

## Asian-African trade and investment cooperation

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### ABSTRACT

The commercial relationship between Africa and Asia has received increased attention in recent years, especially as selected emerging Asian countries are slowly replacing Western countries as leading donors and investors. China, in particular, has emerged as the leading investor in Africa, prompted by its need to tap Africa's natural resources for its own booming economy. As a result, a somewhat asymmetrical commercial relationship has emerged in which China imports natural resources from Africa although its exports to Africa are relatively low. At the same time, while China is a leading investor in Africa, African outward foreign direct investment is still limited. Similar relationships are emerging between Africa and other Asian countries, including India and Japan.

This paper examines the nature of the growing commercial relationship between Africa and Asia, with a focus on China and India, and identifies challenges and obstacles to effective commercial relationships as well as opportunities. For instance, the lack of good governance is a recurring theme in African development. On the other hand, the existence of trade complementarities presents an opportunity for expanded trade and investment between the two continents. The paper concludes by outlining modalities at the national level and for regional cooperation to foster this promising commercial relationship so that it benefits both Asia and Africa in a sustainable manner. In this regard, it highlights the role of the United Nations regional commissions, the Economic Commission for Africa and the Economic and Social Commission for Asia and the Pacific.

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## 1. INTRODUCTION

While Africa is known for civil wars, famine, AIDS and poverty and Asia is known for technology advancement, knowledge development, hard and disciplined labour, and foreign exchange reserve surpluses, the actual picture is obviously more complicated. Quite a few African countries actually have rapidly growing economies with booming trade and investment. However, intra-sub-Saharan African trade accounts for less than 10 per cent of the region's total trade, while intra-Asian trade represents about 50 per cent of trade in the ESCAP region.<sup>1</sup> Intra-African trade is hampered not only by the relatively high tariffs African countries maintain but also by non-tariff barriers, poor infrastructure, political tensions and the lack of proper trade facilitation (Njinkeu and Fosso, 2006). This is the situation despite the fact that regional integration is more advanced in Africa than in Asia, at least on paper. Most regional trade agreements among Asian countries are either preferential trade or "free" trade agreements, while Africa boasts the highest number of Customs unions of all regions in the world. (Asia, leaving aside the Commonwealth of Independent States, has none.) Furthermore, one could expect that these obstacles would logically affect all of the trade of African countries, and they are certainly not dissimilar to those encountered in Asia. It is therefore remarkable that, despite these obstacles, during the last 15 years, trade flows between Africa and Asia have rapidly increased. Removing these obstacles would trigger even greater interregional trade flows.

A similar picture can be observed in the area of investment. Asian foreign direct investment (FDI) in Africa has risen rapidly in recent years. The rise in investment in Africa by Asia is directly related to the rise in exports from Africa to Asia.

This brief paper seeks to summarize the recent findings and recommendations on the commercial relationship between Africa and Asia and to outline areas in which Africa and Asia, through agencies such as the United Nations regional commissions—the Economic Commission for Africa (ECA) and the Economic and Social Commission for Asia and the Pacific (ESCAP)—can work together to foster this relationship in support of inclusive and sustainable development. Section 2 provides an overview of African-Asian relationships in trade and investment; section 3 identifies challenges and opportunities for efficient trade and investment relationships between the two continents; and section 4 outlines modalities for enhancing these relationships at the national and regional levels, with particular attention paid to the roles of ECA and ESCAP.

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<sup>1</sup> The ESCAP region comprises all Asian and Pacific countries and economies, including Central Asia and the Caucasus, Turkey and the Islamic Republic of Iran but not including the Middle East.

## **2. AN OVERVIEW OF AFRICAN-ASIAN COMMERCIAL RELATIONSHIPS**

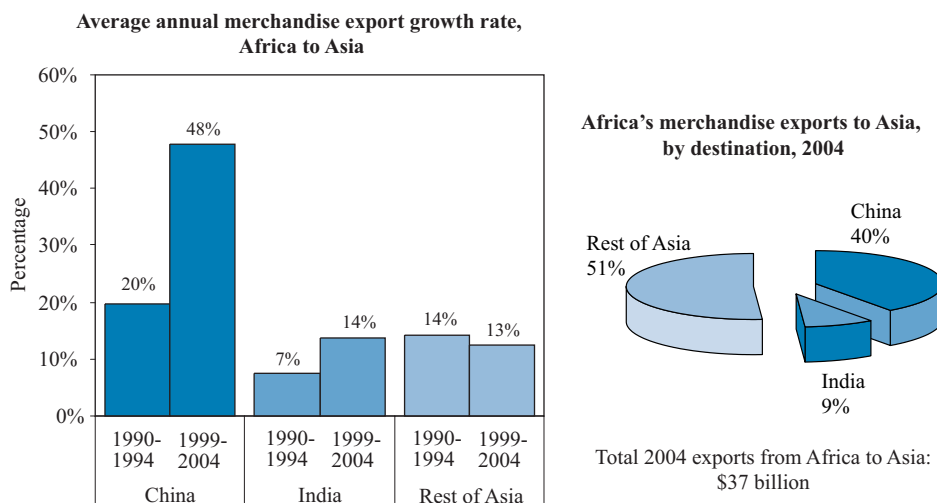
### **(a) Trade**

During the period 2003-2008, total exports from African countries to Asia grew by 20 per cent, and the annual growth rate during that period reached an all-time high of 30 per cent. Already in the early 1990s, exports from Africa to Asia were significant, growing by 15 per cent in the period 1990-1995. Imports from Asia to Africa were also high in the early 1990s but, since then, export growth has been higher than import growth. The import growth rate on an average annual basis was 13 per cent in the period 1990-1995 and 18 per cent in the period 2000-2005. According to a World Bank study, Asia now receives 27 per cent of Africa's exports, triple the amount in 1990 and almost equalling Africa's exports to the United States of America and the European Union. In fact, Asia's imports from Africa have outpaced imports from other regions. Meanwhile, Asian exports to Africa are growing 18 per cent per year, faster than to any other region in the world. One third of total African imports come from Asia, second only to imports from the European Union. Asia was Africa's third largest trading partner in 2005 (23 per cent), after the European Union (27 per cent) and the United States (25 per cent) (Broadman, 2007) (see figure 1).

China is the leading Asian trading nation for Africa, followed by Japan. However, India has emerged as a leading trading nation, as well, and together with China, it accounts for the recent high growth rates in African-Asian trade. China's relationship with Africa has clearly evolved from donor to investor and trader. Bilateral trade between China and Africa surged to nearly \$55 billion in 2006 from \$10 billion in 2000, when the Forum on China-Africa Cooperation was established. This figure jumped 40 per cent from 2005 to 2006 alone. China is now Africa's third largest trading partner after the United States and the European Union. Since the beginning of 2005, China has begun scrapping tariffs on 190 kinds of imported goods from 28 of the least developed African countries with which it has diplomatic relations. In addition, China is providing preferential trade credits and establishing a large fund to support Chinese FDI in Africa.

India's trade with Africa has soared from \$967 million in 1991 to \$30 billion in 2007/08. The most important products exported to Africa are pharmaceuticals, cotton, nuclear reactors, boilers, mechanical appliances, vehicles and railway wagons, and rolling stock. Indian-African trade links go back centuries and Indians are a significant minority in various East and South African countries. This link is demonstrated, for instance, by the growth in trade between South Africa and India at about 30 per cent per annum in the last few years.

**Figure 1. Average annual merchandise export growth rate, Africa to Asia, and Africa's merchandise exports to Asia**



*Source:* Harry G. Broadman, presentation given at ABCDE Tokyo, 29 May 2006; Data sources: IMF Direction of Trade, as of 9 April 2006.

*Notes:* The 2004 export figures are based on the data for the first 10 months of exports, adjusting for November and December exports using the average monthly export of January to October 2005. Asia includes Afghanistan, Bangladesh, Brunei Darussalam, Cambodia, China (including Hong Kong, China and Macao, China), India, Indonesia, Japan, the Republic of Korea, the Lao People's Democratic Republic, Malaysia, Maldives, Mongolia, Myanmar, Nepal, the Democratic People's Republic of Korea, Pakistan, the Philippines, Singapore, Sri Lanka, Taiwan Province of China, Thailand and Viet Nam.

To boost India's trade with the sub-Saharan African region, the Government of India launched the Focus Africa Programme under the Export-Import Policy 2002-2007.<sup>2</sup> Individual states have also taken initiatives. For instance, the southern Indian state of Andhra Pradesh recently signed a preliminary deal with Kenya and Uganda to send 500 farmers to work as entrepreneurs and landowners to cultivate land in these nations.<sup>3</sup> An India-Africa Partnership Summit was convened in India in April 2008. At the Summit, India announced a unilateral preferential market access scheme for exports from all 50 of the least developed countries (LDCs), of which 34 are in Africa. Products to be covered under the

<sup>2</sup> The Ministry of Commerce and Industry of the Government of India announces the Export-Import Policy every five years. The policy, in general, aims to develop export potential, improve export performance, encourage foreign trade and create a favourable balance of payments position. The current policy covers the period 2004-2009. The Export-Import Policy is updated every year on 31 March and the modifications, improvements and new schemes become effective from 1 April of every year (see [www.infodriveindia.com/Exim/DGFT/Exim-Policy/2008/Default.aspx](http://www.infodriveindia.com/Exim/DGFT/Exim-Policy/2008/Default.aspx)).

<sup>3</sup> "India—Boosting trade with Africa" in *Africa Business Pages: business guide*, Internet edition, available at [www.africa-business.com/features/india\\_africa.html](http://www.africa-business.com/features/india_africa.html).

new export regime included cotton, cocoa, aluminium and copper ores, ready-made garments and non-industrial diamonds. India has extended lines of credit worth \$2.15 billion to African nations and trading groups over the last five years; they are expected to more than double to \$5.4 billion over the next five years.

India has been negotiating a free trade agreement with the Southern African Customs Union (SACU)—which groups Botswana, Lesotho, Namibia, South Africa and Swaziland—since 2002. A framework agreement was signed in 2004. India is also engaged in negotiating a triangular trade agreement with South Africa and Brazil. Ideally, it could link the South Asian Free Trade Area (SAFTA) with SACU and the South American Common Market (MERCOSUR).

However, China remains a more important trading partner for Africa than India is. Africa's exports to China grew by 48 per cent annually in the period 1999-2004, compared with 14 per cent for India; today, 10 per cent of sub-Saharan exports are now to China and some 3 per cent are to India (Broadman, 2007).

Other Asian countries are also expanding their trade links with Africa. Japan is the leading importer of coffee from Africa, while Malaysia holds nearly 80 per cent of the market share in palm oil in Africa. Malaysian-African trade jumped by over 20 per cent to \$3.3 billion in 2006. Other Association for Southeast Asian Nations (ASEAN) countries, such as Indonesia, the Philippines, Singapore and Thailand, are also experiencing growing trade and investment ties with Africa, mostly with South Africa but increasingly with other sub-Saharan countries, as well, as they look for raw materials to feed their manufacturing sector. Indonesia is the largest importer of African products among the ASEAN-5 nations (Indonesia, Malaysia, the Philippines, Singapore and Thailand). African exports to these countries expanded by 65 per cent from \$2.3 billion in 2001 to \$3.9 billion in 2005. Food products are increasingly important in these exports (Yoshino, 2008).

Africa's exports to Asia consist mainly of commodities and raw materials, including crude oil. Africa has \$30 billion in untapped oil and gas resources but it needs major investment to get it out of the ground. Africa currently supplies a third of China's crude oil. In 2006, oil and gas accounted for over 60 per cent of Africa's exports to China, followed by non-petroleum minerals and metals at 13 per cent. Africa's imports from China comprised mainly manufactured products and machinery and transport equipment, which together accounted for about three fourths of total imports. This pattern is similar to trade between Africa and other trading partners (Wang and Bio-Tchané, 2008). China's commercial links with Africa have traditionally been dominated by the State sector but, in recent years, the Chinese private sector has been at the forefront of trade and investment in Africa, mostly in textiles and mining but also in services, agriculture, processing and manufacturing and, increasingly, in construction.

There is an apparent asymmetry between Africa and Asia. While Asia accounts for one quarter of Africa's global exports, this trade represents only about 1.6 per cent of the exports shipped to Asia from all sources worldwide.

### **(b) Investment**

Foreign direct investment relations between Asia and Africa are basically a one-way street, with the Asian investors targeting African countries mainly motivated by trade and demonstrating a strong trade-investment nexus. The main draw cards have been oil and other natural resources, helped by consistently high commodity prices. Hence, FDI in the oil-producing countries in Africa has been the highest. However, FDI in other sectors, such as agro-industry, textiles, other manufacturing sectors and services, has also experienced recent growth. Factors that have, to some extent, played a role in investment decisions in these sectors include: the Cotonou Agreement between the European Union and the African, Caribbean and Pacific Group of States (ACP); the European Union Everything But Arms (EBA) initiative; the phase-out of the Multifibre Arrangement; and the duty- and quota-free access to the United States market provided to some African countries under the Africa Growth and Opportunity Act (AGOA) (ECA, 2006; UNCTAD, 2007).

According to a 2007 study by the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Development Programme (UNDP) on FDI in Africa, FDI outflows from developing countries in Asia averaged \$46 billion during the period 2002-2004, of which flows to Africa made up only \$1.2 billion annually. This amount nonetheless made up the largest interregional FDI flow in the developing world. According to the UNCTAD *World Investment Report 2007*, the value of cross-border acquisitions of African enterprises reached a record level (\$18 billion) in 2006, almost half of it in the form of mergers and acquisitions by Asian transnational corporations, particularly in oil, gas and mining activities. Despite the growing inflows of FDI from Asia, sub-Saharan Africa accounts for only 1.8 per cent of global FDI inflows.

Traditionally, FDI flows from developing countries in Asia to Africa have been mainly from the newly industrializing Asian economies (Hong Kong, China; the Republic of Korea; Singapore; and Taiwan Province of China). Singapore, India and Malaysia are currently the top Asian originators of FDI in Africa, with cumulative investment stocks of \$3.5 billion, \$2 billion and \$1.9 billion, respectively, in 2004, followed by China, the Republic of Korea and Taiwan Province of China.

China and India have emerged as leading investors. The study also reveals that the annual FDI inflows to Africa from China, India and Malaysia have been higher than FDI from European countries or the United States (see table 1). In 2005 alone, Chinese FDI in Africa amounted to \$400 million and, by the end of 2005, China had an accumulated total

**Table 1. Foreign direct investment flows to Africa from selected countries**  
(Millions of United States dollars)

Year	China	India	Malaysia	France	Germany	United Kingdom	United States
2000	85.0	243.3	77.7	1 300.9	651.4	2 119.7	716.0
2001	24.5	184.8	49.4	1 796.0	-259.5	1 658.4	2 438.0
2002	30.1	883.4	340.1	855.4	-328.4	3 291.3	-578.0
2003	60.8	338.4	411.0	1 095.9	-319.4	5 639.4	2 697.0
2004	320.0	22.1	175.6	1 028.1	181.3	10 588.1	1 325.0

Source: UNCTAD and UNDP, *Asian Foreign Direct Investment in Africa: Towards a New Era of Cooperation among Developing Countries*, UNCTAD Current Studies on FDI and Development No. 3, UNCTAD/ITE/IIA/2007/1 (New York and Geneva, 2007).

of \$1.6 billion in FDI stock in Africa (see table 2), despite the fact that Chinese companies regard African countries as among the least desirable investment destinations (Broadman, 2007). Chinese companies are present in 48 African countries, although Africa still accounts for only 3 per cent of China's outward FDI.

A few countries have attracted the bulk of China's FDI in Africa: the Sudan is the largest recipient (and the ninth largest recipient of Chinese FDI worldwide), followed by Algeria (eighteenth) and Zambia (nineteenth). Chinese enterprises have entered sectors such as road and railway building, communication systems, irrigation works and energy generation. Chinese textile and clothing firms are also investing heavily in Africa at the moment as a way to get around the United States and European Union limits on Chinese exports in this sector. By the end of 2005, China had signed investment promotion and protection agreements with 28 different countries in Africa and had set up 98 enterprises on the continent.

**Table 2. FDI stock of China, India and Malaysia in Africa and the world**  
(Millions of United States dollars)

Regions	China		India		Malaysia	
	1990	2005	1996	2004	1991	2004
Africa	49	1 595	297	1 969	1	1 880
World	1 029	57 200	3 139	11 039	3 043	41 508
Share of Africa (percentage)	4.76	2.79	9.46	17.83	0.03	4.53

Source: UNCTAD and UNDP, *Asian Foreign Direct Investment in Africa: Towards a New Era of Cooperation among Developing Countries*, UNCTAD Current Studies on FDI and Development No. 3, UNCTAD/ITE/IIA/2007/1 (New York and Geneva, 2007).

Indian investment is concentrated in East and South Africa. For instance, India is among the top five sources of FDI in Uganda. Tata Industries is a leading investor in South Africa. Unlike in the area of trade, Indian investors tend to be better integrated in Africa than Chinese investors.

There are various platforms to promote Asian-African trade and investment, such as the Africa-Asia Business Forum (AABF) and the Tokyo International Conference on African Development (TICAD), which has implemented measures to boost Africa's FDI inflows, including from Asian small and medium-sized enterprises.

### **3. CHALLENGES AND OPPORTUNITIES FOR EFFICIENT AFRICAN-ASIAN TRADE AND INVESTMENT**

#### ***(a) Challenges***

As investment links between Africa and Asia are very much dependent on trade links, it can be expected that obstacles to trade and to investment are interlinked, as well. For that reason, in the context of this paper, no distinction is made. The following obstacles and challenges for efficient African-Asian trade and investment can be identified:

- (a) An anti-private-sector bias, which led to the nationalization of private companies in many countries;<sup>4</sup>
- (b) An uninformed, distorted form of nationalism, which is manifested in the form of unnecessary bureaucracies in the trade and investment process;
- (c) A lack of effective access to international markets (despite existing measures under the Generalized System of Preferences (GSP) and other schemes for developing and least developed countries);
- (d) Massive value loss from Africa to the outside world as a result of the export of raw materials and semi-processed goods, which makes Africans the unacknowledged donors of wealth to Europe, the United States and other parts of the world;
- (e) A small, fragmented African market, characterized by low purchasing power;
- (f) An absence of effective backward linkages between domestic small and medium-sized enterprises (SMEs) in Africa and transnational corporations from Asia;

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<sup>4</sup> For instance, in Uganda, former President Idi Amin expelled the Indian community which had made Uganda its home because he did not see the usefulness of the private sector in the economy. However, there are signs that, at least in some African countries, the tide is changing in favour of private sector development. (Speech by Yoweri Museveni, President of Uganda, at the India/Africa Partnership Summit Forum in New Delhi on 8 April 2008). Points (a) to (e) are also derived from his speech.

- (g) The crowding out of domestic investment by Chinese and Indian investment;
- (h) A lack of proper infrastructure and the related high transaction costs of trade and investment;
- (i) Poorly developed labour and capital markets;
- (j) Relatively high levels of protectionism, both in Africa (with the exception of South Africa) and in Asian countries (including high levels of tariff escalation and non-tariff barriers), which hamper effective South-South trade and investment;<sup>5</sup>
- (k) High levels of corruption and an overall absence of good governance in selected African and Asian countries, including the incidence of civil and international wars and conflicts (predominantly in Africa);
- (l) A lack of effective trade and investment integration between Asia and Africa (i.e. a high number of regional trade agreements (RTAs) within Africa and Asia but not between them).<sup>6</sup>

These obstacles and challenges can be categorized in various ways. Obviously, most of them are rooted in the overall absence of a minimum level of development, especially in Africa, which is required to spur value-added trade and investment flows. They include the absence of well-developed legal, institutional and financial frameworks, policies and institutions; education and health infrastructure; private sector businesses and representative institutions; and other interrelated elements which make up a conducive investment and business climate and contribute to supply-side capacity. In addition, Africa and Asia are host to many of the world's landlocked developing countries. Of the 12 landlocked countries in Asia, Azerbaijan, Armenia, Kazakhstan, Kyrgyzstan, Mongolia, Tajikistan, Turkmenistan and Uzbekistan are now economies in transition, while

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<sup>5</sup> Following the India/Africa Partnership Summit Forum, the Indian Institute of Foreign Trade (IIFT) conducted a study to ascertain the feasibility of entering into a Preferential Trade Agreement (PTA)/Free Trade Agreement (FTA) between India and South Africa (IIFT, "Feasibility Study on India-SACU Preferential Trade Agreement/Free Trade Agreement", 2008). The study found that more than 50 per cent of India's exports are subject to a tariff of less than 10 per cent in South Africa and only 33 per cent are facing a tariff rate of more than 20 per cent. On the other hand, 55 per cent of imports from South Africa face high tariffs of more than 20 per cent in India. Only 34 per cent of imports from South Africa are subject to low tariffs of 10 per cent and below. The weighted average tariffs in India and South Africa are 22.89 per cent and 16.35 per cent, respectively.

<sup>6</sup> The existence of the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) is noteworthy. It was formally launched in March 1997 and consists of 19 Asian and Pacific, Middle Eastern, and East and South African member countries. The Association disseminates information on trade and investment regimes in the respective member countries, with a view to helping the region's business community to better understand the impediments to trade and investment within the region. These information exchanges have been intended to serve as a base to expand intraregional trade. However, no formal free trade agreement exists between the member countries.

Afghanistan, Bhutan, the Lao People's Democratic Republic and Nepal are classified as LDCs. There are 15 landlocked countries in Africa, most of which are LDCs. Many of them are plagued by civil strife and natural disasters, such as droughts, and other environmental problems, such as desertification and deforestation, and suffer from abject poverty and a high incidence of disease. Such constraints do not make for effective development and, hence, for the effective promotion of trade and investment, yet without the development of private-sector-led trade and investment, no wealth can be generated, and wealth is needed to address the overall development concerns. In this context, the rising flows of Asian investment capital in Africa and exports from Africa to Asia offer opportunities to escape the vicious cycle of underdevelopment.

While it appears that challenges and obstacles to effective African-Asian trade and investment are basically an African problem, this would be misleading. Many of the identified obstacles are prevalent in both African and Asian countries but they tend to be generally more profound in Africa. In addition, it should be added that Asia has been recovering for a long time from the 1997 crisis and many Asian investors, in particular SMEs, are still inexperienced and reluctant to invest abroad, let alone in Africa, as compared with easier investment destinations in Asia itself. This is coupled with the traditional aversion to risk found in Asia.

### ***(b) Opportunities***

Doing business in or with Africa is certainly challenging. Nevertheless, there are potential rewards which make it worth the risk. Below is a brief analysis of the main opportunities for African-Asian trade.

First of all, there are clear complementarities and a shifting of comparative advantages between the two continents. Conventional theory dictates that developing countries produce primary products, as they are endowed with rich natural resources and low labour costs, while developed countries have high labour costs and focus on the high value added and technologically advanced industries and services. However, these advantages are slowly shifting. Labour costs in Asia have steadily risen, while emerging Asian countries have accumulated capital surpluses. Savings rates have also rocketed across Asia since the 1997 financial crisis, creating avenues for outward investment. Coupled with global pension fund reforms, these factors have enabled emerging Asian countries to become investors themselves through channels such as pensions and investment funds in the next generation of developing countries, both in Asia and Africa. These investments are, as yet, not very large but new opportunities are emerging as private sector investments and mergers and acquisitions take on more active roles. In trade, obviously, emerging Asian countries have progressed to higher stages of manufacturing, requiring vast raw materials and natural resources, which are abundantly available in Africa in return for Asian investments to explore and exploit such inputs.

For instance, a country such as China is advanced in agricultural technology, seed cultivation and oil exploration and has relatively cheap and durable light industry products and machinery. These products could meet the needs of African countries at much lower costs than when sourced from developed countries. In addition, Asian countries tend to be more flexible on political issues and are familiar with working in a developing country environment.

Second, while investing in Africa appears risky, an early presence may reap benefits. In a similar fashion as Japanese transnational corporations waited patiently for profits in countries such as China and Viet Nam, the early presence of Chinese and Indian transnational corporations in Africa is sure to reap rewards in due time.

African countries have booming populations despite a relatively high mortality rate. The current population of Africa is estimated to be 900 million and it is expected to grow to 2 billion by 2025. As a result, these countries constitute potentially lucrative markets for relatively cheap products which are not provided by developed countries at prices offered by Asian countries. Though purchasing power is still relatively low, quite a few African countries have witnessed impressive economic growth rates. Over the past decade, Africa has recorded an average growth rate of 5.4 per cent, which is on a par with the rest of the world. An ECA report (2008) notes that African economies have continued to sustain the growth momentum of previous years, recording an overall real GDP growth rate of 5.8 per cent in 2007, with 30 countries recording higher economic growth rates in 2007 than in 2006. According to the World Bank *Africa Development Indicators 2007* (World Bank, 2008), a group of 18 resource-poor countries—home to 35.6 per cent of the Africa's population—have done as well as some oil-rich countries, if not better, sustaining growth of more than 4 per cent over the last decade. Today, the East African Community, for instance, has a combined population of 120 million people, with a combined GDP of about \$50 billion.<sup>7</sup> Africa's growth performance has been driven mainly by robust global demand, including from Asian countries such as China and India, and high commodity prices. African exports include food and agricultural products, as non-essential foods such as coffee, cocoa, tea and nuts are experiencing stronger demand in Asia than in the already saturated markets of developed countries (World Bank, 2004). These trends clearly offer opportunities for Asian investors to set off a virtuous cycle of development in both Africa and Asia.

Asian investment in Africa is progressing beyond natural resources and is increasingly targeting labour-intensive manufacturing, such as textiles and clothing, and

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<sup>7</sup> The East African Community is an intergovernmental organization comprising five East African countries: Kenya, Tanzania, Uganda, Burundi and Rwanda. A customs union in East Africa was signed in March 2004 and commenced on 1 January 2005. Under the terms of the treaty, Kenya, the region's largest exporter, will continue to pay duties on its goods entering the other four countries until 2010, based on a declining scale. A common system of tariffs will apply to goods imported from third-party countries.

light manufacturing. To some extent, this investment is motivated by the access of African countries to developed markets under GSP and other preferential market access schemes. Although some of these schemes, such as EBA, are also available to Asian developing or least developed countries, others, such as AGOA, are not. Moreover, as mentioned earlier, where developed countries have imposed restrictions on Chinese exports, Chinese companies find it convenient to invest in Africa and export their products without restriction from there to the developed countries. A successful Doha round and restrictive rules of origin may, however, undermine the effectiveness of preferential market access schemes. At the same time, African manufacturing sectors geared towards exports to developed countries are benefiting from relatively cheap imports from Asia, especially in the textile and clothing and automobile industries (World Bank, 2004).

#### **4. MODALITIES FOR ENHANCING EFFICIENT AND EFFECTIVE AFRICAN-ASIAN TRADE AND INVESTMENT FLOWS**

##### ***(a) National level modalities***

Broadman (2007) identifies four areas for national level reform, both in Africa and Asia:

(a) “At-the-border” reforms, such as the elimination of the escalating Chinese and Indian tariffs on Africa’s leading exports and the elimination of African tariffs on certain inputs that make its own exports uncompetitive. These reforms are aimed at trade liberalization. Apart from tariffs, a whole range of non-tariff measures in both Africa and Asia need to be dismantled. These reforms may be able to be implemented in the short run, depending on the extent to which African countries depend on tariffs for Government revenues. However, according to Broadman, they are less important than the reforms in the other areas;

(b) “Behind-the-border” reforms in Africa to unleash competitive market forces, strengthen Africa’s basic market institutions and improve governance. These reforms cover the gamut of development and are focused on developing supply-side capacities. They include strengthening the overall business and investment climate through better and more effective legal, institutional and financial systems; better infrastructure; and a higher level of skills. They also include reforms aimed at developing capacity to achieve higher value addition at home. This is a long-term issue;

(c) “Between-the-border” improvements in trade facilitation infrastructure and institutions to decrease transaction costs, such as improvements in Customs administration, logistics, and transport and communications and the adoption of standard compliance and certification facilities. African countries have a long way to go towards effective trade facilitation, as do their Asian counterparts, and this includes the adoption of international standards and the adoption of single window systems;

(d) Reforms that leverage linkages between investment and trade to allow African businesses to participate in the modern global production-sharing networks generated by Asian investments in Africa and to facilitate the transfer of technologies.

### **(b) Regional cooperation modalities**

Improvements in African-Asian trade and investment flows require both African and Asian countries to implement reforms. Hence, there is an imperative for them to work together. This can be done through the organization of regular strategic dialogues within established platforms which already exist in the form of the India-Africa and China-Africa forums, TICAD and the Asia-Africa Trade and Investment Conference, but these forms of dialogue tend to be dominated by a particular country (e.g. India, China or Japan) rather than engaging dialogue between the two regions that includes all countries. Such a platform could be established under the auspices of ECA and ESCAP and/or the Asian Development Bank and the African Development Bank. Such platforms could provide broader dimensions of African-Asian cooperation, result in concrete schemes on trade and investment and business development (in particular for SMEs), provide opportunities for learning from best practices, and establish business contacts and useful intergovernmental contacts. Alongside such platforms, business and investment forums could be organized where African and Asian businesses would be brought together or where at least Asian entrepreneurs (in particular, SMEs) would be presented with business opportunities in Africa.

Business-to-business exchanges are important and do not necessarily have to be government-driven. Chambers of commerce at the national and/or subregional level should also undertake initiatives in this regard. The Africa-Asia Business Forum could be strengthened for this purpose. The Forum is a series of intense face-to-face negotiations between selected African and Asian firms organized within the framework of TICAD. It aims to identify business partners to enter into various types of deals such as joint ventures, franchising, licensing and technology transfer. The fourth Africa-Asia Business Forum (AABF IV) took place in Dar es Salaam, Tanzania, from 12 to 14 February 2007, bringing together 212 participants from 17 African and 7 Asian countries; 118 memoranda of understanding, valued at \$156 million, were concluded during the Forum.<sup>8</sup>

Second, Asian and African countries need to promote intraregional integration, which will facilitate economic cooperation between the two continents and more efficient flows of trade and investment within each region. While Africa has large subregional integration schemes, they are, in fact, rarely effectively implemented.

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<sup>8</sup> Website of the Africa-Asia Business Forum, accessed from [www.ticadexchange.org/main2.asp?id=141&lan=en](http://www.ticadexchange.org/main2.asp?id=141&lan=en) on 30 December 2008.

Third, Africa and Asia should establish stronger trade and investment linkages through the formation of regional and/or (as a second best option) bilateral trade agreements. Bilateral trade agreements could be concluded between countries in Africa and ASEAN, India and China, while a regional trade agreement could be concluded within the framework of the Indian Ocean Rim Association for Regional Cooperation. The only initiative at the moment is the proposed India-SACU free trade agreement, but negotiations are stalling. In addition, selected emerging and richer Asian countries could grant African countries preferential market access. Worldwide, progress has already been made in the Global System of Trade Preferences among Developing Countries (GSTP) but the implementation of this system tends to be very slow.

There is also a need for more financial cooperation between Asia and Africa to support trade and investment flows between the two regions. Deepening financial market reforms and ensuring higher quality services among financial institutions will enable the optimum mobilization of savings as well as securing the uses of capital. Such security will be beneficial to developing countries in avoiding, or at least reducing, financial risks.

### ***(c) Role of ECA and ESCAP***

As the principal regional representatives of the United Nations in their respective regions, ECA and ESCAP can do a lot, together and by themselves, to promote interregional cooperation. By themselves, they should continue promoting and fostering intraregional integration by strengthening and consolidating regional trade agreements which are far-reaching in scope, broad in commitments and membership, and actually being implemented. Africa has various Customs unions, which are rather weak. RTAs have proliferated in Asia, but none of them are Customs unions; they are, rather, preferential trade agreements which are presented as free trade agreements. ESCAP has undertaken efforts to map and assess these agreements through its Asia-Pacific Trade and Investment Agreements Database,<sup>9</sup> with the aim of streamlining, harmonizing or even consolidating them. It is also the secretariat to the Asia-Pacific Trade Agreement,<sup>10</sup> the members of which—Bangladesh, China, India, Sri Lanka, the Republic of Korea and the Lao People's Democratic Republic—have launched a fourth round of tariff negotiations as well as negotiations on framework agreements in the areas of trade in services, non-tariff barriers, investment and trade facilitation. Membership expansion initiatives are also being implemented. In addition, ESCAP is organizing regional and subregional networks to promote trade cooperation and efficient trade, with the purpose of promoting the adoption of internationally recognized principles and practices of trade facilitation and efficiency among its members. In the future, it is envisaged that ESCAP will promote subregional and regional cooperation in the area of finance, as well. It has already established mechanisms

<sup>9</sup> Available at [www.unescap.org/tid/aptiad](http://www.unescap.org/tid/aptiad).

<sup>10</sup> Available at [www.unescap.org/tid/apta.asp](http://www.unescap.org/tid/apta.asp).

such as the Asian Clearing Union and the Asian Reinsurance Corporation. Through such modalities, ESCAP is promoting intraregional integration, which is essential for the promotion of effective interregional cooperation.

As far as interregional cooperation is concerned, there are various options. Already, ESCAP and the Economic Commission for Europe (ECE) have circulated a project profile for submission under the seventh tranche of the United Nations Development Account. The project aims to establish networks, starting with the countries of Central Asia, with a broad mandate to discuss matters related to both trade policy, including RTAs and World Trade Organization (WTO) issues, and trade facilitation. Such platforms could be used for interregional dialogue. A similar initiative could be launched by ESCAP and ECA.

ECA and ESCAP could also cooperate in establishing a knowledge database on African-Asian trade and investment patterns and relations to understand better how the markets work in both regions (World Bank, 2004). On the basis of this database, analytical studies, including studies at the sectoral level, could be undertaken to identify areas for cooperation in and the expansion of trade and investment and to identify bottlenecks. Together, the two commissions could forge a deeper integration of both African and Asian enterprises into regional, interregional and international supply chains. The focus of these efforts should be on SMEs. Already, FDI in Africa from Asian SMEs and business-to-business contacts between the two regions are increasing and both commissions should nurture and foster such developments through the organization of interregional business and investment forums. Joint training programmes with WTO on WTO/Doha issues could also be contemplated, as both commissions have excellent relations with WTO in the delivery of technical assistance aimed at promoting the multilateral trading system. Joint activities could also be organized to highlight best and good practices in the area of business development, including entrepreneurship development, technology transfer and development, and the overall improvement of the business and investment climate. In this respect, Africa could learn a great deal from Asian experiences.

ESCAP and ECA should also address the issue of asymmetry. As yet, most interregional FDI flows are from Asia to Africa and most exports are from Africa to Asia. Africa needs to start investing in Asia, as well, to tap into interregional supply chains and directly access inputs for its own manufacturing. Africa also needs to focus more on adding value in its own industries to escape dependency on commodities only, particularly as current high prices may not persist and commodity prices are known for their wide fluctuations.

These are some preliminary ideas. Any modality identified above in section 4 could, and should, be supported by the regional commissions in close cooperation with the regional development banks and global institutions such as UNCTAD, the United Nations Industrial Development Organization (UNIDO) and WTO, in particular with reference to

the implementation of the One United Nations concept and within the wider framework of Aid for Trade initiatives. Such ideas and concrete interregional projects could be further discussed within the Executive Committee on Economic and Social Affairs (EC-ESA)<sup>11</sup> trade cluster or the United Nations Chief Executives Board (CEB) Interagency Cluster on Trade and Productive Capacity, which was recently launched at UNCTAD XII.<sup>12</sup>

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<sup>11</sup> More information on EC-ESA is available at [www.un.org/esa/ecesa](http://www.un.org/esa/ecesa).

<sup>12</sup> More information on UNCTAD XII is available at [www.unctad.org/Templates/Meeting.asp?intItemID=4287&lang=1](http://www.unctad.org/Templates/Meeting.asp?intItemID=4287&lang=1).

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