20 agenda will be useful only if the group remains relevant and is perceived as effective in implementing its objectives.

3.3 The G20's core agenda and African growth

There are also many other economic interdependencies among African and G20 countries The G20 can have further effects on Africa than just development agenda effects (focused on growth). Thus, the following G20 policies are also relevant for Africa:

- Fiscal and monetary stimuli in the G20;
- Rebalancing trade and consumption between current account surplus and deficit countries;
- Financial regulation;
- (Domestic) trade policy (e.g. UK/US to export more; China/Germany to import more);
- Exchange rate policies.

And other issues under discussion at the G20 also affect African countries:

- Financial safety nets;
- Transparency;
- Business and corporate regulation;
- Climate finance.

3.3.1 Fiscal and monetary stimuli

The stimuli in the G20 implemented after the London Summit helped the global economy and hence Africa. By contrast, a reduction in stimulus packages would have negative effects on incomes in the short run. Barrell et al. (2009) simulated a series of fiscal packages from the G20 economies, the bulk of which affected budgets in 2009 and 2010: a fiscal expansion worth $797 billion in the US; $110 billion in Japan; $270 billion in the eurozone; $33 billion in Canada; $22 billion in the UK; and $586 billion in China. Together, these fiscal packages were simulated to raise incomes in SSA by 1-1.5% per annum in 2009-2010, using the National Institute of Economic and Social Research Global Econometric Model (NiGEM), and so would raise GDP by around 2.5%. This spillover stimulus is now at risk, at a time when national budgets for 2011 are being prepared and those for 2010 are being redrawn. If the private sector does not take over, growth spillovers will be lower. Africa will be interested in ensuring that developed countries maintain growth.

3.3.2 Rebalancing

If G20 countries succeed in rebalancing their economies, for example through changes in trade patterns, reductions in current account balances and fewer reserves, with cuts in consumption in deficit countries but increases in consumption in surplus countries (e.g. by improving services productivity or promoting social protection), this will have effects on African countries.

The G20 EMEs are increasingly important destinations for exports from African countries, and this has helped Africa weather the global financial crisis better than would otherwise have been the case. Africa exports relatively more raw materials and relatively fewer manufactures to the G20 EMEs than to the world as a whole, and imports especially manufactures from G20 EMEs. The rise of the EMEs may therefore pose challenges for medium-term growth prospects in Africa: Africa exports raw materials but imports processed goods. It would be useful to link a skills and upgrading initiative to address this issue. Table 2 suggests that in 2001-2008 G20 EMEs gained a market share in 12 out of 15 African countries.

Table 2: Share of African exports to EMEs and developed country markets, 2001-2008 (%)

	G20 EMEs			Developed G20		
	2001	2007	2008	2001	2007	2008
Mali	32.5	71.8	75.6	15.6	6.3	4.0
Ghana		41.3	53.2		36.3	30.0
Zimbabwe	24.0	41.4	45.0	59.5	19.7	24.1
Malawi	12.5	27.0	22.5	51.8	43.9	52.3
The Gambia	0.2	2.9	20.5	88.1	62.8	46.5
Zambia	25.5	23.9	19.8	56.6	6.9	7.8
Ethiopia	16.0	16.9	18.2	43.7	49.9	47.0
Mozambique	16.4	21.2	14.5	14.8	6.4	63.9
Guinea	8.0	9.7	12.7	83.7	81.5	60.3
Senegal	13.7	7.5	12.4	42.7	27.1	18.0
Rwanda	14.3	3.1	7.8	16.9	41.0	24.8
Madagascar	5.0	4.5	5.7	79.4	82.0	84.2
Kenya	3.4	5.2	5.6	41.4	34.7	33.0
Uganda	5.6	2.9	3.1	34.1	26.5	28.3
Niger	0.4	4.2	2.8	59.3	62.7	66.8

Source: Te Velde (2010b).

3.3.3 Flexible exchange rates

Currency issues have overshadowed the Seoul Summit. Yet currency issues are also relevant for development. Barrell and Te Velde (2010) modelled the impact of a 10% renminbi appreciation through a tightening of the money supply and a change in the dollar peg. This reduces the price level by 10% in the long run, leading to deflationary pressures. There are positive growth effects on most LICs, but these vary. For example, SSA countries (excluding members of the Organization of the Petroleum-Exporting Countries (OPEC) such as Nigeria) stand to gain a quarter of a percentage point of GDP, which is 2.5 times the effects of a possible Doha Round conclusion on SSA. Countries that cooperate (rather than compete) with China, such as the rest of the Asia country group, may lose out as a result of slower Chinese growth, although Korea would be a major gainer. A more flexible exchange rate would curb Chinese inflation and promote low-income growth (particularly in Africa) and may address global imbalances.

3.3.4 Financial regulation

Murinde (2009) suggests a flow-of-funds framework to scope the implications of the global financial crisis for Africa's financial system. The paper also examines the nature of the current crisis, in view of other recent financial crises, and highlights the implications for key players in a flow of funds sense, namely banks, companies, investors (households) and the government. It notes that, although the largest four economies in Africa have undertaken comprehensive financial reforms and achieved a high degree of bank competitiveness and financial intermediation, most African banks and capital markets are vulnerable to contagion effects of the financial crisis. The paper concludes by proposing corrective actions for Africa and by highlighting the main recommendations for Africa's financial system during the crisis (immediate and short-term actions) and in the post-crisis period (medium-term actions).

Proposed G20-backed reforms under Basle III cover a tighter definition of Tier 1 capital, the introduction of a leverage ratio, a framework for countercyclical capital buffers, measures to limit counterparty credit risks and short- and medium-term quantitative liquidity ratios. These reforms might have a significant impact on poor countries. For example, higher risk weights internationally will reduce lending to Africa. Lower lending owing to higher capital requirements will lower African incomes by around 1.5% (Brambila-Macias and Massa, 2010). International bank lending to SSA countries already fell by 8% in the first year of the crisis, having grown rapidly during the previous decade. The introduction of a more complex regulatory regime would make the adoption of the Basle principle even more challenging for African countries, and a greater voice of poor countries in financial regulations is required.

3.3.5 Trade policies including agriculture

Legitimacy for the G20 will come from implementing decisions taken by the leaders at successive summits. Thus, the crucial issue is to ensure the necessary follow-up on decisions and their implementation in a timely manner. The G20's record on this score is rather patchy. Areas where the G20 has been less successful regard the lack of ostensible progress on the Doha Round, despite repeated exhortations, and the emergence of new forms of 'messy protectionism,' etc. If the G20 is unable to improve its implementation record, both its legitimacy and its credibility will be significantly damaged and the forum will rapidly lose relevance (Kumar, 2010). African countries already have market access, so DFQF may not be that helpful for most of Africa (it would be useful for countries such as Bangladesh).

But African countries would gain from more common rules of origin, reducing the transaction costs. Anderson et al. (2006) find that Africa would gain from a possible Doha Round by around 0.1% of African GDP. Some suggest that exchange rate issues are currently the 'elephant in the room' at the World Trade Organization (WTO) – the preliminary results in this note shows their importance.

3.3.6 Climate finance and low-carbon development

Kumar (2010) suggests that the G20 take up the issue of developing new principles for the transfer of technology that are less onerous for least-developed countries (LDCs). This should be extended to cover emerging green technologies across the entire spectrum of goods and services. The role of the G20 could be to ensure an agreement to a collective approach towards and action on these issues. Grevi (2010), though, stresses that the G20 cannot aspire to take the driving seat in critical domains of collective action, such as climate change. The vocation of the G20 is not to sideline traditional multilateral institutions and the international financial institutions, but rather to complement their work.

African countries have been arguing for tighter environmental regulations on carbon dioxide emissions by developed countries, technology transfer and climate finance to compensate for past damages. The G20 (and the BASIC countries (Brazil, South Africa, India and China) fall within this grouping) might lend support to climate negotiations which, when successful, could increase African incomes by 6% (Cantore at al., 2009). Climate finance in particular is an economic issue, and it seems hard to imagine a future for the G20 without reference to climate finance. Climate finance may provide an important tool to address global imbalances by channelling surplus reserves from surplus countries to profitable opportunities or sustainable infrastructure and other green opportunities in Africa.

3.3.7 Financial safety nets

Korea has placed financial safety nets at the heart of the G20 deliberations. Such safety nets are important to protect countries from sudden downfalls in capital flows. So far, the donor community does not have coherent aid architecture for dealing with shocks. It is piecemeal, with different facilities dealing with different shocks. The G20 might want to coordinate to ensure the poorest countries are protected from shocks in financial flows. This would include the EU (which uses grants in shock facilities) and other donors (using loans).

3.3.8 Transparency in natural resource revenues

Recent events have rekindled interest in the role of primary commodities in development. Was the boom in commodity prices from 2003 to 2008 just a cyclical event or does it represent a period of strength, driven by factors such as demand in fast-growing developing countries like China? Brahmbhatt and Canuto (2010) suggest that primary commodity prices are likely to ease over the next five years. Nevertheless, commodity revenues will remain high, raising challenges which, if not addressed, can harm long-term development. With good governance, however, such revenues can also be a valuable resource to help accelerate overall development.

Many argue that high specialisation in primary commodities has proved to be a curse for developing countries. Others suggest that sustained high prices could reduce the relevance of a classic East Asian tiger style industrialisation-focused strategy. Although it has fallen over time, developing country specialisation in commodities remains high. Commodities still comprise over 60% of merchandise exports of the average developing country, although this is down from 90% in the 1960s. Half of developing countries still have commodity export dependence of over 70%.

A survey of the large empirical literature suggests that natural resources are 'neither curse nor destiny' (Lederman and Maloney, 2007). But these studies have often generated disparate results. An effort to reconcile these findings (Collier and Goderis, 2007) observes that negative long-term growth effects are related mostly to oil and minerals – concentrated 'point source' resources that stimulate rent seeking and redistributive struggles. Further, high oil and mineral prices mostly have a negative impact on long-run growth in countries with 'bad governance.' This, according to Brahmbhatt and Canuto (2010), suggests that continued high commodity prices in the next few years could provide valuable resources to accelerate development in commodity-exporting countries with good policies and governance.

Given the prevalence of weak governance, efforts to enhance transparency and strengthen checks and balances on natural resource extraction are vital, as are broader anti-corruption reforms. Natural resource funds to facilitate good revenue management and to counter political pressure and corruption have also received attention, although these are more likely to succeed if they are part of broader efforts to strengthen governance and fiscal policy. Policy decisions about the allocation of natural resource revenues are also crucial – for example, whether to return revenues to citizens (via tax cuts or transfers) or to retain them in public hands, and how to allocate public revenue between government consumption and investment (or reductions in debt). Hence, Brahmbhatt and Canuto (2010) conclude that booming commodity revenues raise challenges that, if not addressed, can harm long-term development. With good policies, governance and management, however, such revenues can also be a valuable resource to help accelerate overall economic and social development. The Natural Resource Charter has 12 principles of good natural resource policy. The G20 could be an effective forum to 'multilateralise' transparency initiatives. G20 members could ask their companies to operate following codes and conducts that they would also follow in their home countries.

There could be a useful link with the B20 to ensure that G20 companies sign up to a code of conduct – many already do, but it would be particularly important to reach the EMEs.

Table 3: Summary of core G20 policies and African growth

	G20 polices	**Effects of G20 actions on Africa**
Fiscal stimulus	Fiscal consolidation	Undoing of G20 stimulus could reduce African incomes (GDP) by 2.5%
Rebalancing	More Chinese imports, fewer US imports	Demand for African raw materials may increase more than for processed goods, so this is a challenge
Flexible exchange rates	A Chinese renminbi appreciation of 10%	African incomes (GDP) would gain 0.25%
Financial regulation	Stricter capital adequacy ratios	Lower lending owing to higher capital requirements would lower African incomes by around 1.5%
Trade	Doha Round conclusion	A modelling study suggests that Africa would gain from a possible Doha Round by around 0.1% of GDP
Climate finance	Provide finance, technology transfer and reduce emissions in G20	One modelling study suggests that a possible Copenhagen deal (technology transfer, climate finance and cuts in emission) could improve African incomes by 6%. More climate finance to LICs can also help rebalance the global economy
Financial safety nets	Support a financial safety net	Support countries hit by shocks (e.g. global financial crisis)
Transparency in	Codes of conduct in	More transparency on how companies pay taxes in Africa

	G20 polices	Effects of G20 actions on Africa
natural resource revenues	G20 companies	

3.4 The G20 and consultation with Africa

As economic power has shifted from the West to the East and from the G8 to the G20, small and vulnerable economies in Africa have lost in terms of policy influence. Thus, the C10 has made suggestions to the G20, which was established in March 2009 to monitor the crisis. Africa's key suggestions to the G20 included the following: increase transparency, accountability and equitable representation and provide adequate voice and voting rights to African countries in international financial institutions and major global governing bodies. It also discussed the IMF governance reform agenda with the objective of amplifying the African voice in this key financial institution and argued for an official African seat at the G20.

Africa (beyond South Africa) has been represented at the various G20 summits mainly through the African Development Bank (AfDB), NEPAD (Ethiopia) and the African Union (AU) (this year under Malawi). The C10, the effective voice of Africa in the G20, with participants including South Africa, Botswana, Cameroon, Egypt, Kenya, Nigeria, Tanzania, the Central Bank of West African States (BCEAO) and the Central Bank of Central African States (BEAC)), met on 6 October 2010 and discussed the following issues:[9]

- Measures to support ongoing African recovery and turn it into a high growth path (e.g. regional integration, South–South partnerships, Invest Africa Initiative);
- Strengthening mobilisation of domestic resources; and
- Options for financing sustainable energy solutions (including a green fund at the AfDB to raise climate finance).

Yet such consultation is on an *ad hoc* basis. Also, in the future there needs to be a discussion on how the G20 relates to African countries in a more structured way. Nearly all individual G20 countries have an Africa strategy (see discussion elsewhere in this paper), yet there is no combined G20 strategy for Africa. It is the task of the G20 to build bridges among countries.

[9] www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/communique%20C-10%20October%206%201010%20_FINAL%20ENGLISH%20(changes_accepted).pdf.

4. The G20 and African regional economic integration: Supporting hard and soft infrastructure development

4.1 African regional economic integration agenda

Regional economic integration has long been a stated objective of African countries and dates back to the 1960s. The Strategic Plan of the AU Commission is clear: ‘integration is no doubt a vital tool for accelerating the economic, social, cultural and political development of African countries’ (AU Commission, 2004). One of the overriding motivations has been to increase market size in order to grow trade and investment so as to contribute to economic development. This vision has recently seen Africa being described collectively as the next big opportunity. The ‘African economic lion’ is now ready to take its place beside the Chinese dragon and the Indian tiger, according to recent statements by the World Bank (including Ezekwesili, 2010); a feature by *The Economist Magazine* (2010); and a McKinsey Global Institute report, which points out that ‘Africa’s collective GDP, at $1.6 trillion in 2008, is now roughly equal to Brazil’s or Russia’s, and the continent is among the world’s most rapidly growing economic regions’ (Roxburg et al., 2010)).

The building blocks for African integration are set out in the Abuja Treaty of 1991. The basic model is a linear one, which sees the progression from strengthening regional economic communities (RECs), to regional free trade areas (FTAs) and customs unions, then to a continental customs union and an African Common Market and eventually an African Economic and Monetary Union (Article 6). A timetable was set out for this process, but the reality is that progress has been slow and the deadlines have not been met. At every AU Heads of State Summit, a strong recommitment is made to regional economic integration. This is linked to more recent initiatives such as NEPAD, which is intended in part to support the priorities identified by the RECs.

The current focus is on the capacity of the five identified RECs: the Arab Maghreb Union (AMU), the Common Market for East and Southern Africa (COMESA), Community of Sahelo-Saharan States (CEN-SAD), Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS), the Inter-Governmental Authority for Development (IGAD) and the Southern Africa Development Community (SADC). There are differences between each of these organisations as to their ambitions and level of integration. Table A1 in the Annex summarises the current status of implementation of each of the regional agendas.

The RECs have been conceptualised as building blocks towards Pan-African integration, and the aim is to eventually have a common African market. Some work has recently started to link RECs in an effort to progress the continental integration agenda. For example, SADC, COMESA and the East African Community (EAC) have agreed to establish a FTA that would span the Cape to Cairo. A draft text has been prepared and work is underway in identifying the next steps required to implement this. There is considerable overlap among the members of the various RECs, which is a challenge when implementing regional customs unions but which could be a motivation for moving ahead in the Abuja Treaty agenda to a focus on Pan-African integration in the shorter term.

4.2 Africa and its partners

The African agenda for regional economic integration has received explicit support from many of the G20 members. South Africa is currently the only G20 member from Africa and is therefore a party to all decisions of the AU. South Africa belongs to the Southern African Customs Union (SACU), which is not a recognised African REC, as well as SADC. It plays an active role in both groupings and is supportive of the proposed trilateral FTA between SADC, COMESA and EAC.

Set out below is a brief summary of the policy statements and initiatives made by some of the other G20 members in support of African regional economic integration.:

4.2.1 Joint EU–Africa Strategic Partnership

At the level of the African, Caribbean and Pacific (ACP) grouping of countries, the EU has set out a policy framework on Regional Integration for Development in ACP Countries (EC, 2008). It identifies five priority areas for EU support, including connecting regional infrastructure networks and strengthening regional institutions. One of the main tools to support these objectives includes the EPA currently being negotiated with regional groupings in the ACP. With specific reference to Africa, there is the Africa–EU Partnership on Trade, Regional Integration and Infrastructure, which specifically aims at supporting the integration objectives stated in the Abuja Treaty. Funding in support of this EPA has included the establishment of the EU–Africa Infrastructure Trust Fund in 2007 and four regional programmes. A new action plan will be considered for 2011-2013 at the upcoming EU–Africa Summit in Libya in November 2010.

4.2.2 African Growth and Opportunities Act

The Obama Administration first outlined its vision for a new US–African partnership during the President's visit to Ghana in July 2009. This included a renewed commitment to addressing the challenges in utilising the market access preferences provided under AGOA, finding effective ways to improve Africa's competitiveness (including through simplification and modernisation of border procedures) and support to regional economic integration (Kirk, 2009). The impact of AGOA has been much debated. There has been increased trade between AGOA members and the US (300% growth between 2000 and 2008), with some attributing the creation of over 300,000 jobs to AGOA (Whitaker, 2010). Some argue, however, that AGOA has not met its key objectives of developing greater capacity in Africa to trade in a diversified mix of products – the domination of the statistics of oil and clothing and textiles is often cited here. AGOA is due to expire in 2015 and is also being considered as part of the current review of US trade preferences.

4.2.3 Forum for Cooperation between Africa and China

China's Africa Policy in FOCAC was clearly set out in January 2006, and this remains the overarching framework for the relationship. It includes a reference to the AU and RECs but is not specific in relation to China's support for these African institutions. China's engagement has remained predominantly at a bilateral level, with a strong focus on infrastructure development in the identified priority sectors of transportation, communication, water conservancy and electricity. There has been much written on the relationship between China and Africa, and it is not possible to reflect all of the dynamics in this paper. Concerns do exist, however, that China's contribution to Africa's infrastructure development is focused largely around its own objectives of obtaining access to the natural resources on the continent and providing employment for its workers.

4.2.4 India and Africa

The Delhi Declaration from the last India–Africa Summit, held in April 2008, makes it clear that India is seeking to strengthen its partnership with the AU and the RECs (para 19). It is not yet clear how this will manifest itself, as to date Indian support for African economic integration has largely come in the form of technical training and private sector investment.

4.2.5 Brazil and Africa

President Lula da Silva of Brazil has been one of the most avid personal supporters of Africa's advancement among the G20 Heads of State. He has undertaken numerous visits to Africa during his term in office, accompanied by private sector representatives pursuing trade and investment opportunities on the continent. Brazil has not shown any inclination to work directly with the RECs but rather has pursued its cooperation agenda through bilateral relations with individual countries.

4.2.6 Tokyo International Conference on African Development

The last meeting of TICAD took place in 2008 in Yokohama. The declaration adopted emphasises the need for Africa to have ownership of the partnership and to determine its own destiny. It includes a section on boosting economic growth and the importance of developing region-wide infrastructure. Japan is committed to doubling its aid to Africa by 2012. At TICAD in 2008, Japan said it would make available $4 billion in 'soft loans' for the development of infrastructure in Africa, with a focus on the transportation sector. Financing support is also provided for Japanese investors in Africa through the Japan Bank for International Cooperation (JBIC).

4.2.7 Korea–Africa Economic Cooperation

The most recent gathering between Africa and a G20 member was the KOFEC Conference held in Seoul in September 2010. Korea announced its support for the prosperity of Africa and an increase in its development cooperation fund for 2010-2014 to $1.09 billion.

4.3 G20 objectives and African integration

While the proposals of the G20 Development Working Group are not focused on Africa alone, they are in alignment with the overall objectives of regional economic integration and the role of infrastructure development on the continent. Through the development agenda of the G20 there is a real opportunity for a coordinated and effective contribution to regional economic integration in Africa. Individual G20 members have all made policy statements in support of this objective and significant resources have already been given to the RECs and to address Africa's infrastructure development needs. These resources were traditionally provided in the form of ODA from Western donors or through DFIs. More recently, there has been a greater contribution of the private sector, including through FDI in support of integration on the continent.

It is worth noting that the C10 is currently the only visible mechanism bringing together African input into the G20 agenda. This met in October 2010 in Washington, DC with a stated objective to 'put development and Africa at the center of the G20 agenda in Seoul' (AfDB, 2010). One key issue to be discussed is options for increasing domestic revenue mobilisation in Africa to provide financing for development objectives. This needs to accompany external investment and aid as it is a viable long-term source of funding that does not place Africa at the mercy of foreign partners. With regard to infrastructure development, the stated focus of the C10 will be on developing sustainable energy solutions, which is in line with priorities identified in this paper.

4.4 Infrastructure needs in support of African integration

The relationship between regional economic integration and infrastructure development is a mutually supportive one. Infrastructure is needed to support regional integration and to fully realise its objectives with regard to greater levels of trade and investment. On the other hand, deeper regional integration can make a positive contribution to infrastructure by providing economies of scale. The positive benefits are particularly noticeable for cross-border infrastructure development when regional integration results in the easier movement of goods and services between countries. Infrastructure is typically thought of in 'hard' terms, such as the building of roads or the installation of cabling for telecommunications. There are, however, 'soft' infrastructure requirements, such as health and education. Africa has significant needs in both categories.

In its comprehensive report on African infrastructure published in 2009, the World Bank estimated that the poor state of infrastructure in SSA cuts national economic growth by 2% every year and reduces productivity by as much as 40% (Foster and Briceño-Garmendia, 2009). 'To close the infrastructure gap with other parts of the world, meet the Millennium Development Goals, and achieve national development targets in Africa within 10 years, an annual spending of $93 billion would be required' (ibid). A number of key priorities were identified, with the most pressing and expensive being the need to generate power. From the point of view of regional economic integration, it is interesting to note that greater regional trade of power would have a significant impact on the amount needed for electricity infrastructure. Other needs were identified in telecommunications, transport, irrigation, ports, water and sanitation. The focus was on what could be classified as 'hard' requirements.

The AU, the AfDB, the RECs and individual African countries have all identified their own infrastructure needs and priorities. One of the biggest challenges remains access to financing for the implementation of infrastructure projects and ensuring the efficient use of resources deployed for infrastructure development. This was reflected in the World Bank report and has been echoed by the G20. While some steps have been taken to increase the funds available, including through increasing the resources of the MDBs, there remains a significant gap to be filled. The World Bank identified inefficiencies valued at around $17 billion a year in the current resourcing of infrastructure projects on the African continent (Foster and Briceño-Garmendia, 2009). In the recovery period following the global economic crisis, efforts have turned to reducing these financing inefficiencies by addressing institutional and political constraints. One such initiative is the African Financing Partnership, which is aimed at doing more with less through harmonisation and additionality. A pilot is currently underway in Zambia, where eight banks have agreed to undertake one due diligence assessment of a transportation infrastructure project. The aim is to bring down the costs involved and reduce the inefficiencies in the financing process. It is also hoped to reduce transaction costs by speeding up the time taken to establish the bankability of infrastructure projects.

4.5 G20 contributions to infrastructure

G20 members have already made significant contributions to the development of both hard and soft infrastructure on the African continent. It is not possible to outline all of the activities undertaken in this paper, especially as there are many different actors involved, such as the DFIs, bilateral donors and the private sector.

Using the data available at www.aiddata.org, we have undertaken an analysis of the donor funds directed to infrastructure projects by some of the G20 members in 2008. The aggregated results are presented in Tables A2 and A3 in the Annex. A number of interesting trends can be noted from this information. First, nearly a third of the approximately $6 billion spent by donors went to transport-related infrastructure. Transport and education spending together account for over half of the total. Energy and water management received a further 30% of the spending. Second, three of the donors listed account for two-thirds of the total amount spent – the EU, the US and France. Third, there seem to be different priorities for the G20 donors, with some focusing on only one or two sectors and dominating the spending there, such as India in the energy sector (although the figures shown include some spending by India in 2009 as well).

Further analysis was done on the basis of the aid flows received by individual African countries. Here, it became clear that LDCs dominated African recipients, with Mozambique and Tanzania receiving approximately $600 million each and Ethiopia just under $450 million. The distribution of spending across infrastructure sectors was quite different in each country, which reflects individual development priorities as well as the bilateral strategies of donors.

4.6 Future G20 actions

There are a number of areas of possible convergence between the stated G20 agenda and the needs of Africa with regard to support for regional economic integration and infrastructure development. The following are some concluding thoughts on possible items to be considered in the development of the G20 action plans.

- **Cooperation and coordination:** This is not a new concept but remains fundamental if the resources made available to support African economic regional integration and infrastructure development are to be maximised. G20 members could be encouraged not only to cooperate at the level of governments but also to involve the private sector in a more structured way to ensure that their contributions are taken into account and inefficiencies are reduced. It would be helpful to have such a framework for those countries that are ‘newcomers’ to funding African development initiatives and to better leverage their contributions.
- **Trade:** While there is no clear G20 agenda on trade policy matters, it is important to acknowledge that one of the underlying objectives of regional economic integration is to increase the involvement of African countries in global trade. Conclusion of the WTO Doha Round of negotiations could make a contribution in this regard but would not be sufficient. A specific G20 focus on addressing the barriers to intra-African trade could be useful (see e.. Keane et al., 2010), as well as the harmonisation of existing preference schemes for African countries. Putting in place the necessary infrastructure is one key step in this regard, but infrastructure is only as useful as those who can take advantage of the opportunities it provides.
- **Support for new technologies:** Infrastructure investments in Africa have tended to focus on traditional requirements, such as roads, ports, railways and electricity generation. To support higher levels of growth and the inclusion of more people in the economy, the G20 could usefully channel more G20 resources (both FDI and aid) towards infrastructure that is needed for the services sector and the uptake of newer technologies, such as mobile telecommunications.
- **Maintenance:** It is appealing for many donors to be involved in high-profile, large infrastructure projects that support regional economic integration. Of equal and possibly even greater importance in the long run is to ensure the ongoing maintenance of existing infrastructure.

5. The G20 and outward FDI to Africa: Examining South African FDI

5.1 Size, scale and focus on South African FDI

5.1.1 G20 FDI into Africa

Inward FDI into Africa is still dominated by developed countries, particularly the G7, which accounted for 91.6% of measured inward FDI stocks in 2008 (UNCTAD, 2010a). This investment pattern is well-established and tied particularly to historical colonial relations with Europe, but also to US and Japanese outward investment patterns. Developing economies have increased their exposure in recent years but as of 2008 still accounted for only 7.4% of measured inward FDI stocks (up from 6.9% in 1999). Within this, five G20 members are particularly prominent: South Africa (our focus below); China, leading the extra-continental charge; India; Korea; and Brazil. Saudi Arabia is also increasingly investing in the continent, but did not make it onto the list of major emerging market investors in the continent (ibid).

Not surprisingly, FDI from both developed and developing G20 members into Africa is concentrated primarily in resource-extractive industries, particularly various minerals used in processing industries; fossil fuels; and more recently agriculture (biofuels and food for export to home markets). This is reflected in the growth in greenfield investment projects from both developed and developing country investors into Africa (UNCTAD, 2010a). FDI destinations remain concentrated, with South Africa and Egypt accounting for over 60% of cross-border M&A between 1991 and 2008 (ibid), and oil exporters accounting for the bulk of greenfield investments. The key question therefore is how inward FDI could become more diversified in terms of sectors and host countries.

Fortunately, the picture is beginning to change, as foreign investors, developed and developing alike, warm to an emerging African growth story driven by sustained economic reforms and relatively high commodity prices underpinned by Chinese economic growth. Of particular interest to such investors is the continent's huge needs regarding network services investments (energy; finance; telecommunications; transport); associated construction services; and the growing possibilities for providing such services for wider markets within regional economic communities. In addition, for developing country G20 investors in particular, poor African consumers represent an enticing target market in some consumer sectors – not too dissimilar to their home country environments.[10]

5.1.2 Case study of South Africa's African FDI

Table A4 in the Annex shows that South Africa's African OFDI is directed primarily outside the Southern African region; the latter rarely exceeded 10% of the total between 1997 and 2007, although it showed a tendency to increase from 2001. Until recently South Africa's outward FDI to Africa was concentrated in SADC countries, particularly Mauritius.[11] However, it is evident that in recent years there has been a substantial shift into the rest of SSA. This may reflect relative saturation of market opportunities in Southern Africa, although it is widely expected that two countries in the region will be the target of substantial South African outward FDI flows in the

[10] For a discussion of these dynamics in the case of Chinese investment into Africa, see Draper et al. (2010b).
[11] Mauritius in recent years has become an internationally acclaimed tax haven. It offers some of the most lucrative investment opportunities and was recently voted the best place to do business on the African continent according to the World Bank's Doing Business Report. South Africa's investment is concentrated in the private non-banking sector and specifically in long-term capital. In 2006, there was a huge increase in South Africa's outward FDI to Mauritius, accounting in that year for 33% of total FDI into Mauritius; this FDI was concentrated in the IT and Business Process Outsourcing (IT/BPO) services sector.

coming years: Angola and Zimbabwe.[12] Nonetheless, South Africa's intra-African outward FDI flows have shifted from Southern to West Africa in particular, presumably representing opening up of opportunities in the latter, especially Nigeria (UNCTAD, 2009).

With regard to the composition of South Africa's foreign assets in Africa, direct investment is the dominant form. Table A5 in the Annex shows that the private sector, particularly the banking sector, dominates South African outward FDI flows. Given the large amount of portfolio inflows into South Africa from the rest of the world, it may be that those inflows are recycled into FDI outflow into the region; in other words, it is possible that South Africa's sophisticated financial markets are being used to channel resources across Africa. Para-statal institutions are also significant outward investors in the region, but since 1997[13] this has been concentrated primarily in two Southern African countries: Mozambique (associated with the construction of the Mozal Aluminium smelter and development of the Maputo corridor); and Lesotho (associated with the Highlands water project). Since 2003, public corporations have picked up their outward FDI into Namibia and Zambia, and in 2007 significant amounts were invested in Nigeria and the rest of Africa.

Overall, while South African outward FDI into Southern Africa is a relatively small portion of its global footprint, it has grown in recent years and is relatively diversified, reflecting the growing pattern of inward FDI targeting network services industries in the continent.

5.2 Impacts of South African FDI

Concrete examples of the direct costs concerning South African outward FDI for African host states include the citing of 12 South African companies for allegedly looting mineral resources in the DRC (UN, 2002, in Daniel et al., 2003), and alleged flouting of labour standards by some companies (Pillay, 2004). There is also anecdotal evidence of alleged corporate malfeasance and arrogant behaviour reminiscent of apartheid attitudes. This is in line with concerns within some quarters of the South African government, based on evidence sourced through its missions across the continent that the South African corporate community in general may not be behaving like good corporate citizens in host markets.[14]

There is also the risk of domestic market dominance: some 17% of South African investments in Africa enjoys a market share greater than 75% (McGregor's, 2004). However, this was offset by the finding that 67% of investments held less than a 25% market share. So while host governments must be vigilant, it appears from this evidence that the risk is overstated. Furthermore, the Chinese outward FDI thrust into Africa is forcing South African (and other) investors on the continent to up their game and provide better quality products at lower prices (Salter, 2009).

What of the problem of enclave investment associated with resource-extractive FDI? South African FDI is more diversified than that traditionally sourced from developed countries, covering network services (telecommunications, finance, transport and energy). Furthermore, the Business Map Foundation noted that, in the case of the Mozal aluminium smelter in Mozambique, for the first time on the continent a serious and successful attempt was made to build linkages to the local economy, thereby minimising the potential for enclave development (Rumney and Pingo, 2004). This indicates a degree of sensitivity on behalf of the South African government to regional

[12] President Zuma made his first overseas trip to Luanda in August 2009, accompanied by a large business delegation eager to take advantage of Angola's post-conflict reconstruction needs, which will be financed by its financial windfall owing to the oil price boom. In Zimbabwe's case, the assumption is that within the next few years a sustainable political settlement will be reached; major South African para-statal organisations and private sector institutions stand poised to reinvest on a significant scale once that occurs. Given political uncertainty in Zimbabwe, much play has been made of the recently signed bilateral investment treaty.

[13] Data is sourced from the South African Reserve Bank (SARB) and is available on request.

[14] Discussions with government officials.

concerns. Furthermore, the pattern of greater market-seeking FDI builds host country markets thereby enhancing long-term prospects for economic diversification.

On the plus side, FDI by South African companies is, according to studies based on interviews with South African companies operating on the continent, yielding substantial benefits for the continent. These include job creation; upgrading of existing and building of new infrastructure including investment in backbone services; technology transfer through human resource development (McGregor's, 2004);[15] increased tax revenues; increased consumer choice; and boosting general investor confidence in host countries (Games, 2003; Grobbelaar, 2004a). Hence South African companies are directly contributing to the slow build-up of crucial productive infrastructure in network services (Draper et al., 2006).

These benefits are reportedly linked to a general view among the South African corporate community that they are in Africa for the long term and hence need to play their part in sustainable investment. This view has helped them unseat European competitors who, according to McGregor's (2004), have a reputation for dumping inferior technology and quality at premium prices. South African companies are quite prepared to adapt products to local market conditions, and in many cases already do so in the domestic market (ibid).

However, given South Africa's domestic growth problems and the relatively small size of its economy, there are limits to this process. Consequently, South Africa's expansion into the continent in the long run is unlikely to result in the same dramatic development benefits that Japanese FDI wrought in Southeast Asia; in this sense, the 'flying geese' analogy does not hold as there is no other goose available to lead from the front once the South African one is exhausted.

From this brief survey of the literature, it is apparent that, on balance, South Africa's outward FDI footprint and associated trade expansion into (Southern) Africa are mostly positive. Where there are negative impacts, these are principally associated with rogue operators and sometimes nebulous national security concerns.

5.3 Process of engagement

5.3.1 Generic issues

Most modes of engagement and legal disciplines on the relationship between foreign investors and host countries have been developed at bilateral and regional level, through bilateral investment treaties (BITs) and regional trade agreements (RTAs). Most BITS apply to the protection of foreign investors and their investment and establish rules related to standards of treatment of the investor, protection of the investment from expropriation, transfer of funds and profits and dispute resolution. By providing an internationally binding mechanism, BITs give investors confidence that any agreement made with the host will be honoured, as derogation becomes a violation of international law. Consequently, many capital-exporting countries, especially G20 members, have very actively sought and continue to seek protection of their investment through BITs.

The bulk of RTAs, as the term suggests, deal primarily with trade issues, but they increasingly cover investment liberalisation and often contain improved rules on the right of establishment, free movement of capital, non-discrimination clauses that distinguish between regional and third party investors and even the BIT practice of investor–state dispute settlement.

The codification of ambitious investment provisions, usually found in BITs, into recent RTAs has had important ramifications in that it highlights the sometimes divergent interests of developing and

[15] www.whoownswhom.co.za. The report notes that most South African investors have a policy of transferring skills to local employees over three to five years from the initial investment. South African companies are particularly sensitive to such concerns given the centrality of black economic empowerment policies to their bottom line in South Africa.

developed countries. Companies seeking to invest overseas are generally based in developed countries, which therefore seek to use investment agreements to protect the rights of their investors, optimise their profitability and increase their opportunities to invest. Developing countries on the other hand want to attract investment and manage such investment through regulation to minimise costs and maximise benefits to their countries.

Therefore, whereas developing and especially African countries want to attract inward investment, the usefulness of binding international rules on investment is controversial, as BITs tend to limit a host state's policy choices, whereas it is not clear that they make a significant difference to attracting inward investment.

5.3.2 South Africa's investment in Africa

Given the sizeable intra-Africa investments made by South African companies, the country is concerned with how best to safeguard its citizens' investments. This raises difficult questions with regard to the appropriate model for agreements, bilateral or regional, that contemplate South Africa's outward FDI and that equitably balance investors' rights with the sustainable development needs of African countries. Complicating this situation is the fact that South Africa is historically reliant on inward FDI and has had mixed experiences with BITs negotiated with developed country partners (Peterson, 2006), which are now seen to unduly intrude into domestic policy preferences – especially concerning black economic empowerment.[16] This has resulted in the Department of Trade and Industry's recent assessment as to whether investment rules strike the right balance between investor protection and the reservation of host state policy space.[17]

Interestingly, South Africa has negotiated BITs in the region that seem to be stacked in favour of South African investors without the necessary safeguards to preserve flexibility in critical policy areas for African countries (Draper et al., 2010a). Table A6 in the Annex shows that South Africa has 15 BITs with African countries. Interestingly, South Africa does not have any BITs with its major West African outward FDI destinations in Nigeria and Ghana, whereas Senegal is covered.

South Africa's outward FDI footprint has also been aided by RTAs, as these are important complements to investment, since they allow goods to flow relatively freely to and from subsidiaries located in foreign locations that are part of the RTA. In this light, South African outward FDI into Southern Africa has been aided by the two RTAs that South Africa is part of: SACU and SADC. Unlike BITs, which largely offer protection clauses, the SACU agreement and SADC's Trade Protocol not only cover free movement of goods but also provide access to a large market and stable and predictable trade policies. SADC via various protocols also covers, among others, mooted competition policies, proposed liberalisation of FDI in services, proposed harmonisation of broader property rights and contract enforcement; these regulatory harmonisation initiatives are important for investors as they level the playing field and promote smooth transfer of assets and the conduct of business.

[16] The recently concluded dispute in which Italian investors challenged South Africa's Black Economic Empowerment Code is an example of how public policy goals can be challenged under BITs. See further Piero Foresti and others vs. Republic of South Africa ICSID Case No. ARB(AF)/07/1): http://icsid.worldbank.org/ICSID/FrontServlet.
[17] South Africa's Bilateral Investment Treaty Review: www.thedti.gov.za/ads/bi-lateral_policy.pdf.

6. The G20 and special economic zones

This section examines the role of Special Economic Zones (EPZs). Asian investors, esp. China, are involved in building SEZs in various African countries (Algeria, Egypt, Ethiopia, Mauritius, Nigeria and Zambia). These may boost industrialisation and employment, as they are expected to result in improved infrastructure, technology transfer and employment opportunities, as well as new schools and hospitals (Bräutigam et al., 2010; Sohlman, 2009; UNCTAD, 2010b). Could the promotion of SEZs be a useful beyond aid engagement in Africa? We review the experience of SEZs in emerging markets, review lessons learned, consider Chinese involvement in African SEZs and provide some conclusions.

SEZs are defined as geographical areas, often governed by an oversight management body that offers special trade incentives to firms that choose to physically locate within them. Many countries employ their own variations of these special enclaves, and in doing so use their own terminology to describe them. Mexico, for example, refers to its zones as *maquiladoras*, Ghana, Cameroon and Jordan have 'industrial free zones,' the Philippines calls its economic zones 'special EPZs' and Russia has 'free economic zones.'

Despite some variation, export-oriented manufacturing has been the main focus of most zones, and hence is often seen as a tool to diversify African exports. Production processes often involve low skills and relatively simple technology, particularly in the garment and footwear industries and in the assembly of electronic components and light machinery goods, but for many developing countries it is a first step on the value added ladder. While zone firms can be domestic, foreign or joint ventures, FDI generally plays a prominent role. Manufacturing activities are also now being complemented by services in many SEZs. More than 90 of the 116 countries with SEZs include services. And the range of services located in SEZs is expanding rapidly, from commercial services and simple data entry to call centres, medical diagnoses and architectural, business, engineering and financial services. A regional breakdown shows that most SEZs with service industries are located in developing countries, which means they could play a role in attracting FDI (UNCTAD, 2004).

SEZs could be tools to promote growth in Africa. Whilst it is important to get the investment climate right and to make markets work, there is a role for targeted intervention to stimulate innovation and diversify exports, given market failures, which may involve policy tools such as SEZs. Section 6.1 discusses current activities by G20 EMEs in terms of building SEZs. Section 6.2 analyses the factors behind successful SEZs. Section 6.3 describes efforts by China to build SEZs in Africa. Section 6.4 concludes.

6.1 Learning from special economic zones in emerging markets

6.1.1 China

China has been very active in setting up SEZs in the past 30 years as 'experimental enclaves of managed capitalism' in the eastern coastal regions. . Most of China's SEZs are very large and specialise in a narrow range of products and services – those most conducive to a mass-production environment, notably labour-intensive, assembly-oriented products. China's Shenzhen Village is known for transforming a small fishing village into a booming urban metropolitan area home to an export-oriented economy that brings in over $30 billion in FDI annually (Murray, 2010).[18]

[18] For more details see www.china.org.cn/e-china/openingup/sez.htm.

6.1.2 India

India is one of the most successful developing countries in terms of exports of services. SEZs were introduced through the Export/Import Policy of 2000 to provide an internationally competitive and 'hassle free' environment for export-oriented firms (Tussie and Aggio, 2005). The first technology parks were established in 1990 in Bangalore, Pune and Bhubaneshwar. Much FDI related to the off-shoring of services has been attracted to these dedicated technology parks, which specialise more in human capital goods and services such as call centres and telecommunication processing rather than manufacturing-based industries. Already by 2003, there were 39 such parks, with about 7,000 units registered, accounting for 80% of the country's software exports (Murray, 2010). In addition to providing modern computers and communication technologies, the technology parks offer such incentives as approvals under a 'single-window clearance' mechanism; permission for 100% foreign ownership; five-year tax holidays with no value addition norms; duty-free imports; and permission to subcontract software development activity (UNCTAD, 2004).

6.2.3 Mauritius

The trend of off-shoring services has fuelled a growing interest among developing countries in using EPZs to attract services FDI. Mauritius is seeking to position itself as a location for FDI in business services. To this end, it has initiated the Cyber City project to attract call centres, back-office services and programming, especially to serve francophone Africa, France and parts of Canada. Cyber City has become a state-of-the-art technology park, with office buildings and a world-class telecommunications network. Thus far, the banking, tourism and ICT sectors have been the main beneficiaries of FDI. Mauritius is an example of a country that has been able to use its zone strategy to create significant employment by moving to higher value added production. However, employment gains from EPZs are by no means permanent anywhere, and call for constant adaptation of EPZ strategy (ILO, 2003).

Headed by Taiyuan Iron & Steel Group, the Shanxi Group and the Tianli Group, negotiations for a SEZ in Mauritius' capital, Port Louis, began in March 2007. Development on the $550 million project began in late 2009 and is expected to be completed in 2016. Furthermore, the Jin Fei Trade and Economic Cooperation Zone in northern Mauritius is the biggest investment by a foreign entity to date. The project, which will cover 200-500 hectares, is expected to see an inflow of $750 million and create 34,000 jobs (of which 8,000 will go to Chinese contractors) over the next five years, be home to 40 Chinese businesses and generate $220 million worth of export earnings annually, thus creating a ripple effect on the entire economy (Dwinger, 2010).

6.3 Understanding the success and limitations of SEZs

Some 135 countries, and as we have seen in section 6.2, many of them EMEs, have developed over 3,000 zones globally. Their development has helped Increase global trade and has created over 70 million jobs and hundreds of billions of dollars in trade revenue (Murray, 2010). Nevertheless, the contribution of SEZs to social and economic development can be difficult to assess. While some data exist relating to the amount of investment, exports and employment in zones, there is very little hard data over time on the quality, cost and duration of those jobs, on the degree of skill and technology transfer and on the opportunity cost of the fiscal incentives and infrastructure costs (ILO, 2003). SEZs often target a broader range of services, many requiring advanced skills. While SEZs can be effective in attracting FDI, the challenge is to ensure benefits extend beyond the zone (UNCTAD, 2004).

SEZs have failed to take off in some countries, for example Kenya, but succeeded in others, such as Malaysia, Singapore and the Dominican Republic. Research suggests that zones are most effective when they form part of an integrated economic strategy that includes fiscal incentives, investments in infrastructure, technology and human capital and the creation of linkages to the local economy (Omar and Stoever 2008; Madani, 1999). It is important for SEZs to upgrade their activities to higher value added products and services (requiring a more skilled workforce) and to find their niche in the international production network, due account being taken of market requirements and changing comparative advantage (ILO, 2003).

The 2002 World Investment Report (UNCTAD, 2002) offers a similar assessment of SEZs: experience shows that they can be successful in earning foreign exchange, increasing employment and developing export competitiveness. However, their performance depends very much on other policies, policies that go beyond incentives and aim at enhancing human resources and creating the infrastructure necessary to attract and upgrade export-oriented FDI.

The 2002 World Investment Report notes that:

> ‘successful EPZs should not be judged solely on their capacity to attract FDI or increase exports and foreign-exchange earnings. They should also be assessed by the extent to which they help meet broader economic and social objectives. Countries that pursue more integrated policy approaches for attracting export-oriented FDI – for example by encouraging tripartite representation (employers, workers and public authorities) on EPZ committees, guaranteeing workers’ rights (including freedom of association and collective bargaining), and upgrading skills and working conditions – have tended to attract higher quality FDI [Ireland and Singapore are examples of this approach].’

The establishment of this type of SEZ can help alleviate development constraints and contribute to economic growth, provided these enclaves have a multiplier effect on the rest of the economy, such as creating employment opportunities, stimulating the development of local upstream and downstream industries and transferring technology and skills (Dwinger, 2010). For example, unlike Namibia, Mozambique has mandated that national labour laws apply to its SEZs and has guaranteed acceptable working conditions with mandatory vacation, minimum wage laws and maternity leave (Murray, 2010).

The literature identifies the following factors behind successful zones:

- **Building local human capabilities:** According to the information published by zone authorities, access to highly skilled labour is considered an important determinant of FDI in services. Language skills can also be important, for example the use of French and English in Mauritius.). SEZs can contribute to the domestic economy if foreign investors engage in substantial training and if the workplace encourages learning by doing, as in Singapore and the Philippines. Training increases the productivity of the local workforce. Furthermore, learning can also occur at the managerial and supervisory level, thus potentially fostering local entrepreneurship

- **Technology:** Malaysia, China and Singapore have promoted clusters in key sectors by investing funds and promoting links between investors and training and technology institutes. The Jurong zone in Singapore planned clusters of firms and complemented this with technology institutes. The Pedang zone on Malaysia was also helped by technology and training institutes. The dynamic development of the Shenzhen SEZ in Chia is considered to be the result partly of deliberate government policies to region's human capital and technological capability. According to Omar and Stoever (2008) the SEZ administrators and government officials developed policies such as the “science and technology development plan” and the “strategy of science and technology development” to help draw engineers and technicians from other parts of the country to the SEZ. Instead of just offering fiscal incentives to foreign investors, the SEZ administration introduced policies to protect intellectual property rights in order to reduce the risk associated with technology intensive foreign investment. Thus, the Shenzhen incentive package was designed specifically to attract high-technology investment, and this strategy was successful in developing SEZ into a high-tech area.

- **Infrastructure:** Good transport links and efficient infrastructure are essential for production. However this can be very costly .Host governments might consider subsidising the cost of infrastructure development to attract investment (Murray, 2010).

There are also examples of policy tools related to SEZs that have not worked. For example, government regulation of SEZs used to mandate that zones be located in remote locations or clearly delineated with fences or physical boundaries. Difficulties in attracting businesses to isolated areas prompted host country governments to establish more flexible boundary regulations that treated SEZs more like large-scale, inter-city property developments rather than isolated trade zones. Original zones were also mostly restricted to export-based industries, whereas newer regulations allow SEZs to emphasise both imports and exports (Murray, 2010).

6.3 Chinese SEZs in Africa

Africa is an important focus of Chinese foreign policy. At the third FOCAC meeting held in Beijing in November 2006, China made commitments to double assistance to Africa by 2009 and to establish trade and economic cooperation zones. The fourth FOCAC meeting was held in Sharm el-Sheikh, Egypt, in November 2009, and China announced eight new measures for boosting development cooperation with Africa over the period 2010-2012, which included measures to further open up the Chinese market to African products (UNCTAD, 2010a).

Currently, China is assisting in developing seven SEZs in African countries: two in Nigeria and one each in Egypt, Ethiopia, Mauritius, Zambia and, possibly, Algeria (Brautigam et al., 2010). Cape Verde has signalled its interest in hosting one of a Chinese SEZ, announced during the 2006 Sino-African FOCAC Summit in Beijing, where China pledged to invest $5 billion in Africa, aiming to gain investment concessions for Chinese firms in return.

The first Chinese SEZs in Africa has been set up in the Zambian Copperbelt. China promised $800 million of investment in Chambishi, which was expected to generate 50,000 jobs. In return for China's building of a $250 million copper smelter, a so-called 'anchor investment,' Chinese firms will be granted tax and duty concessions (such as a corporate tax of 0% for the first five years of operation) (Dwinger, 2010). This Zambian–Chinese SEZ should attract investment from China's private and public sectors, although the zone has been met with some scepticism in Zambia.

In April 2010, four big Chinese firms signed an agreement with the government of Zambia to set up business investments worth $100 million. In July 2010, it was reported that a Chinese-run mining company, Non Ferrous Metals Mining Corporation, plans to spend $500 million to invest in its Chambishi South mine in Zambia and increase copper ore output to 10,000 per day. A total of $600 million has already been spent on the development of the zone, over 4,000 Zambians have been employed in the zone and another 6,000 are expected to be employed once the zone is fully developed.

6.4 Conclusions

The literature distinguishes a number of factors necessary for successful SEZs: human resources development; infrastructure; and technology. Many EMEs and middle-income countries such as China, India and Mauritius have used SEZs successfully in their development strategies. A number of Southern partners, especially Asian investors such as China, have established new initiatives and platforms for increased engagement with Africa. The first Chinese SEZ is already operating in Zambia and there are plans for more. The G20 could assist the construction of SEZs as useful ways to innovate and diversify African economies, but only when appropriate complementary policies are put in place.

SEZs can work, with valuable lessons from their use in EMEs, which should be shared (something the G20 could promote). It cannot be assumed that SEZs benefit African countries, as this depends on whether complementary policies, such as skills and infrastructure development, are put in place, and the G20 can help here. Hence any attempt to build SEZs needs to involve complementary policies.

7. Policy implications

The G20 has come a long way since its inception as a financial grouping formed in the wake of the Asian financial crisis. Its initial agenda was limited and focused on technical issues. Today, the G20 has a public face and the development dimension of the G20 is slowly being crystallised.

The Korean presidency has put growth at the heart of the G20 development agenda. This paper has discussed how the G20 can support African growth. It argues that both G20 core actions and the development agenda can affect African growth positively. We include case studies of African regional economic integration, South Africa outward FDI in Africa and EPZs in Africa to provide examples of how the G20 could help.

This paper on G20 and African growth focused on relevant G20 actions in three areas: the G20 development agenda; the G20 core agenda; and G20 process issues. So far, the development agenda had focused on the pillars of economic growth in the Korean scoping paper, narrowing down the multiyear action plans for development in each of these. It has not had a geographical focus, unlike the G8, which did have an Africa focus in its approach towards development.

The paper examines where the G20 could add value, which needs to take into account the following observations:

- The G20 is not the G8, which focused its Africa policy especially on aid announcements on health and education. The G20 is focused especially on beyond aid issues (trade, investment, etc.).
- The G20 includes EMEs, which are important partners for poorer countries, so it is crucial to bring the opportunities they offer.
- The G20 operates the G20 framework for strong, sustainable and balanced growth in which growth in African countries can play a role (e.g. it can absorb capital arising through surplus reserves in profitable opportunities in sustainable infrastructure).
- The G20 is essentially a network, building bridges and influencing others (e.g. other countries or multilateral institutions).

Bearing in mind the specificities of the G20, and the analysis in this paper, including in the case studies, we suggest that African development would gain from the following G20 policy actions:

- Argue for permanent seats for Africa at the G20;
- Ask the G20 to organise an annual consultation event in Africa involving more structured consultations between the G20 and Africa;
- Ensure that Africans are consulted in the implementation and monitoring of G20 commitments, for example in the high level panel on sustainable infrastructure for Africa;
- Consider looking at the financing of infrastructure in more detail. The G20 could eliminate inefficiencies in the financing of infrastructure projects to free up significant resources that would reduce the need for additional funding in the short term. Initiatives like the African Financing Partnership could be supported;
- Give greater support to infrastructure to promote new technologies and network services (which, according to our analysis, has not received much ODA in the past few years);
- Ensure the ongoing maintenance of existing infrastructure, rather than just being involved in high-profile, large infrastructure projects that support regional economic integration;
- Reflect on the type of infrastructure needed for the services sector and the uptake of newer technologies, such as mobile telecommunications;
- Enable DFIs to step up activities in African infrastructure, especially regional infrastructure, with an eye to leveraging outward FDI and sovereign wealth;

- Promote sharing of knowledge in Africa on policy tools that have been successful in the G20 EMEs, for example on how to grow and innovate, use of SEZs, etc.;
- Focus on skills and technology development, which can help countries grow, build resilience and obtain the benefits from G20 investment. This requires a balanced approach towards the education sector, including TVET and higher education, where EMEs may gave useful suggestions for LICs;
- Take stock of G20 relations with Africa: most G20 members have a specific Africa-focused strategy and the G20 could provide a platform of learning on policy coherence;
- Consider the development impact of G20 core actions related to financial regulation, rebalancing, climate financing and transparency issues;
- Even though there is no clear G20 agenda on trade policy, acknowledge that one of the underlying objectives of regional economic integration is to increase the involvement of African countries in global trade. The conclusion of the WTO Doha Round of negotiations could make a contribution in this regard but would not be sufficient. A specific G20 focus on addressing the barriers to intra-African trade could be useful, as well as the harmonisation of existing preference schemes for African countries;
- Support measures to increase intra-African trade, not just focusing infrastructure investment around extractive industries that largely support exports to developed countries and Asia;
- Consider including new suggestions on rules of origin in preference schemes to make schemes such as DFQF more useful, and take into account specifics on services trade, such as temporary migration;
- Cooperate at the level of governments but also involve the private sector in a more structured way to ensure that its contributions are taken into account and inefficiencies are reduced. It would be helpful to have such a framework for those countries that are ‘newcomers’ to funding African development initiatives to better leverage their contributions;
- Link the business arm of the G20, the B20, with African business and promote the C10-supported Invest African Initiative. This could involve the EMEs in particular (including South African outward FDI).
- Promote the use of codes and standards among businesses to improve environmental, tax and SEZ-related standards (B20).

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Resources for more information about cluster development and SEZs
IFC SEZ Deep Dive
GDLN on Cluster Development and SEZs:
http://web.worldbank.org/WBSITE/EXTERNAL/WBI/WBIPROGRAMS/ICLP/0,,contentMDK:22024864~pagePK:64156158~piPK:64152884~theSitePK:461150,00.html

North Africa

Algeria
www.mppi.dz/privatisation.asp
www.andi.dz

Egypt
www.ahram.org.eg/hebdo/arab/ahram/2001/3/21/doss0.htm
www.gafi.gov.eg/

Morocco
www.mcinet.gov.ma/mciweb/zonesindustrielles/rehabilitation.htm
www.ccist.gov.ma

Tunisia
www.investintunisia.tn
www.industrie.gov.tn

Sub-Saharan Africa

Cape Verde
www.virtualcapeverde.net/capeverdeusaembassy/InvestmentInvestinCapeVerde.ppt

Cameroon
www.izf.net/izf/ee/pro/index_frameset.asp?url=http://www.izf.net/IZF/EE/pro/cameroun/6082.asp

Côte d'Ivoire
www.icongrouponline.com/browse/EntrySS/0741825309.html

Gabon
www.otal.com/walnabr03f.htm

Ghana
www.gfzb.com/
www.ghana.gov.gh/investing/free_zones.php

Kenya
www.epzakenya.com/default.asp

Lesotho
www.lndc.org.ls

Malawi
www.malawi-invest.net/index.htm

Mali
www.cnpi-mali.org/index.html
www.ametrade.org

Mozambique
www.refer.org/miroirs/mrice_ct/cop/moumoz/inves.htm

Namibia
www.republicofnamibia.com/export.htm
www.globalpolicynetwork.org/research/namibia/jauch.pdf

Nigeria
www.nipc-nigeria.org
http://www.nepza.org

Senegal
www.izf.net/izf/ee/pro/indexframeset.asp?url=http://www.izf.net/izf/EE/pro/senegal/6082.asp

South Africa
www.coega.co.za/

Sudan
www.sfzsudan.com/INDEX1.HTM

Togo
www.republicoftogo.com/english/eco-zone.php

Zimbabwe
www.epz.co.zw/concepts.html

Annex: Data tables

Table A1: Implementation of RECs

ORGANIZATION	SACU	SADC	COMESA	CEMAC	EAC	ECOWAS
FREE TRADE AREA	X	X	X	X	X	X
CUSTOMS UNION	X	2010 (no date)	X (Partial)	X	X	X
COMMON MARKET	X (no date)	2015	2014	X	X	X
ECONOMIC AND MONETARY UNION	X (CMA)	2016/2018	2025	X	2012	X (UEMOA) (WAMZ?)
POLITICAL UNION					2015	

Table A2: Aid flows reported by some G20 members to infrastructure projects in Africa, 2008 (%)

Donor	Education	Energy	ICT	Municipal Services	Other*	Transport	Water & Sanitation	Total
AUSTRALIA	93.45%	0.00%	0.00%	6.55%	0.00%	0.00%	0.00%	100.00 %
BRAZIL	67.71%	3.42%	2.23%	14.07%	12.57%	0.00%	0.00%	100.00 %
CANADA	77.22%	0.18%	0.89%	13.08%	0.08%	0.00%	8.55%	100.00 %
EC	2.08%	1.76%	0.00%	3.64%	7.25%	77.73%	7.54%	100.00 %
FRANCE	55.81%	10.94%	0.02%	7.26%	6.80%	7.48%	11.68%	100.00 %
GERMANY	42.18%	27.42%	0.20%	1.62%	2.69%	5.18%	20.71%	100.00 %
INDIA	3.81%	65.68%	5.66%	0.20%	0.00%	10.30%	14.35%	100.00 %
ITALY	21.14%	0.47%	0.02%	6.98%	0.90%	66.98%	3.51%	100.00 %
JAPAN	22.13%	34.42%	0.12%	3.44%	3.50%	14.60%	21.78%	100.00 %
SAUDI ARABIA	4.08%	0.00%	0.00%	0.00%	0.00%	85.69%	10.23%	100.00 %
SOUTH AFRICA	0.00%	0.00%	0.00%	25.00%	0.00%	75.00%	0.00%	100.00 %
UNITED KINGDOM	5.88%	7.34%	0.00%	10.76%	5.64%	26.99%	43.38%	100.00 %
UNITED STATES	13.49%	19.20%	0.00%	4.48%	1.22%	38.49%	23.13%	100.00 %
Total	**21.26%**	**14.56%**	**0.32%**	**4.86%**	**4.15%**	**38.25%**	**16.60%**	**100.00 %**

Table A3: Aid flows reported by some G20 members to infrastructure projects in Africa, 2008 ($)

Donor	Education	Energy	ICT	Municipal Services	Other*	Transport	Water & Sanitation	Grand Total
AUSTRALIA	14061612			985822			0	15047434
BRAZIL	2017679	101827	66463	419189	374709			2979867
CANADA	132426721	302725	1530907	22426330	134497		14662676	171483856
EC	34611114	29417249		60680285	120899122	1296435436	125744317	1667787523
FRANCE	614835728	120537233	262125	80035060	74905590	82450062	128696519	1101722317
GERMANY	213805133	139017712	1018226	8201425	13639149	26281191	104982763	506945599
INDIA	11725668	202043694	17426254	607059		31680005	44146231	307628911
ITALY	22943148	509023	17304	7569847	975352	72677908	3811613	108504195
JAPAN	69594056	108231288	388707	10815896	11010328	45906790	68502560	314449625
SAUDI ARABIA	7998041					167922335	20048422	195968798
SOUTH AFRICA				1719081		5157242		6876323
UNITED KINGDOM	25964306	32406873		47461402	24901110	119110125	191401162	441244978
UNITED STATES	209923639	298730520		69660940	18931201	598840777	359815849	1555902926
Grand Total	**1359906845**	**931298144**	**20709986**	**310582336**	**265771058**	**2446461871**	**1061812112**	**6396542352**

*Other includes cultural activities and capacity building
Source: www.aiddata.org

Table A4: South Africa's foreign assets in SADC countries and Africa, 2003-2007 ($ million)

Country	2003	2004	2005	2006	2007	Share 2003	Share 2007
Botswana	197.7	222.6	229.9	334.6	625.4	4.6%	3.8%
Lesotho	152.6	164.1	155.3	216.7	190.4	3.6%	1.1%
Swaziland	181.2	200.7	168.8	344.6	385.3	4.2%	2.3%
Namibia	658.5	595.3	675.7	567.2	569.5	15.4%	3.4%
Zimbabwe	354.7	159.9	227.7	265.2	404.9	8.3%	2.4%
Mauritius	1116.7	1535.1	811.0	5230.2	4974.1	26.2%	30.0%
Mozambique	871.8	962.1	1040.0	1055.4	1204.1	20.4%	7.3%
Zambia	160.4	233.3	278.8	346.9	378.7	3.8%	2.3%
Rest of Africa	572.9	1604.0	2187.3	3428.5	7850.3	13.4%	47.3%
Total	**4266.5**	**5677.2**	**5774.7**	**11789.1**	**16582.6**	**100.0%**	**100.0%**

Source: SAIIA's calculations from SARB data

Table A5: South African outward FDI flows to Africa by major institutions, 1997-2007 (rand million)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Monetary authority	114	109	72	73	75	70	62	31	75	74	75
Public authorities	83	82	79	79	0	0	0	0	0	0	0
Public corporations	357	621	4399	6111	6983	9944	7873	7373	7848	8997	12398
Banks	696	1430	5396	6714	9068	9160	10701	6110	9074	7561	17548
Private sector	8090	13331	10492	11178	10675	10835	13663	23154	19845	63394	87206
Real estate	18	14	15	15	0	0	0	0	0	0	0

Source: SAIIA's calculations from SARB data

Data note: When calculating investment flow data one would need to calculate the exchange rate to value the transaction at the time of it taking place. This will then be added to all other transactions in that period to find the final FDI flow. Information about each transaction could plausibly be collected from the exchange control department at the South African Reserve Bank however this would not be complete as a lot of these approved transactions never materialise. Therefore, the flows are calculated by subtracting each year's stock value from the previous for simplicity sake while it is acknowledged that it might not be entirely correct.

Table A6: South African bilateral investment agreements in Africa

Country	Date of Signature
Algeria	24-Sep-00
Angola	17-Feb-05
Democratic Republic of Congo	31-Aug-04
Egypt	28-Oct-98
Equatorial Guinea	17-Feb-04
Ethiopia	1-Jan-08
Kenya	Nov-2008
Libya	14-Jun-02
Mauritius	17-Feb-98
Mozambique	6-May-97
Rwanda	19-Oct-00
Senegal	5-Jun-98
Tanzania	22-Sep-05
Uganda	8-May-00
Zimbabwe	Negotiations underway

Source: Department of Trade and Industry, as of October 2010.