

## INTRODUCTION TO THE CONCEPT NOTES

# THE 2007 AFRICAN DEVELOPMENT BANK GROUP ANNUAL MEETINGS



## MINISTERIAL ROUND TABLE DISCUSSIONS AND HIGH LEVEL SEMINARS

### CONCEPT NOTES

1. Ministerial Round Table - Africa and Asia: Partners in Development.
2. High Level Seminar 1: Africa and Emerging Asia: Trade and Capital Flows.
3. High Level Seminar 2: Africa and Emerging Asia: Entrepreneurship and Private Sector development in Africa.
4. High Level Seminar 3: Human Capital and Technology for Development – Lessons from Emerging Asia.
5. High Level Seminar 4: Regional Co-operation – Addressing Trans-Boundary Challenges.

*Shanghai, China – 15 May 2007  
Shanghai International Convention Center,  
Oriental Riverside Hotel*

The Concept Notes for the 2007 Annual Meeting Seminars (AMS) are crafted around the theme: *Africa and Asia: Partners in Development*. The choice of this theme is based on the fact that Africa is now deepening its engagement with Asia, which is underscored largely by a surge in investments and trade between the two continents. Trade relations between Africa and Asia is now almost at par with Africa's trade with the US and the European Union put together, which are Africa's traditional trading partners. This increasing engagement of Africa with Asia presents a rare opportunity for Africa to hasten its international integration and growth. Given the complexity of the issues surrounding Asia's engagement with Africa, there is a need for dialogue and discussion of the challenges associated with this growing partnership, which will be the overriding theme for the 2007 Annual Meetings Seminars. The hosting of the ADB Annual Meetings in China also provides a unique opportunity and the right forum to further reflect on these issues. This theme is timely and of international dimension, and enables the Bank to attract renowned keynote speakers on the issues.

In this context, the broad objective of the Seminars is to examine the economic implications of Emerging Asia's engagement with Africa in both the medium and long-terms. The Seminars are organized into a **Ministerial Round Table**, which will be followed by **High Level Seminars**. The Ministerial Round Table is intended to articulate the issue of how African countries can derive maximum benefit from Asia's engagement with the continent. The discussion of the Ministerial Round Table will be guided by a general Concept Note on '*Africa and Asia: Partners in Development*', which will highlight and briefly introduce the key sub-themes that will be addressed in the Seminars. The High-Level Seminars are intended to further delve into each of the sub-themes introduced in the Ministerial Round Table Discussion. The concept notes for the High Level Seminars are crafted around the following four main sub-themes:

- Africa and Emerging Asia: Trade and Capital Flows;
- Africa and Emerging Asia: Entrepreneurship and Private Sector Development in Africa;
- Human Capital and Technology for Development – Lessons from Emerging Asia; and
- Regional Cooperation – Addressing Trans-Boundary Challenges.

Each concept note provides a general guidance to the discussion, providing key issues under each theme and concluding with key questions for consideration by the panelists. The concept notes are deliberately intended to be less exhaustive, but yet set the tone and provide general guidance to the Seminar discussions, without limiting it to the issues raised in the notes. The expectation is that the Seminar would benefit from the wealth of experience and lessons that would be shared by participants, drawn largely from their work in dealing with these issues and challenges in their countries.

## Executive Summary

# MINISTERIAL ROUND TABLE DISCUSSIONS

## AFRICA AND ASIA: PARTNERS IN DEVELOPMENT

### Concept Note

**Prepared by:** *The Development Research Department (EDRE) and  
The African Development Institute (EADI)*

**Date:** *15 May 2007*

**Venue:** *Auditorium  
Shanghai International Convention Center, Oriental Riverside Hotel*

**Time:** *9:00 am to 12:30 pm*

1. Africa and Asia have a long standing partnership in areas which span not only trade and investment but also migration and cultural exchange. Since the birth of modern Africa, Asia has been a provider of development assistance to the newly independent countries in the areas of infrastructure, agriculture, education and health among others. More recently, the bonds between the two continents have increased, thanks to the strong economic growth of China and India. Asia's high economic growth rate has contributed to fuelling the heightened demand for Africa's natural resources, especially oil. At the same time, Asia has increased its foreign direct investment into Africa, mainly in mineral and oil rich countries. Asia's emergence as an economic giant comes with opportunities, challenges and key lessons for Africa.

2. From the experience of countries such as South Korea, Malaysia, Japan, Singapore and China, Africa could draw on valuable lessons in a wide range of areas, including savings and capital accumulation, human capital development, skills development, resource management, management of development processes, public intervention in strategic sectors, market liberalization and integration into the global trading environment. In particular, the quick recovery from the East Asia crisis in 1997/8, and the diversity experiences of these countries in following different development models, may have valuable lessons for different African countries.

3. Opportunities with the Africa-Asia partnership emerge with the increasing investments and capital flow from Asia to Africa, and the possibility that such investments come with transfer of skills, know-how and low-cost technologies that improve efficiency. In resource-rich countries however, the increased Asian involvement with Africa can lead to increased specialization in unprocessed products and vulnerability, while resource-poor countries may not be able to compete with Asian products both on their internal and external markets. The seminar presents an opportunity to the Governors of the African Development Bank to draw key lessons for Africa in its effort to integrate effectively in the global trading environment, while enhancing the competitiveness of the African economies.

## 1. Introduction

1.1 Africa and Asia have a long standing partnership. Indeed, Asia has provided sustained official development assistance to Africa in infrastructure, agriculture, health and education since the time of independence. Africa and Asia have collaborated in international forum and multilateral organizations on key issues so as to speak with a unified powerful voice. There is also a human element which has created strong bonds between the two continents through migration to Africa since the early 19<sup>th</sup> century. More recently, the bonds between the two continents have increased as the commercial links between them - which date back to at least the early 19<sup>th</sup> century in the case of trade between East Africa and India - have improved significantly.

1.2 While the development experience of Africa and Asia followed parallel routes, they started to diverge as Asia enjoyed sustained economic development. At the time when most African countries gained independence, the current Asian tigers were not richer than them. In a matter of a few decades, things have now changed significantly. Asia's sound economic policies, prudent macroeconomic management and favourable external environment have meant that the Asian tigers now enjoy much higher standards of living than their African counterparts. Although Asia and Africa share a number of similarities, and the same external environment, Asia is quickly outpacing Africa in terms of growth and development.

*'Forty years ago, Korea and Nigeria were much in the same position. Since then, however, many changes have taken place to bring about conspicuous differences between the two countries.'*

**President Obasanjo, (Korea Focus, March 2006)**

1.3 The high economic growth of many parts of Asia has transformed some countries of that region into major worldwide players. For example, between 1997 and 2006, China averaged an annual GDP growth rate of 9 percent. This means that the standard of living of the average Chinese doubled over that period. By comparison, although Africa's GDP grew by 3.8 percent on average over that same period, because of its population growth, the average African standard of living did not improve significantly. If the current growth rate in many parts of Asia is maintained, and spreads out to other parts of the continent, by 2015 an 18-year old Asian will be many times better off than his current African contemporary.

1.4 Asia's economic growth is fuelling an increased demand for Africa's resources, and has led many Asian firms to increase their presence in Africa. These have important implications for Africa. This concept paper provides evidence of the increasingly commercial partnership between Africa and Asia, documents the opportunities and challenges of Africa's engagement with Asia and draws lessons for Africa. It then reviews the development assistance which Asia provides to Africa. It concludes by examining the possible role of the African Development Bank in fostering the Asia-Africa partnership for the development of its Regional Member Countries.

## 2. Recent Economic Developments and Experience in Asia

2.1 The rates of growth of real GDP in East and South Asia have consistently exceeded that of developing countries since 2000 (United Nations, 2007). However, there is some heterogeneity across countries. The Japanese economy contracted during the late 1990s and stagnated in the early 2000, but has been growing above 2 per cent since 2004. Newly industrialized Asian countries (which include the Hong Kong Special Administrative Region of China, the Republic of Korea, Singapore and Taiwan Province of China) are expected to maintain their good economic performance and high growth rates. Other Asian countries which were not performing well in the recent past have seen their performance increase significantly. For instance, Vietnam's real GDP rose by 8.4 per cent in 2005. China's annual real GDP growth rate exceeded 10 percent since 2002, while India has been growing by more than 7 per cent since 2002.

2.2 The emergence of a number of Asian countries as economic giants has major implications for Africa. On the one hand, many African countries have benefited and continue to benefit from the increased Asian demand for their resources, both oil and non-oil commodities. On the other hand, some African countries have had to contend with increased competition resulting from increased Asian trade with the rest of the world, for example in the textile and fibre industry.

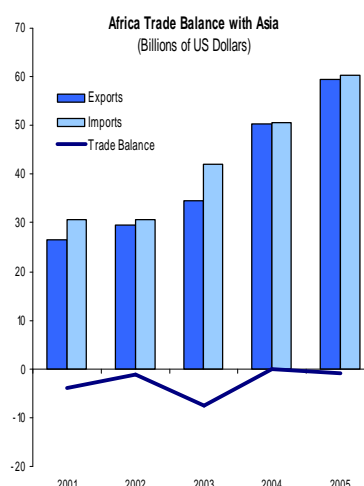
### Opportunities : Increased Trade and Investment

2.3 The increased engagement of Asia with Africa is aptly reflected by the increased trade volume between the two continents. Africa's exports to Asia have more than doubled since 2000, and Asia was the second fastest growing trading region during that period, after the United States. However, not all African countries are affected in the same manner by Asia's increased trade with the continent. The biggest direct winners are producers of raw materials such as oil, while others like Tunisia export virtually nothing to Asia.

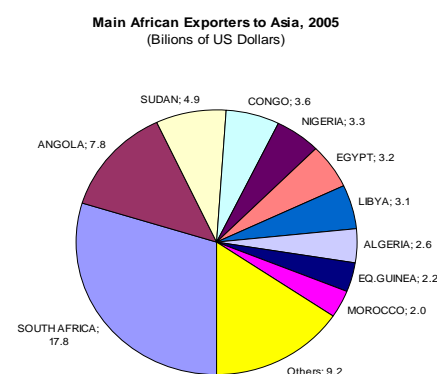
Region	Africa Imports (USD Billion)					Africa Exports (USD Billion)				
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
<b>Asia</b>	30.6	30.7	42.0	50.6	60.3	26.7	29.5	34.4	50.4	59.6
China	6.0	6.9	10.1	13.7	18.6	4.8	5.4	8.4	15.6	21.1
India	2.9	3.1	3.8	5.3	7.0	2.6	3.4	3.2	3.8	4.9
Indonesia	1.2	1.2	1.2	1.3	1.7	1.4	1.7	1.6	1.4	1.6
Japan	4.3	4.8	5.5	7.5	8.1	4.5	5.7	6.4	8.7	9.9
Malaysia	0.8	1.1	1.4	1.6	2.0	0.3	0.3	0.3	0.6	0.7
South Korea	4.0	3.9	4.1	7.3	8.0	2.1	2.2	2.5	3.7	3.5
Viet Nam	0.2	0.1	0.2	0.0	0.0	0.0	0.1	0.1	0.0	0.0
<b>Europe</b>	64.8	68.3	81.3	97.6	107.5	75.7	75.3	89.5	107.6	127.1
France	16.5	17.6	19.8	22.3	25.1	13.6	13.8	16.8	18.4	22.3
Germany	10.6	10.5	13.3	16.6	17.9	9.9	9.2	10.9	13.7	16.0
Italy	8.9	9.3	10.9	12.8	14.2	12.9	13.0	15.4	19.7	23.8
UK	6.9	7.2	8.7	10.2	10.5	9.9	10.4	11.3	14.0	15.4
<b>USA</b>	12.4	10.7	10.7	13.5	15.5	26.8	23.3	33.9	48.3	67.9
<b>World</b>	124.7	130.2	156.7	186.6	208.3	151.3	149.2	180.0	233.6	282.6

Source: ADB Statistics Department and UNSD Comtrade Data System

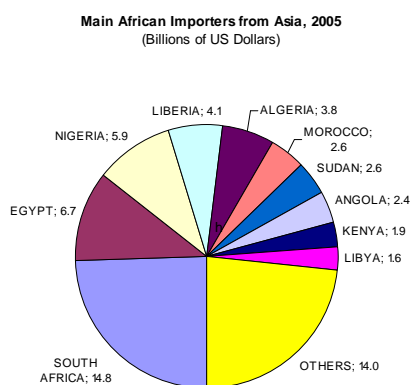
2.4 A large part of the recent surge in trade between the two continents can be attributed to China. Indeed, China's share in Africa's exports increased from 3.2 per cent in 2001 to 7.5 per cent in 2005. China became Africa's fourth biggest export market in that year (after the United States, Italy, and France) ahead of the United Kingdom. In 2000, Africa's exports and imports to China were approximately in balance at around USD 5 billion. These values had more than tripled by 2005, and Africa has a trade balance surplus with China since 2004.



2.5 One of the most significant developments for Africa is the growing importance of capital flows from Asian countries such as China, India, South Korea and Malaysia. Foreign direct investment (FDI) from Asia to Africa has increased significantly in recent years. In 2005 Asian countries accounted for around 15 percent of the USD 31 billion FDI flows to Africa. Such investment contributes directly to the country's gross domestic product, generates employment and reduces poverty. Africa is likely to benefit from Asian investments in a number of other ways.



- Asian investments facilitate the transfer of skills and technology to Africa. With their low-cost, low-technology, Asian firms could create conditions for facilitating competition for the African domestic firms, and enhance productivity.
- Asian firms provide capital goods and intermediate inputs, which enable African firms to manufacture products potentially for exports, particularly to other developing countries, thereby boosting trade.
- There is evidence to suggest that Asian firms in Africa interact with Africa's informal business sector, thereby affecting the demand and supply of the informal sector.



2.6 Asia has given Africa the opportunity to access many consumer goods at a much cheaper price than from their traditional providers. Apart from textiles and fibres, Asian commodities are not yet directly competing with domestically produced goods on a noticeable scale. However, the potential for this competition to grow strong cannot be ignored. Moreover, it is believed that African countries will continue to import more from Asia in the future, with Asian exports finding their way to more African countries.

## **Asia's Experience in Supporting Africa's Development**

2.7 Asia has a long-standing and diverse experience in providing assistance to Africa for its development. Hence, the partnership between the two continents has a strong foundation on which to build. This is illustrated by examples from the following countries:

2.8 *Japan* – As a long-standing development partner of Africa, Japan's first Tokyo International Conference on African Development (TICAD), held in 1993, underscored the important role of Asia-African cooperation. At TICAD III in 2003, Japan proclaimed the three focus pillars for African development: human-centeredness, poverty reduction and consolidation of peace. At TICAD III, infrastructure development was also recognized as critical, whereby Japan pledged about USD 1.06 billion to Africa over 5 years in transport, communication, energy and water sectors. This was followed by the country's pledge to double ODA to Africa over the next three years, made at the Asia-Africa Summit in Indonesia in April 2005. Furthermore, Japan has pledged to cancel debts of HIPC and other eligible countries in Africa of about USD 3 billion, while it remains committed to forging links between the private sectors of Asia and Africa.

2.9 *South Korea* – Having emerged from an aid recipient to a donor country in the last 30 years, South Korea has also become an important donor to Africa, committing to triple its ODA for Africa to about USD100 million by 2008. Efforts to strengthen the business ties between Africa and South Korea are also underway. In this regard, discussions were held in April 2006, convening 13 African ministers, African Development Bank officials, top Korean businessmen, researchers and government representatives, where the Eximbank President indicated that direct Korean investment in Africa had reached USD 1 billion.

2.10 *China* – China has been involved with Africa since the early days of the independence movements in the 1960s, and this engagement has increased considerably in the recent years. At the China-Africa Summit in Beijing in November 2006 for instance, the Chinese President offered USD 5 billion in loans and credit to Africa, along with a doubling of aid. Furthermore, during President Hu Jintao's February 2007 trip to 8 African countries, it was announced that China would lend Africa USD 3 billions in preferential credit over three years, and double its aid as well as interest-free loans at the same time. Such financing, if productively employed by recipients would support growth, generate employment and reduce poverty. Also, China has contributed significantly to Africa's development process through its engagement in a number of development projects, especially construction works and health. In addition, China has a consistent track record of contributing to human capital development in Africa, through the training of professionals to promote growth on the continent. China's efforts in human capital development in Africa date as far back as the 1950s. During this period, China has provided scholarships to African students from across the continent in various technical and highly specialized fields in different Chinese universities.

2.11 *India* – The commercial, social and cultural links between India and Africa have thrived for years, particularly its ties with East Africa. Besides the trade linkages that emerged from the huge migrant Indian population in Eastern Africa, the country has opened lines of credit to several African countries to facilitate the importation of goods and services from India. Moreover, through the Techno-Economic Approach for Africa-India Movement initiative (TEAM-9), India has provided concessional loans and technology transfer to West

Africa. Other areas of cooperation include vocational training for the promotion of Information Technology and Small and Medium enterprise development.

### Lessons from Asia's Experience

2.12 *Poverty* – High economic growth has translated in significantly lower poverty in many Asian countries. This is in sharp contrast with Africa, where a larger share of the population was poor in 2001 than in the early 1980s. The difference in poverty outcomes is not surprising, since many African countries stagnated or saw their economies contract, while large parts of Asia enjoyed high economic growth during the same period.

2.13 With this diverging economic performance, it becomes critical to understand the ingredients of Asia's success in generating high growth rates together with lower poverty. Krugman (1994) cites deferred gratification, the willingness to sacrifice current satisfaction for future gains and getting the economic incentives and basics right as potential explanatory factors. Also, there is a consensus that Asia's high growth with lower poverty, particularly East Asia, is due to a combination of sound policies, selective government interventions and rapid accumulation of physical and human capital (World Bank, 1993).

Share of the Population Living Below the Poverty Line (%)

	Africa	Asia	S.E. Asia	Eastern Asia
1981	33	51	39	62
1984	36	39	32	41
1987	37	33	27	28
1990	35	32	20	33
1993	35	29	15	28
1996	36	24	12	17
1999	36	22	9	18
2001	37	21	8	17

Source: Computed using World Bank PovCal Net data - Available years

<http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp>

2.14 *Government Diligence* – In most of South East Asia, governments intervened selectively to guide resource allocations. However, they did so only to address market failures, and recognized the ability of market forces to determine efficient resource allocation. As illustrated in the case of the Republic of Korea, the ability of governments to make the right decision, pick the right industry and allow the private sector to blossom, was equally important. Kim (2006) argues that Korea's performance is the result of the following: export-led strategy with preferential access to the US market; accumulation of physical capital, financed by external borrowing; investment in education; and public intervention in strategic sectors. Thus, the Republic of Korea has increased its standard of living through key policies taken by successive governments, which were indeed aware of the need not to interfere in a number of economic sectors. Moreover, many Asian countries have carried good macroeconomic management, thus providing a good framework for private investment.

2.15 *Human Capital* – From the onset, Asian governments realized the key role they could play in the education sector. This role was required to produce a qualified workforce, and thus attract firms which can create high value-addition. For example, Singapore and Korea singled out education as a means of improving the productivity of the labour force, using a two-pronged approach. First, they allocated resources to improve the education system at all levels, through a mandatory legislation backed by stipulations of the 1949 constitution (Kim, 2006). Compulsory education helped to create an abundant pool of knowledgeable people that was instrumental for industrialization in later years. This was coupled with improvement

in the university system, and a mechanism of enticing highly-qualified nationals working overseas to come back home. Second, these governments provided incentives for firms to invest and take advantage of the cheap, but productive workforce.

2.16 *Financial Markets and Investments* – Asian governments recognized the importance of credit markets as an agent of growth. Indeed, entrepreneurs in developing countries face serious constraints to access capital for a number of reasons, including lack of collateral, shallow credit markets, high transaction costs and weak institutions for making and enforcing contracts. With this recognition, many South East Asian governments created development banks which provided long-term investment financing. These banks became successful long-term lenders in parts of Asia, but encountered difficulties in others. Evidence showed that the successful ones among these development banks, particularly in Japan and Singapore, applied commercial criteria in selecting and monitoring projects. Many in Indonesia and Malaysia faced difficulties because of growing arrears. South East Asian governments also successfully encouraged the retention and reinvestment of corporate earnings. As a result, investment rates reached very high levels, exceeding 20 percent of GDP between 1960 and 1990. Emerging Asia also sought to attract foreign capital by creating and promoting bond and equity markets. East Asia has been successful in attracting large investments because it has high rates of return, and good market-based policies and reduction of transaction cost.

2.17 *Learning from Asia's Experience* – African countries can learn from their Asian counterparts which have succeeded in improving their competitiveness and propelled their economies by export-led growth. There is a consensus that high transaction costs, skills strengths, and predictable policy environment have combined to constrain efforts by African countries to move up the value chain in production. Given the experience of

2.18 Asia in overcoming similar constraints, there are critical lessons for Africa. For example, in a comparative analysis of selected African and Asian countries, Kaplisky and Morris (2006) found that export finance costs are higher for textile and clothing firms in Kenya and Madagascar than for Chinese and Indian ones. Similarly, African producers are disadvantaged by infrastructure inadequacies. The weakness of the transport systems and public utilities, associated with bureaucratic hold-ups leads to delays and makes it difficult for African countries to produce items for higher-margins and rapid-response markets. African countries could emulate their Asian counterparts by addressing these constraints to improve their international competitiveness.

*Costs to export a 20 ft container to the USA from:*

- *Sub-Saharan Africa: USD 1,566*
  - *East Asia & Pacific: \$885*
  - *The Gambia (the cheapest location in Africa): USD422*
  - *China : USD 335*
- (Doing Business, 2006)**

2.19 *Post-Conflict Experience* – The recent good economic performance of Vietnam can provide some critical lessons to post-conflict African countries. Vietnam's post-conflict success can be attributed in part to its move to a market-based economy, and the development of a vibrant private sector. An enabling business environment is identified as the real breakthrough in liberalizing the creativity, energy and capital of the people. As the market price system replaced rigid fixed-pricing in Vietnam, farmers increased their production and integration into domestic and international markets. Vietnam has once been able to effectively adapt production methodologies that have transformed its agriculture to become internationally competitive. That country has also taken bold steps to open up its economy with the view of levelling the playing field between domestic and foreign firms.

### **3. Challenges: Competition and Specialization**

*Competition* – In spite of Africa’s benefits of trading with Asia, one cannot ignore the fact that some Asian producers compete with African producers on a number of markets both outside and inside Africa. For instance, African textile and clothing producers have had to withstand strong competition from their Asian competitors. The textile and clothing sector benefited the most from the US African Growth and Opportunity Act (AGOA): between 2001 and 2004, textile exports from AGOA beneficiaries doubled. That growth was adversely affected in 2005 when the Multi Fibre Agreements (MFA) ended, providing Asian exports with quota-free access to the US market. As a result, US imports from AGOA countries fell by 12 percent in that year (AFD, 2007).

Asian and African countries also compete to some extent for the same foreign direct investment (FDI) originating from a number of industrialized countries. African countries must first acknowledge that fact, and then identify their comparative advantages. In doing so, they will be in a position to put forward convincing arguments to attract FDI and create synergies with Asian countries.

*Specialization* – A number of African economies are characterised by a high degree of concentration in the range of exports and in the sources of growth. In the case of exports, a number of countries depend on primary exports which are subject to strong price volatility. The increasing demand for commodities from Asia may push many African countries to specialize even more toward unprocessed commodities.

*Governance* – A key requirement for development effectiveness is commitment to good governance. The main elements of good governance include transparency, accountability, social inclusion and effective participation. In recognition of this requirement, development partners and the aid recipients signed up to the Paris declaration that espouses the principles of good governance. Mechanisms are required to ensure that the strengthening relationships between Asia and Africa is consistent with the broad principles of efficient and effective absorption of development financing.

### **4. Role of the African Development Bank**

4.1 As the leading financial development institution on the continent, the African Development Bank has an important role to play in engaging Asia in the development of Africa. The current Asian interest in Africa presents opportunities for the Bank’s Regional Member Countries (RMCs) to develop faster and handle challenges arising from increased competition. With regard to the Bank’s strategic plan and comparative advantage, the needs of its RMCs, as well as Asia’s intervention in Africa, the Bank has a key role to play by being the preferred conduit for Asia’s assistance and engagement in Africa. By doing so, the AfDB will be positioned to ensure that the Africa-Asia partnership addresses the development concerns of its RMCs. The AfDB could also consider greater involvement of Asia in African institutions.

4.2 Given the Bank’s current engagements and comparative advantage on the continent, we identify key priority areas for cooperation and action, taking valuable lessons from Asia on board.

- i. *Infrastructure* – The lack of infrastructure in Africa and its constraints on development on the continent cannot be overemphasized. Being a priority area for the Bank where it has developed comparative advantage through decades of lending operations, the Bank could play a unique role in complementing Asian infrastructure investment in Africa, and making such investments more coordinated and sustainable. In particular, the Bank can play a facilitation role so that infrastructure investments by Asian countries are delivered with strong human capital development and technology transfer components, so as to ensure sustainability and Africa’s technological take-off. Many Asian countries have excellent expertise in infrastructure and are currently engaged in such programs across Africa.
- ii. *Agriculture* – A combination of high rates of investment in crop research, infrastructure and market development, and appropriate policy support are the key elements that should define the Bank’s partnership with Asia in agriculture. These are the key elements that fuelled the Green Revolution. Such cooperation could be modelled on the partnership that gave rise to the New Rice for Africa (NERICA), bred by the West African Rice Development Association (WARDA), which was a joint initiative among several donors, including Japan and the Bank. The Bank also has leverage in spearheading a strategic partnership between African agricultural research institutions and their Asian counterparts, who are already on the move from the Green Revolution to a *Gene Revolution*, a new paradigm shift in agriculture research and development.
- iii. *Capacity Development/Knowledge Sharing* – In the area of capacity building and knowledge sharing, the Bank should continue its engagement with Asian donors to continue providing support to the education sector through scholarships for teachers and students (e.g. the ADB/Japan Fellowship Program), sabbaticals and academic exchange programs, some of which can be channelled through the Bank’s proposed Knowledge Management Trust Fund (KMTF). The development of a curriculum that is responsive to the needs of countries and adequately addresses the lack of critical mass of skilled human resources is another area of cooperation. Moreover, in the health sector, the production of cheap generics from Asia, particularly from India, can allow poor patients to access life-prolonging treatment.
- iv. *Private Sector* – The Bank can organize co-financed joint ventures between Asian and African firms, and take part in international conferences which foster the links between the private sectors of the continents. Within the framework of its training program on entrepreneurship, the Bank could work with Asian entrepreneurs to promote franchising as a business format and a Small and Medium Enterprise (SME) development strategy. A special focus could be placed on the business environment required for the growth of the private sector in Africa.

## **5. Issues for Consideration**

5.1 The assessment of Asia’s involvement with Africa has revealed critical lessons, opportunities and challenges that need to be carefully documented, dialogued and taken on board as part of the operational modalities of the partnership. The Ministerial Round Table will not only discuss these issues as past experiences, but will assess them as opportunities and challenges in terms of their implications for Asia’s continued investment in Africa. Some of these implications are analyzed in greater details in the concept notes introducing High

Level Seminars. In doing so, we have developed guiding questions that will help focus the discussion:

- Can Africa use its partnership to transform itself from a supplier of raw materials to Asia to a producer of value added products capable of stimulating significant economic growth?
- How can Asian countries best assist Africa in adapting and adopting the strategies that propelled their economic prosperity?
- What are the implications of Africa's increased access to non-concessional loans from Asia, and what is the risk of future debt distress and sustainability problems?
- How can Asia's increased investment in Africa be structured so as maximizes benefits with regards to: human capital development for Africa, technology development and the transfer of skills and technology to Africa?
- How can more jobs be created in Africa as a result of this partnership? How can this partnership help Africa to attain sustainability of growth through product diversification, value addition and more trade?
- How can Asia be made to have more concerns with regards to choice of country for investment, social safeguards and environmental concerns especially in the search for raw materials?

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## Executive Summary

### **HIGH LEVEL SEMINAR I**

### **AFRICA AND ASIA: TRADE AND CAPITAL FLOWS**

### **Concept Paper**

**Prepared by:** *The Development Research Department (EDRE)  
Research Division (EDRE.1)*

**Date:** *15 May 2007*

**Venue:** *Auditorium  
Shanghai International Convention Center, Oriental Riverside Hotel*

**Time:** *2:30 pm to 5:00 pm*

The recent strengthening of relations between Africa and Asia, particularly China and India, has emerged with opportunities as well as challenges for Africa, particularly in the area of trade and capital flows. On the one hand, Africa's economic performance may be influenced positively by growth in Asia's demand for Africa's exports, both oil and non-oil commodities. This increased demand for Africa's exports leads to improvements in the terms of trade of many African countries, as well as increased Asian investment in the continent. On the other hand, however, Asia's increased demand for energy, which is a driving force behind the world's oil price increase, generates adverse effects on the economies of many oil importing countries in Africa. Thus, the net gains for African commodity exporters may be largely offset by the increased costs for Africa's imports of these commodities. This paper discusses recent trends of Asia-Africa trade and capital flows, and explores ways of increasing Asia's FDI to Africa. It discusses the Bank's role in this process as crucial, and discusses how these roles could be used to facilitate more capital flows from Asia to Africa in the form good quality investments. It concludes with some critical questions to articulate the discussion of the panelist.

## 1. Introduction

The recent strengthening of relations between Africa and Asia, particularly China and India, has emerged with opportunities as well as challenges for Africa, particularly in the area of trade and capital flows. On the one hand, Africa's economic performance may be influenced positively by growth in Asia's demand for Africa's exports, both oil and non-oil commodities. This increased demand for Africa's exports leads to improvements in the terms of trade of many African countries, as well as increased Asian investment in the continent. On the other hand, however, Asia's increased demand for energy, which is a driving force behind the world's oil price increase, generates adverse effects on the economies of many oil importing countries in Africa. Thus, the net gains for African commodity exporters may be largely offset by the increased costs for Africa's imports of these commodities.

Asia's trade pattern has prompted it to invest directly in the exploitation of raw materials, notably oil. For example, China has recently clinched an investment deal in the Nigerian oil sector worth US\$2.3 billion. Concurrently to investing in Africa, Asia has experienced a strong revival in private capital flows. Angola for example, received a US\$2 billion loan in 2005 from China's Eximbank to rehabilitate roads and railways that are critical to mineral exports.

It is also argued that although Asia's share of African exports has risen dramatically in recent years, it is mostly composed of primary commodities, which means that such increased trade has done little to diversify Africa's exports. Further more, concerns have also been raised about increased import penetration from Asia into Africa. In spite of the benefits from importing cheap manufactured products from Asia, many more are suffering displacement of infant industries by more competitive Asian producers. Therefore, the challenge is how to find a critical balance between the opportunities generated by growing Asian trade with Africa on the one hand, and threats that may emerge from a displacement of Africa's infant industries on the other.

In this regard, therefore, one would be tempted to ask the following critical questions that seek to shed more light on the issue:

- What are the motivating factors behind Asia's increased engagement in Africa? What is the nature and composition of Asia's trade with Africa?
- Which countries and sectors are the main beneficiaries of Asia's investment in Africa?
- How could Asia's trade and investment engagements with Africa help countries in the region to accelerate growth and reduce poverty?
- What are the risks associated with growth in Africa-Asian trade and capital flows?
- How could Africa reposition itself to seize the emerging trade and investment opportunities arising from the tremendous growth of Asian countries?
- What can the African Development Bank do to assist African countries mitigate the potential adverse effects of Asia's trade and investment policies?

1.5 The Annual Meetings' Seminar on Trade and Capital Flows will discuss these and related issues. The discussion is expected to produce key outcomes that would require further steps to help Africa take full advantage of opportunities associated with the emergence of Asia in the global economy.

## 2. Situation Analysis

### *Africa-Asia Trade*

2.1 Africa's trade with Asia has improved dramatically in recent years. Between 1999 and 2006, Africa's total trade (exports and imports) with Asia increased from less than \$20 billion to over \$60 billion; an increase of about 200%. Africa-Asia trade is mainly driven by primary commodities and related products, with oil and oil-related products accounting for a large share of the continent's exports to Asia. Over 60% of Gabon's and a large part of Equatorial Guinea's timber production, for instance, are purchased by China. China is the world's largest consumer of copper and has invested about \$170 million in the Zambian copper mining sector. In addition, a wide range of non-oil-producing countries also benefit from other types of raw materials and processed raw materials, such as cotton, wood, and leather, as well as food and agricultural commodities. Indeed, enhanced Africa-Asia trade flows also provide countries on the continent with huge potentials for expanding their exports of food and agricultural commodities, due to Asia's teeming populations, with growing income levels, changing tastes and demands for these items.

2.2 A salient feature of Africa-Asia trade is the recent reorientation of Africa's merchandise trading relationships away from traditional partners in the developed countries, such as the EU, USA, France, and the UK. For instance, Asia's share of Africa's exports rose from 9% in 1990 to 27% in 2005. During the same period, EU's share declined from 48% to 32%. It is therefore not surprising that China has now displaced the UK as Africa's third largest trade partner, after the US and France. A similar trend has also evolved in the import structure, where by Asia accounted for 33% of Africa's imports in 2005, up from 23% in 1990. The increase in Africa's absorption of imports from Asia was largely at the expense of the EU, whose share of Africa's imports declined from 63% in 1990 to 43% in 2005.

2.3 Despite the geographical diversification, the emergence of Asia as a major trading partner has not fundamentally altered Africa's trade situation. For instance, Africa's share of total world exports has continued its long-term decline from over 7% in the 1950s to less than 2% in 2006. Also, over 85% of Africa's exports to Asia in 2005 comprised primary commodities, compared with 76% for all African exports. The bulk of Africa's primary commodity exports to Asia consisted of oil and gas. This explains the low share of manufactured and processed products in Africa's exports to Asia. Only 14% of Africa's exports to Asia in 2005 consisted of manufactured and processed goods compared with 23% for total Africa's exports. In contrast, over 60% of Africa's imports from Asia in 2005 were manufactured goods, consisting mainly Asian textiles, apparel and footwear. There is also the concern that Africa's exports to Asia are far more geographically and sectorally concentrated than its imports from Asia. Around 80% of value-added exports of Sub-Saharan Africa (SSA) originate from only three countries: Nigeria, South Africa and Swaziland<sup>1</sup>. Similarly, only 5 countries, excluding Nigeria and South Africa, supply 85% of Africa's exports to China, while South Africa alone accounts for 67% of African exports to India.

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<sup>1</sup> Africa-Asia: Growing Links Bring Challenges and Gains, Oxford Analytica, October 20, 2006.

2.4 Therefore, the key questions that need urgent attention include:

- Can Africa-Asia trade help to diversify production and exports of Africa in the future?
- Would it lead to preferential trade schemes or free trade area that will provide increased market access to African exports to Asia?
- Would Africa-Asia trade relations bring about a new strategic alliance in the multilateral trading system such as the World Trade Organization (WTO)?
- How could Asia help to address the supply-side export response capacity constraints facing African countries?
- Would Africa-Asia trade help to promote regional integration and intra-African trade or would it undermine it?

### *Africa-Asia Capital Flows*

2.5 One of the most significant developments for Africa is the growing importance of South-South capital flows, particularly from Asian countries such as China, India, South Korea and Malaysia. Much of the capital flows from Asia to Africa are in the form of foreign direct investment (FDI), which has increased significantly in recent years. In 2005, Asian countries accounted for around 15% of the \$31 billion FDI flows to Africa.

2.6 China tops the list of Asian investments in Africa. China's FDI to Africa is about 5% of total outward flows and 2% of total outward stocks.<sup>2</sup> The top recipients of China's FDI are: Sudan, Zambia, Nigeria, South Africa, Tanzania, Madagascar, Zimbabwe, Gabon, Kenya, and Angola, mostly resource-rich countries, which together receive over 75% of China's FDI into Africa. This is in addition to China's recent investment of US\$2.3 billion in Nigerian oil sector, and a US\$2 billion loan in 2005 from China's Eximbank to Angola.

2.7 Chinese investment in non-oil projects is also significant and growing. China is increasingly involved in the Democratic Republic of Congo (DRC), investing in cobalt and copper mines as well<sup>3</sup>. China and South Africa recently signed a cooperation agreement on nuclear energy related issues<sup>4</sup>.

2.8 Further, China invests heavily in non-resource based projects in the following countries: The Bui Dam in Ghana (\$500 million); Africa's largest dam in Ethiopia; road, bridge, construction and telecommunications in Kenya; road construction and fish processing in Gabon; Uganda's health equipments and construction services; Nigeria's telecommunications; Hotel construction in Sierra Leone (over \$200 million); and various agricultural activities in Zimbabwe, Zambia and Tanzania. China has also completed projects on highways and bridges in Guinea, Tanzania and Zambia<sup>5</sup>.

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<sup>2</sup> China's Interest and Activity in Africa's Construction and Infrastructure Sectors. Report prepared for DFID China by the Centre for Chinese Studies, Stellenbosch University, South Africa (2006).

<sup>3</sup> See International Relations and Security Network (ISN), Center for Security Studies at ETH Zurich, [http://www.isn.ethz.ch/news/sw/details\\_print.cfm?id=15837](http://www.isn.ethz.ch/news/sw/details_print.cfm?id=15837).

<sup>4</sup> See Financial Times, 21 June 2006.

<sup>5</sup> See the Financial Times, 20 June 2006, p.2.

2.9 Singapore, Taiwan, Malaysia and India are other important Asian sources of FDI to Africa. For India, which has deep business and cultural links with Africa, 16% of its FDI outflows were directed to Africa during 1995-2004, estimated at \$2.6 billion. Like China and other Asian countries, India is also attracted to Africa's natural resources, and seeks secure supplies by investing in oil (Sudan), and non-oil sectors such as timber, and precious stones, manufacturing, trading and other services. India's other major host countries are Mauritius, Nigeria and South Africa (Broadman, 2007).

2.10 In this regard, therefore, key questions would include the following:

- What is the motivation for Asia's investment in Africa?
- What are the implications of such investment?
- How could Africa mitigate the potential risks associated with Asia's capital flows to Africa?
- What policy action will ensure that capital flows are accompanied with transfer of technology and development of skills for Africa?

### **3. Role of the African Development Bank (AfDB)**

3.1 Asia's engagement with Africa in the areas of trade and capital flows has important implications not only for the countries on the continent but also for the African Development Bank (AfDB), whose over-arching objective is to promote sustainable economic growth and poverty reduction in the RMCs. The Bank Group, as the premier financier in Africa, has a comparative advantage in providing assistance to its RMCs. With the recent institutional reforms which have strengthened the Bank's position to deliver effectively, responding to opportunities generated by the increased Asian trade in Africa remains critical.

3.2 Among others, the role of the Bank in improving the financial infrastructure in Africa is crucial for increasing the continent's absorptive capacity and improving the quality and performance of Asian investment in Africa. Further, the Bank is mandated to lead the development of financial infrastructure (banking and financial standards), and to cooperate with the United Nations Economic Commission for Africa (UN-ECA) on economic and corporate governance, where significant progress has been made. This role is very crucial for creating a healthy investment atmosphere in Africa, which has positive implications for Asian investments.

3.3 The Bank has also been designated by the Africa Union (AU) and NEPAD to become a strategic partner to the African Peer Review Mechanism (APRM). With its active participation in the APRM, the Bank is playing a crucial role of helping to reduce investment risks in Africa by enhancing transparency, accountability and good public sector management. Further, the Bank is generating critical knowledge products such as the African Economic Outlook (AEO), which analyses macroeconomic trends and economic performance on the continent on a yearly basis, as well as the Investment Climate Assessment of African countries, which has commenced this year (2007).

3.4 These roles of the Bank are crucial for the Africa-Asia partnership, not only in the fields of trade and investment, but also in other areas such as infrastructure, agriculture and social sectors. The key question here is how could these roles of the Bank be better structured, through partnership with Asia, so that Bank's comparative advantage with

becomes crucial in engaging its RMCs more meaningfully with Asia, so as to maximize capital flows and good quality investment from Asia to Africa?

#### **4. Expected Outcomes**

4.1 At the end of the Annual Meetings' Seminar on Trade and Capital Flows, participants are expected to:

- Understand the issues and draw lessons from the dynamics of Africa-Asia trade and capital flows.
- Identify the key transmission mechanisms through which Africa-Asia trade and capital flows would promote growth and development in Africa.
- Provide solutions to the potential challenges and risks that African countries could face from Asia's increased involvement in Africa.
- Recommend appropriate measures that should be taken to ensure that Africa-Asia trade and investment flows facilitate the integration of Africa into the global economy.
- Identify ways of strengthening the African Development Bank Group's trade and investment-related mechanisms to benefit Africa in its engagement with Asia; knowledge generation and dissemination on trade-related issues should be recognized as key.
- Recommend specific action points that the Bank could take to implement some of the key outcomes of the Seminar.

## **HIGH LEVEL SEMINAR II**

### **AFRICA AND ASIA – ENTREPRENEURSHIP AND PRIVATE SECTOR DEVELOPMENT IN AFRICA**

#### **Concept Paper**

**Prepared by:** *The Private Sector Department (OPSM)  
Portfolio Management Division (OPSM.5)*

**Date:** *15 May 2007*

**Venue:** *Yellow River Hall  
Shanghai International Convention Center, Oriental Riverside Hotel*

**Time:** *2:30 pm to 5:00 pm*

## **1. Introduction**

1.1 A vibrant private sector is vital for sustained economic growth, job creation and income generation. For it to prosper and to yield optimum economic benefits, the private sector requires an enabling environment - a stable and predictable macro economic environment, a policy and regulatory framework that provides for a fair and equitable playing field for local and foreign participants; appropriate physical infrastructure, business services and institutional framework, among others. While Africa has made significant progress over past decades towards facilitating private sector growth, continued efforts are needed to maintain and to accelerate the development momentum.

1.2 Though private sector activity is unevenly spread across the African continent, entrepreneurial activity is growing rapidly and new markets that offer comparative advantages are being explored and tested. This has in recent years resulted in growing south-south business collaboration between a number of Asian countries, spearheaded by India and the Peoples Republic of China (PRC), and Africa. This evolution brings much needed investment into Africa and offers excellent opportunities for African businesses to diversify and expand their export markets and increase Africa's share of global trade. The seminar on Africa and Emerging Asia: Entrepreneurship and Private Sector Development in Africa, aims at strengthening this collaboration between Asia and Africa towards expansion and diversification of trade and investment. It also seeks to highlight the lessons from the Asian experiences and reforms that have resulted in the region's rapid development progress.

## **2. Laying the Foundations for PSD in Africa**

2.1 Africa's economic growth record, private sector participation (PSP) in the economy and private sector development (PSD), strengthening the business environment, have on the average over the past several decades ranked below other developing regions in the world. Countries emerging out of colonization tended to favor central planning and pursued industrialization through import substitution (IIS) and focusing on large scale industries, government interventions resulting in general marginalization of the private sector. By the early 1990s, much of sub-Saharan Africa was caught in the debt trap and debt relief became essential. Inadequate capacity, both institutional and professional, to absorb development assistance, were seen as hindrances to development effectiveness. Apart from the general need to liberalize economies, there was need for increased attention on policy formulation and capacity building for the promotion of entrepreneurship and SME development to enable the expansion of the private sector.

2.2 Prompt action is needed to create and strengthen good governance, respect of the rule of law and human rights, accountability and transparency in the management of public resources as well as a credible legal and regulatory system. Many African governments embarked on fruitful collaboration with IFIs in pursuing their economic reform programs. Most importantly, the importance of the private sector as the engine of future growth was recognized. Determined efforts were initiated towards redefining the role of the state in the economic development process and towards providing an enabling environment for a market driven and private sector led growth. These efforts soon started to yield encouraging progress.

## **3. The Growth of South – South Trade and FDI in Africa**

Trade and investment between Asia and Africa dates back hundreds of years. Today, approximately one third of African export is going to Asia. This is more than double the volume of only 5 – 6 years ago and is on par with Africa's export to the United States. The south-north export is partly being substituted by the growing south-south trade. Estimates indicate that Asian export to Africa has risen by 15-18% annually since 2000. This phenomenon is largely driven by Africa's growing demand for Asia's manufactured goods and machinery and the demand in Asia for Africa's natural resources, particularly oil and minerals as well as labor intensive goods. Africa is virtually the only developing region whose share on non-oil exports has not increased since the mid-1980s.

A particular concern has been the comparatively low level of FDI. In 2004, total net FDI on the African continent substantially declined from an estimated \$17.3 billion for 2003 to an estimated US\$15.3 billion (UNCTAD statistics). The share of Africa's net FDI to the developing world in 2004 was only 10.2% of about \$150 billion, down from about 15% in 2003 but rising back to 15% (US\$29.7 billion) of \$197.8 billion in 2005. Nevertheless, the distribution of FDI among African countries has remained concentrated in a few countries and few commodities, especially natural resources.

Africa's FDI performance significantly differs from that of the ASEAN<sup>6</sup> region namely the substantial proportion of FDI outflows from ASEAN countries, much of which is intra-regional. In 2003, the inflows of FDI in ASEAN countries were matched by FDI outflows. In Africa, the proportion of FDI outflows is relatively modest ranging from 3.3% to about 10% of inflows during 2003 - 2005, most of which came from South Africa as FDI into other African countries. In general, especially within East and South-East Asia, FDI performance has benefited significantly from intra-regional investments by the more developed economies in the region, especially from Japan, South Korea and Taiwan. Also PRC's outward FDI flows have increased over the past decade representing 15% of inward FDI in 2005.

The south-south FDI into Africa has also increased and accelerated significantly since the mid-1990s. Apart from India and PRC, Taiwan has also played a comparatively strong role in FDI in Africa. A World Bank study in 2004 indicates that Taiwanese sources were engaged in about 700 investment projects in sub-Saharan Africa and that there were about 450 PRC firms operational in manufacturing, services and resource related industries. Likewise, Indian investments in IT, banking, manufacturing and pharmaceuticals were rapidly increasing, especially in South Africa where 35 Indian firms were operational. While Asian FDI in the 1990s was more widely distributed across different economic sectors and generally "market seeking", the surge since 2000 is believed to focus substantially on "resource seeking" investments in oil and gas and other extractive industries. While export stimulating investment in these sectors brings in much needed export earnings, their potential for value added in Africa remains largely unutilized and the impact towards creating and expanding local entrepreneurial activity is compromised.

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<sup>6</sup> Brunei, Cambodia, Indonesia, Lao, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.

## **4. Public Private Partnerships**

4.1 Public Private Partnership (PPP), and Private Participation in Infrastructure (PPI) in particular, has proven most helpful in alleviating fiscal constraints. According to the World Bank PPI data, since early 90s, PPI in East Asia and the Pacific had reached \$220 billion, Eastern Europe and Central Asia \$180 billion, South Asia \$70 billion and Africa approximately \$70 billion, of which \$36 billion is in sub-Saharan Africa (WB PPI data). Many Asian countries have therefore stepped up efforts for PPI expansion in order to bridge the enormous funding gaps that have emerged after decades of inadequate investment in infrastructure development and maintenance.

## **5. The Enabling Environment**

5.1 The growing recognition of the crucial importance the private sector as a driver of economic development, the impact of the business climate, or the entire enabling environment, has received increased attention among academia and economic “think tanks” that engage in considerable research in this area, so that strategies and best practices for assistance and action can be developed to optimize PSD. There are three broad key areas that countries need to focus on when aiming to attract FDI and in creating the conditions in which private sector can yield optimum economic benefits. These are: i) Liberal macroeconomic conditions; ii) Healthy and stable macroeconomic conditions, including adequate physical and social infrastructure as well as institutions for efficient public services; iii) A business environment, which provides for clarity, consistency and speed in fulfilling procedural requirements. With the renewed attention to these conditions, and with ongoing reforms on the continent, the business atmosphere is slowly improving. For instance, the World Bank/IFC annual Doing Business (DB 2007) explicitly notes that contrary to the previous years when Africa lagged behind all other regions in the pace of making reforms, it now ranked third only behind Eastern Europe & Central Asia and the OECD high-income countries.

## **6. Building Entrepreneurship – Importance of SMEs and Micro Enterprises**

As acknowledged above, a vibrant private sector, especially the SME sector, is critical for sustained economic growth and poverty alleviation. Globally, SMEs form the backbone of the private sector at all levels of development, represent over 90 percent of the world’s enterprises and account for 60 – 70 percent of global employment. Therefore, in the efforts to promote SME growth, it is essential to focus on the entrepreneurs, their needs and the expansion of entrepreneurship in general.

Like the rest of the private sector actors, entrepreneurs require a supportive enabling environment, a clear and consistent regulatory framework and a transparent, fair and efficient legal system; and access to distribution networks and markets, both locally and internationally as well as access to new technologies and market intelligence to strengthen their competitiveness.

Entrepreneurial education and Incubators systems are also key ingredients. In order to widen the entrepreneurial cadre in Africa, it is therefore essential to invest in developing the human capital, i.e. to develop an education process that will create the interest and basic skills

of entrepreneurship already at the school-age towards facilitating the transition into subsequent and more advanced tertiary business education and entry into the business world.

To help ensure operational efficiency and competitiveness of SMEs, access to business advisory services (BAS) is essential. Dissemination of non-proprietary information on market intelligence, technological evolution, marketing and distribution channels, international contacts etc., by BAS entities are critical for SMEs. BAS entities have successfully been created with the support of the donor community in various developing regions. In Africa, there are two AfDB- supported programs that address these needs namely, the PEP-Africa Facility managed by IFC (IFC\_PEP Africa) and the Africa Management Services Company (AMSCO). However, much more is needed.

Addressing the socio-economic needs of comparatively large and typically informal micro enterprise and cottage industry sector, helping families to make ends meet, is an enormous challenge and critically essential as a means of poverty alleviation. However, addressing the micro enterprise sector should also be looked upon as an opportunity and as the grassroots platform from where to develop growth of entrepreneurship. There is an apparent and enormous need for considerable further investment in the creation and expansion of the network of professional Micro Finance Institutions (MFIs) in Africa. For the donor community, this involves financial and technical support for existing banks in their efforts towards the creation of micro finance capabilities, building in part on the existing network of NGOs. Addressing this need in a satisfactory manner constitutes an important element in the process of building entrepreneurship towards future growth of new fully-fledged SMEs.

Africa can also benefit from Asian experiences including successful “harnessing” of the power of private entrepreneurship for economic growth and SME development in Asian countries such as Malaysia, Thailand, Singapore, PRC and India. Vietnam, a low-income country similar to many African countries with a GNI per capita of \$620 and with one third of the population living in poverty has in recent years started to stand out as an interesting example. It has undertaken systematic and sustained economic, institutional, legal and regulatory reform towards creating and improving the enabling environment for private sector led growth and this has yielded very encouraging positive results. Over past 15 years Vietnam has experienced an average annual GDP growth around 7-8 percent substantially driven by the rapid growth of the private sector.

## **7. The Role of the African Development Bank**

7.1 Recognizing the importance of the private sector in poverty alleviation and in facilitating economic growth, ADB has since its inception over 40 years ago supported private sector development in various forms. This includes policy dialogue and substantial technical assistance towards improving the enabling environment. A significant proportion of ADB’s total financial assistance has been indirectly geared towards private sector development through instruments such as credit lines to national and/or sub-regional development finance institutions (DFIs) for further on lending to private enterprises; equity capital to help create several sub-regional DFIs . About one third (approximately \$13 billion) of ADB’s lending has supported infrastructure development, thus helping to improve the enabling environment.

7.2 ADB's direct private sector financing has grown to become a comparatively important and rapidly growing form of ADB assistance. Total cumulative commitments at end 2006 stood at \$1.7 billion with an outstanding private sector portfolio of about \$600 million. The portfolio structure is diverse and includes direct exposure to enterprises in nearly 20 African countries and through regional initiatives (e.g. credit lines and equity funds) to many more. Priority has been given towards improving financial intermediation, which now covers well over 50% of the portfolio. Infrastructure financing covers about one third of the portfolio with the remainder supporting industrial enterprises and SMEs in a variety of sectors. PSD is now a stated key component of ADB's overall Vision and Strategic Plan and ADB has recently articulated its approach towards addressing PSD and developed a strategy along with requisite organizational strengthening and adjustments.

7.3 **Strategic Objectives:** The core objective of ADB's PSD strategy is to support the development of an enabling environment towards the emergence of a viable private sector in its RMCs. To be effective, the strategy envisages a Bank-wide approach by developing appropriate strategic orientations and outlining fruitful collaboration and responsibilities across the spectrum of ADB's public and private sector activities and all concerned departments. While facilitating the growth and development of the private sector in general, this broad-based and comprehensive strategic approach also aims at facilitating the transition of private sector activity in Africa from the informal to the formal sector and to support SME growth.

7.4 **Priority Areas of Intervention:** In fulfilling its strategic objectives and in line with the guiding principles, ADB's PSD efforts will broadly focus on the following four main areas: i) Creating an enabling environment; ii) Strengthening Financing Systems; iii) Building Competitive Physical and Social Infrastructures; iv) Promoting entrepreneurship and Microfinance development; and v) Promoting Trade.

7.5 **ADB Partnerships with Prospective Asian Investors:** ADB, operational on the African continent since 1964, possesses an unparalleled knowledge of the African continent, the political, social and economic conditions of its countries, their financial and industrial sectors and their business climate. ADB, through its public sector operations, has developed a collaborative development partnership with each of its Regional Member Countries (RMCs). ADB's Private Sector and Microfinance Department (OPSM), which specializes in direct financing of the private sector, its Regional Country Departments, which work closely with the governments of RMCs, as well as other related ADB business functions such as legal and treasury, are well equipped with dedicated professional teams with an abundance of knowledge of the African business environment. ADB offers a full array of financial products to private sector projects ranging from credit lines and senior debt instruments and guarantees to equity or equity linked mezzanine and quasi-equity instruments to straight equity, all depending on the nature of projects and the prevailing market conditions.

7.6 Apart from ADB's own financial support, ADB acts as a facilitator and catalyst for bringing in additional funding to meet the overall financing needs of projects. Most importantly, due to its close relationship with RMCs, ADB's involvement provides for significant risk mitigation as it can act as an "honest broker" between the governments and prospective investors, helping to address possible bottlenecks that may create delays and risks. ADB can also assist in resolving potential misunderstandings that may arise due to cultural and business practice differences. The Bank and its Private Sector and Microfinance Department stand ready and eager to engage in fruitful partnerships with Asian entrepreneurs

and investors that want to do business in Africa, building on its experience in operating in the continent.

7.7 The recent surge in business collaboration, trade and FDI between Asia and Africa is a concrete sign that a partnership is already happening in several African countries. It is now essential to build on the successes towards deepening and expanding this collaboration based on principles that ensure mutual and equitable distribution of benefits.

## **8. Conclusions and Discussion Questions**

8.1 Africa's economic development has picked up since the beginning of the new millennium. Many African countries are increasingly improving their attractiveness as destinations of foreign investment. Africa is rich in natural resources, has an abundant labor force and with its population of nearly 900 million, it possesses a huge market potential. Trade and investment between Asia and Africa are increasing. However, the current pattern of the Asia-Africa partnership will result neither in improving Africa's economic competitiveness nor its integration. While export stimulating investments in primary sectors bring in much needed export earnings, their potential for value added in African economies remains largely limited and the impact towards creating and expanding local entrepreneurial activity is marginal. Therefore, there is a need to re-assess the current Africa-Asia Partnership and explore its potential in promoting entrepreneurship and private sector development in Africa, to the benefit of both parties. Thanks to its recent experience and achievements, Asia could play an important role in Africa, by sharing its experiences and also renewing its partnership, in line with the NEPAD spirit. The following questions are meant to guide the discussion during this panel session:

- What are the lessons that could Africa learn from Asian experience in the areas of entrepreneurship and private sector development; what should be the role of the State, and the other local partners; what role the Bank should play?
- How could Asian emerging economies collaborate with African countries and DFIs, in particular the Bank to develop alternative co-development models, based on principles that ensure mutual and equitable distribution of the benefits? What could be the role of Asian partners, in particular Asian companies operating in Africa in promoting indigenous private sector development in Africa?
- What are the PPI models that could be replicated in Africa, and what lessons should African countries take on board? How could investors and contractors with hands-on PPI experience in Asia be encouraged to replicate their PPI achievements in Africa?
- What kind of partnership with Asian investors will create conditions in Africa to retain human capital that is produced in African universities, while attracting back Africans educated in foreign universities to contribute knowledge, professionalism and skills to Africa's development?
- What role could Asian investors play to facilitate and promote intra-regional FDI transfer in Africa as is the case in Asia?

## **HIGH LEVEL SEMINAR III**

### **HUMAN CAPITAL AND TECHNOLOGY FOR DEVELOPMENT: LESSONS FROM ASIA**

#### **Concept Paper**

**Prepared by:** *Human Development Department (OSHD)  
Tertiary, Science, Technical and Vocational Training  
Division (OSHD.2)*

**Date:** *15 May 2007*

**Venue:** *Yangtze River Hall  
Shanghai International Convention Center, Oriental Riverside Hotel*

**Time:** *2:30 pm to 5:00 pm*

## **1. Introduction**

1.1 There is a growing consensus that human capital and technology development are essential drivers of growth and sustainable development. Investment in human capital and technology help transform economies from strong reliance on subsistence agriculture, enclave extractive industries and low-skilled manufacturing, into the production of more knowledge intensive and higher value added goods and services. It also helps countries develop the appropriate Research and Development (R&D) capacity to support technology-based economic growth, and to address social, economic, and ecological problems that are specific to each country. This in turn provides opportunities for raising productivity, wealth and higher standards of living, by developing new competitive economic activities to serve local, regional and global markets.

1.2 Therefore, human capital and technology development can no longer be seen as a luxury for developed countries, but rather a necessity for poor countries that wish to grow and create better living conditions for their populations. Critical questions in this regard include the following: what type of technical capacities are required, given the diversity of constraints which countries face? How have Asia countries gone about to built these capacities? How is this capacity used to develop technologies? What lessons can be drawn to assist African countries in allocating the scarce resources to build the required capacity?

1.3 This concept note is designed to frame the discussion during the seminar by providing questions and issues for discussion. Although it will provide tentative answers, it does not aim at dictating definite responses to these very complex set of issues. It will encourage exchange of views rather than foreclose discussion.

1.4 The main objectives of the high level seminar are to:

- Further understand some of the reasons behind the economic growth of Asian countries.
- Highlight the human capital building and technological development processes underway in Asian countries.
- Share policy and operational lessons from experience in building technological capacity in Asian countries, in particular programs that are working effectively.
- Discuss how these lessons can be incorporated in human capital and technology development programs in Africa to be supported by the Bank and other development partners.

1.5 As the premier African development finance institution, the Bank organizes this high level seminar to better understand the dynamics around the drivers of growth in Asia. The seminar will be organized around specific issues of human capital and technological development. Building on participants' knowledge of the Asian and African contexts, they will be asked to put emphasis on how experiences in Asia can provide compelling reasons for investing in human capital, science and technology, and be put to use by African countries for "leap-frogging", with a view to transforming their economies.

## **2. Situation Analysis**

## *Snapshot of Africa*

2.1 African countries now face the best opportunity for growth. Across the continent, pessimism is being replaced with greater confidence, assertiveness and optimism. But this alone is not enough. To sustain growth, Africa needs to harness science and technology, develop human capital required to integrate into the global market, and transform its economies to face today's fierce competition in a world fueled by information and driven by knowledge.

2.2 Against this backdrop of declining infrastructure, of declining knowledge infrastructure, brain drain, limited support to R&D, outdated and inappropriate curricula, and limited direct links between science and industry, African countries stand little chance to making it in the new global economy, unless deliberate and bold initiatives are implemented to boost human capital development and technological capacity, as done in most Asian countries. At least three key factors have contributed to the rapid economic transformation of emerging economies. First, they invested heavily in basic infrastructure, including transport, communication and utilities (water and energy), and irrigation and health facilities. These investments served as a foundation for technological orientation. Second they nurtured the development of small and medium-sized enterprises, which required developing local expertise for repair and maintenance, and a pool of local technicians. Third, governments supported, funded and nurtured higher education institutions, as well as academies of engineering and technological sciences, professional engineering and technological associations.

2.3 In Africa, however, several barriers, in particular capacity and policy barriers have succeeded in thwarting the potential of important science and technology related ideas, products, and processes from equally contributing to development of the countries. Nowhere in the world are these barriers to accessing, adapting, adopting, and generating knowledge for development more glaring than on the African continent. Differing modalities, conflicting policies, and divergent priorities within the domain of support to technological development reveal a lack of coherence and complementarity between government policies and donors priorities.

2.4 In many of the African countries, transforming the existing embryonic R&D systems into a resource for economic growth will entail tremendous structural reforms in the way R&D is undertaken and also in the way it is linked to the needs of industry and markets. For example, modern science functions best when, (i) research is linked to teaching; (ii) scientists and engineers from different disciplines collaborate in multi-disciplinary problem-solving teams, rather than working in isolation; (iii) the supposed distinction between basic and applied research are minimized or eliminated; and (iv) there are close links between research scientists and business enterprises. While this is the case for most developed countries, in Africa the situation seems to be going in the reverse direction.

2.5 When the boundaries between applied and basic research are being blurred, in Africa different ministries continue to be responsible for basic research and applied research, (i.e. Ministry of Higher Education on one hand, and the Ministry of Science and Technology (S & T) on the other); (ii) teaching and research take place in separate institutions with little interaction between the two; and (iii) research is still organized vertically, with physicists in

one institute, mathematicians in another, and chemists in yet another, rather than in broader, multi-disciplinary problem solving teams.

2.6 It is striking to acknowledge that Ghana and Korea were at the same stage in their development process in 1960. While Korea experienced a steady economic growth and emerged a key player in the world economy, Ghana is yet to attain the MDGs, let alone compete in the global economy. Korea's GDP per capita grew from US\$ 150 in 1960 to US\$ 16,000 in 2005<sup>7</sup>. The main reasons for this differential economic performance relate in part to investments made by Korea in human capital, science and technology and innovation. Investment in knowledge increases the probability that new goods and services are generated through the use of this knowledge. Knowledge, therefore, creates opportunities for growth by developing new ways of making more efficient use of the existing resources. This is in contrast with the industrial era when abundance of natural resources and raw materials were the key drivers of development.

2.7 The main concept in technology for development is that 'scarcity' does not apply to knowledge. There is no limit to knowledge, which holds the key to a more sustainable future that facilitates social transformation and development. However, for this to happen, countries must develop the needed human capital. Indeed, growth is constrained not by the lack of natural resources, but by the lack of skilled human capacity.

2.8 Indeed, the Commission for Africa has reported that the Continent is lacking skilled human capacity in science and technology, and fundamental to this shortage is the loss of much of Africa's pool of skills to the developed world. For instance, it is estimated that around 70% of Ghanaian medical officers trained in the 1990s have migrated to Europe and there are more African scientists and engineers working in the USA than in the whole of Africa.

2.9 Industrial competitiveness in Africa (except for South Africa and North Africa) is also poor. Manufacturing value added per capita is lower than in most developing regions of the world; and the worst news is that the situation is not improving (see Table 1 next page). While research institutions grew to over 2,000 in the 1970s, with a research work force of about 11,000, the pool of skilled human capacity declined sharply in the 1980s and 90s. This occurred in part because of restrictive structural adjustment programs and greater focus on basic education, despite evidence from South East Asia.

2.10 Similarly, trade liberalization is not producing fast and dynamic growth because technological capabilities are inadequate. Despite low wages, sub-Saharan Africa has failed to take advantage of the fast growing global production system for low-tech goods like clothing or footwear. Exports of more sophisticated products are virtually non-existent.

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<sup>7</sup> See Jongho Sonu, Imitation to Internalization to Generation: The case of Korea, in Development Outreach, the World Bank, January 2007

**Table 1: Regional manufacturing production per capita between 1990 and 2002**

	Manufacturing value added per capita (in 1995 US\$)	
	1990	2002
Industrialized economies	5,161	5,839
Transition economies	863	596
Developing economies	221	356
East and South-East Asia	247	576
South Asia	48	75
Latin America and the Caribbean	670	674
Middle East and North Africa	273	365
Sub-Saharan Africa	99	89
excluding South Africa	33	33

**Table 2: Sub-Saharan Africa's international competitiveness in manufacturing (1990 – 2002)**

Manufactured exports per capita, 1990 and 2002 (US\$)		
	1990	2002
Burundi	1.0	0.4
Cameroon	40.3	39.2
Central African Republic	7.3	19.5
Ghana	15.2	25.6
Kenya	22.2	19.2
Malawi	5.6	6.2
Mauritius	1,129.5	1,323.9
Nigeria	1.0	0.5
Senegal	65.1	32.8
South Africa	287.7	336.7
Tanzania	2.4	4.1
Zimbabwe	55.3	58.4
<i>Comparisons</i>		
China	41.6	234.5
Chile	152.2	398.0
Malaysia	1,286.5	4,120.5
Mexico	159.4	1,450.4
Sri Lanka	56.6	177.5
Taiwan	3,148.7	6,563.7

2.11 To address these situations and strengthen S&T capacity for promoting competitive economies, it is estimated that about US\$500 million a year will be needed for the next ten years. An additional US\$ 3 billion will be required over a ten year period to develop centers of excellence in S&T in Africa.

### *The Case of Asian Countries*

2.12 Across Asia, countries have embarked on strong programs to build their S&T capability through investments in human resource development. For example, in 1980, Singapore had 9 research scientists and engineers per 10,000 labor force. Ten years later, there were 28 research scientists and engineers per 10,000 labor force, a figure that is still rising. Japan has a ratio of 74.9 scientists and engineers per 10,000 labor force. The efforts of these countries have been backed by resources. Singapore's S&T human capacity growth is fueled by a current major investment over five years of over US\$ 1 billion to strengthen industrial R&D, under its National Technology Development Plan. China has seen the most remarkable growth in Gross Expenditure on Research and Development (GERD), with the share of GERD more than doubling between 1997 to 2002 from to 9%<sup>8</sup>. Similar commitments exist in Indonesia (US\$ 90 million), Malaysia (US\$ 50 million) and Thailand (US\$ 50 million)<sup>9</sup> for the same period.

2.13 Enrollments in math, science and university engineering degrees are also rising in Asia. For instance, 6% of all 22 year olds in Japan are enrolled in S&T related university training programs. At the end of World War II, only 2% of the Korean population over 14 years of age had completed secondary school and the illiteracy rate stood at 78%. Since then to 2006, enrollments have increased over five times in elementary schools, 28.5 times for secondary school, and almost 150 times for tertiary education. About 40% of Korea's youth in the 20 to 24 year old age group attend universities, with the same proportion enrolled in math, natural sciences and engineering degrees. During the same period, the percentage of Chinese (Taipei) enrolled in universities rose strikingly from 16 to 27%, whilst in Singapore it rose from around 7 to almost 20%.<sup>10</sup>

2.14 It is important to state that these figures on domestic scientific training tell only a part of the story. Much research training for Asian countries continues to be completed in Europe, Australia and North America. However, an indicator of change in Asia's human resource environment for science is that while the number of students going abroad to study continues to grow, more and more are attracted to come back home by better salaries, working and living conditions. Many scientists who have long worked abroad are returning to their countries to play leading roles in managing institutes, and to use their experiences to bring their nations up to leading edge international standards. A reverse brain drain is presently occurring in these countries.

2.15 Development of national science policy structures and their integration with economic planning has been a key element in the success of Asian countries. Formal institutions for

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<sup>8</sup> See UNESCO, "Asia overtakes Europe in R&D Expenditure: UNESCO Institute of Statistics, 2005.

<sup>9</sup> See J. Lee, Z. Bae and D. Choi, "Technology Development Processes: A Model for Developing Countries with a Global Perspective", R&D management, Vol.18, No.3, pp. 235-250, 1988.

<sup>10</sup> Source: APEC/PECC Pacific Science and Technology Profile, Investment & Industrial Science & Technology Working Group. Asia-Pacific Economic Cooperation and Science & Technology Task Force, Pacific Economic Cooperation Council, 1995.

driving science policy have been established. These have included the setting up of S&T councils, S&T ministries, Science academies, and new research institutions.

2.16 In parallel, special attention has been paid to building scientific decision-making capability in the countries. This was achieved through the establishment of training programs in S&T management and policy. In addition, the countries have developed long-term S&T planning strategies as a component of their economic strategies. For instance, Malaysia, Indonesia, Thailand, Singapore, Korea have developed S&T plans that pay attention to leading industrial development through strategic industries, in particular aeronautics, energy and telecommunications.

2.17 Recognizing the indispensability of technological innovation in boosting and supporting growth, Asian countries have invested heavily in S&T and have overcome the severe limitations of human capacity. Long-term infrastructure support and industry-based R&D, backed by planning have produced gains in competitive economic performance. Lessons from Asian countries can be useful to Africa, especially in their attempt to build their S&T capabilities.

### **3. Role of the ADB and Comparative Advantage**

3.1 As stated earlier, technological advancement is critical to economic growth. To be sustained, however, technological development needs to be embedded within a broader, well functioning national innovation system, involving the investment and actions of public and private sectors, ensuring the transfer of R&D into industry.

3.2 Many African countries are small, with limited human and technological capacity. Strategic decisions should therefore be made on whether to use the limited budget of the countries to, (i) develop technological capacity, or (ii) boost the economy's ability to acquire, adapt and adopt existing technologies. The Bank could bring countries together to create economies of scale. This is a comparative advantage that no other development partner in Africa has.

3.3 The Bank is currently engaged in the finalization of its strategy for Higher Education, Science and Technology, and Technical and Vocational Training. The strategy, which will guide the Bank's intervention in the sector, aims at promoting economic growth and regional integration through a better linkage between institutions of tertiary education and the labor market. This is in line with the AU Heads of State decision to prioritize science and technology during their last Summit, in conformity with the NEPAD consolidated action on Science and Technology. This puts the Bank in an ideal position to mobilize key partners in support of science and technology for development.

3.4 A key role for the Bank, after this High Level Seminar, would evolve around being a catalyst for bringing private sector operators, governments, universities, research and innovation centers together to explore opportunities for designing the right policies, and setting up the appropriate institutional arrangements for promoting S&T development in the regional member countries. In this regard, the Bank's Higher Education, Science and Technology Strategy will serve as the main instrument for investments (Bank, governments and development partners) in rebuilding and/or strengthening S&T infrastructure, as well as for encouraging the countries in drafting the S&T policies, including the fiscal incentives for private sector investments.

3.5 The Bank could also invest in ESWs to deepen its knowledge in S&T capacity development for sustained economic growth. It could also, through its training institute provide policy and planning training and support its regional member countries as they embark on designing their human capacity and S&T for development policies.

## **4. Conclusion**

4.1 The experiences in Asian countries confirm that the development of Science and Technology is central to the development of national economies. This High Level Seminar will not merely revisit the reasons and/or constraints of African countries in developing S&T capabilities. Rather, it would focus on opportunities emerging from the experiences of Asian countries.

4.2 In drawing lessons from these experiences, participants may want to keep the following questions in mind:

- What do we mean by human capacity and technology for development? Eliminating any conceptual confusion is important because different aspects of technology and capacity building serve different purposes, have different objectives, and entail developing different skills and institutions.
- How can human capacity building be sequenced during different stages of development? How have Asian countries built capacity at different stages of their development?
- Should African countries focus on creating new knowledge or absorbing existing knowledge?
- How have countries in Asia managed to ensure that the supply of skilled workers matches the demand for skilled workers?
- In the context of small economies and fragile states, how can a coordinated regional approach in technological capacity building be supported?
- Countries in Asia are known for adopting, adapting, using and appropriating technologies. What are the stages that countries go through, and what are the policies that must be put in place to support these processes?
- How can the lessons from the Asian experiences assist Africa to design policies to reverse the brain drain? How can African countries engage more effectively with the Diaspora and encourage their citizens, especially the highly trained and skilled, to return to their countries.

## Executive Summary

### **HIGH LEVEL SEMINAR IV**

### **REGIONAL CO-OPERATION: ADDRESSING TRANS-BOUNDARY CHALLENGES**

### **Concept Paper**

**Prepared by:** *The NEPAD, Regional Integration and Trade Department (ONRI)  
and the Infrastructure Department (OINF)*

**Date:** *15 May 2007*

**Venue:** *Huangpu River Hall  
Shanghai International Convention Center, Oriental Riverside Hotel*

**Time:** *2:30 pm to 5:00 pm*

1. Africa faces numerous trans-boundary challenges, ranging from the continent's shaky political and economic spectra, to sectoral issues related to health, agriculture, natural resources management and the environment. In spite of recent progress on the political front, containing spontaneous political and civil conflicts on a permanent basis, often with cross-border effects, remains a regional challenge. Regional cooperation has a fairly long history in virtually all parts of Africa, although the focus had, for a long time, been on regional economic integration schemes, which were principally motivated by the vision for economic integration and political unity of the continent. While some progress has been made in this direction, new challenges such as political instability, water scarcity, environmental issues (deforestation, desertification, droughts, floods) and the prevalence of malaria, river blindness, Avian Flu, HIV/AIDS, among others, have expanded the previously narrow focus of regional integration in Africa, to include these emerging issues.

2. This paper has highlighted key trans-boundary challenges in the Africa context, and articulated a discussion for the sharing of experiences on regional cooperation in addressing these challenges. The paper has drawn on commonalities between Africa and Asia to bring out key elements of the challenges of trans-boundary cooperation which affect both partners. Positive experiences were further highlighted in the area of regional cooperation on trade, which is one of the most promising areas of cooperation between Africa and Asia. The paper then continued to examine the role of the Bank in supporting Africa, through partnership with Asia, to efficiently deal with its emerging trans-boundary challenges.

## 1. Introduction

1.1 Africa faces numerous trans-boundary challenges, ranging from the continent's shaky political and economic spectra, to sectoral issues related to health, agriculture, natural resources management and the environment. In spite of recent progress on the political front, containing spontaneous political and civil conflicts on a permanent basis, often with cross-border effects, remains a regional challenge. Regional cooperation has a fairly long history in virtually all parts of Africa, although the focus had, for a long time, been on regional economic integration schemes, which were principally motivated by the vision for economic integration and political unity of the continent. While some progress has been made in this direction, new challenges such as political instability, water scarcity, environmental issues (deforestation, desertification, droughts, floods) and the prevalence of malaria, river blindness, Avian Flu, HIV/AIDS, among others, have expanded the previously narrow focus of regional integration in Africa, to include these emerging issues.

1.2 These challenges have attracted attention to regional cooperation in addressing trans-boundary issues to an extent that is way beyond the conventional political and trade-related dimensions. Global warming and the threat of Avian Flu and HIV/AIDS, among others, require response strategies that go far beyond national borders. The need for regional cooperation in addressing these trans-boundary problems cannot be overemphasized. What is worth reiterating is the fact that these challenges are not unique to Africa. Regions and sub-regions in both Africa and Asia face trans-boundary challenges where countries have to work together to find satisfactory and long lasting solution (Rosegrant, Cai and Cline 2003).

1.3 In the water sector, the Mekong and the Nile River Basins are good examples of a common pool of resources, which can be harnessed only through effective cooperation across countries. Another example is the observed coastal erosion in West Africa which poses a trans-boundary challenge, as it is closely associated with deforestation in the tropical rainforests, with severe environmental<sup>11</sup> and social impacts in the sub-region. Similarly, aquatic weeds in some West African rivers impede water-transportation and negatively affect the sub-region, with associated water borne diseases. In the health sector, trans-boundary challenges particularly related to the fight against the HIV/AIDS pandemic, with experiences from Africa and Asia that are worth sharing among delegates of the Ministerial Seminars to derive valuable lessons. While political strife may no longer be a burning issue in Asia, sharing the experiences of how conflicts in one country spills over to the next, adds a new dimension to understanding complexities of regional integration in an African context.

1.4 This concept paper is designed to highlight the trans-boundary challenges above, so as to articulate a discussion for the sharing of experiences on regional cooperation in addressing these challenges. The paper takes advantage of commonalities between Africa and Asia with regard to the issues raised, so as to bring out key elements of the challenges of trans-boundary cooperation that affect both partners. In doing so, the paper will particularly draw attention to positive experiences, such as South East Asia's Green Revolution, which Africa perceives as the outcome of regional collaborative research efforts that led to dramatic yield increases in the agriculture sector. Positive experiences will be further highlighted in the area of regional cooperation on trade, which is one of the most promising areas of cooperation between Africa and Asia. The issues raised in the paper are merely intended to set the scene and provide broad guidance to the discussions, without giving definitive opinions or

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<sup>11</sup> Environmental issues are addressed in the Climate Change Seminar, and will not be repeated in this paper.

solutions, which are expected to be the outcome of the Seminar. The paper then examines the role of the Bank in supporting Africa, to efficiently deal with its emerging trans-boundary challenges, guided in part by the experience of Asia.

## **2. Africa's Trans-Boundary Challenges**

2.1 The key characteristics of goods and services of trans-boundary nature are that their benefits and costs inescapably spill over national borders. Therefore, effective supply of these goods and services requires shared commitment and collective action, or collective efforts from all individuals and/or groups that benefit directly or indirectly from the goods or services. In the absence of cooperation and collective action, problems of externalities (positive or negative) arise, and the risk incentives to free-riding become high. These are the typical characteristics of most public goods such as those described in this paper, including river basin management in water scarce basins, environmental regulation and management, reducing the threats of Avian Flu and HIV/AIDS, breeding new crop varieties, and so on. These activities are all associated with goods or services with spill-over benefits or costs (externalities) and are called common goods (Bromely, 1992). We will briefly examine some of these goods and activities to highlight valuable lessons of cooperation from the African and Asian experiences, and identify possible areas of cooperation.

### *Water Resource Management*

2.2 River basins sustain ecosystems and are essential water sources of livelihoods, agriculture and industry, and fulfill many non-consumptive uses; so are lakes and larger water bodies. Many of Africa's major river basins are trans-boundary and are shared by countries which crucially depend on them for consumptive and productive uses. Due to population growth and overexploitation, the water demand on these river basins is increasing, while the capacity of basins to meet these demands is decreasing (Turton, Ashton and Cloete, 2003). In such trans-boundary basins, open dialogue and cooperation are crucial among the countries sharing the basins, and among different entities of water users for competing sectors (e.g. mining/industry, domestic and agriculture – crops, livestock), and individual water users and groups. Poor governance of trans-boundary water resources results in water conflicts (potential water wars). Poorly designed water use strategies are often associated with externalities (e.g. pollution and water-borne diseases), due to inappropriate use upstream which affects both the quantity and quality of water going downstream (negative externality). Externalities do not recognize boundaries, so that containment efforts from one country may fail if others do not cooperate or participate with the same level of commitment.

2.3 In the absence of cooperation in trans-boundary river basins, the potential for water-induced conflicts becomes very high. Asia's Mekong River, for example, runs 4,800 km from its headwaters on the Tibetan Plateau through China, Burma, Thailand, Cambodia, Laos and Vietnam. Over 60 million people depend on the river for food, water, transport and many other aspects of their daily lives. Its annual flood-drought cycles are essential for the sustainable production of rice and vegetables on the floodplains and along the riverbanks during the dry season. The river supports one of the world's most diverse fisheries, second only to the Amazon. This vital ecosystem and lifeblood of the region is currently under threat. Over the past ten years, more than 100 large dams have been proposed for the Mekong basin, including eight by China. Despite rising tensions, the Mekong River Commission maintains regional dialogue between the riparian states, serves as a framework for planning and coordinating investment activities in the Basin and monitors impacts.

2.4 Similarly, the Nile River, the longest river in the world, flows from Lake Victoria in east central Africa, north through Uganda into Sudan where it meets the Blue Nile that rises in the Ethiopian highlands, and flows into Egypt and onto the Mediterranean. Colonial arrangements allocated over 90% of the water to Egypt, but countries in the upper Nile basin are increasingly demanding more water development which could reduce the amount of water flowing down to Egypt. The Nile Basin Initiative (NBI) is a key trans-boundary framework for cooperation and dialogue on the Nile waters, and how it may be used for the economic, social and political well-being of all the riparian states.

2.5 These two examples both illustrate the use of trans-boundary basins as the basis for regional cooperation, which will facilitate exchange of experiences from Africa and Asia.

### *Regional Economic Integration*

2.6 Regional economic integration is one area that Africa pursued since independence, though it was only in the 1970s and 1980s that concrete steps were taken to establish economic integration institutions in sub-regions (World Bank, 2004). The first generation of regional integration institutions, modeled on political vision and import substitution, largely failed for obvious reasons: national markets were too small, low economies of scale, high transportation costs, domestic monopolies and trade protection, emphasis on joint public ventures instead of private sector, etc. (Schiff and Winters, 2003). As countries progressively switched from import-substitution to open market policies in the early 1980s, a second generation of regional integration schemes became characterized by open regional arrangements. Among compelling arguments are the small sizes of countries with fragmented markets, several of which are landlocked and a consequent need to integrate their economies and co-operate to effectively confront both national and trans-border development challenges. This included the implementation of trans-boundary multinational programs, particularly regional public goods such as transport and communication infrastructure, and in few cases electricity. Ownership of large investments for the realization of economies of scale and efficiency in production, marketing were further considerations.

2.7 Today, Africa has a large number of regional organizations and regional trade agreements (TRAs), including ECOWAS, COMESA, SADC, EAC<sup>12</sup>, to name just a few, whose successes have remained limited. In other words, the depth of cooperation of most of the African TRAs has not been adequate to generate the expected mutual trade benefits for economic growth. Besides depth of cooperation, lack of harmonization, coordination and overlapping memberships are often called in question. At the same time, experience in Asia especially with regional trade agreements seems to have recorded positive and highly successful examples. For instance, the Association of South East Asian Nations (ASEAN) has emerged as one of the most successful regional organizations in the developing world, attributed with ensuring regional stability. It has also served as a mechanism of regional and economic development by promoting free regional trade under the ASEAN Free Trade Area (FTA). These contrasting experiences create an opportunity for exchange of experience, so that Africa can take Asia's lessons on board, in its stride to economic development.

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<sup>12</sup> AU = African Union; ECOWAS = Economic Community of West Africa States; COMESA = Economic Community of Eastern and Southern Africa, SADC = Southern Africa Development Community; EAC = East Africa Community.

### *Regional Cooperation on Health*

2.8 Regional cooperation is extremely critical in the fight against global pandemic diseases such as HIV/AIDS, malaria, and quite recently, Avian flu. When the spread of HIV/AIDS was first reported in the 1980s, no one predicted the extent to which the pandemic would proliferate or the extraordinary effects it would wreak on global economies (World Bank, 1999). While global figures on HIV/AIDS today are alarming, the spread of the disease in countries in SSA has been incredibly fast, far outstripping the rates recorded in other parts of the world, though trends have now stabilized. There is compelling evidence that the trends in HIV/AIDS will continue to have profound impact on infant and maternal mortality, life expectancy and economic growth in the region, through its impact on labor and productivity. The fight against the disease poses new problems of trans-boundary cooperation. In the SADC countries for instance, migrant labor and extended transportation systems are frequently cited as sources of the high rates of infection. The implication here is that efforts by one country to contain the disease may not work unless others do the same.

2.9 On the other hand, availing free anti-retroviral drugs in one country could lead to free-rider problems whereby people from neighboring countries could simply cross over to get the free treatment. Similar trans-boundary cooperation is required in the fight against Avian Flu, where by the agricultural and commercial linkages between tiny African countries make it impossible to successfully combat the disease through culling of chicken and birds. Similar stories emerge when dealing with the prevention of malaria and other water borne diseases. Given that Asia, especially India, is also grappling with HIV/AIDS, and China with Avian Flu, this session will seek to articulate a discussion that will give an opportunity for Africa to learn from Asia's experiences in dealing with these issues.

### *Collaborative Research*

2.10 The successful regional collaborative research which led to South East Asia's Green Revolution contributed greatly to increasing agricultural yields tremendously, which did not only prevent food shortages in Asia but also led to surplus production. Africa has been in the search (and is still searching) for sustainable solutions to food shortages, particularly grains. Sharing lessons of the Green Revolution in terms of its core principles and key lessons would be critical for Africa. While Africa is making some progress in crop research such as rice and cassava, among others, through the work of the CGIAR, success to the magnitude of the Green Revelation in South East Asia is yet to come.

### *Cooperation on Infrastructure*

2.11 Regional common goods, particularly regional infrastructure, is typically the subject of trans-boundary cooperation, through consultation, joint decision and joint development and management schemes. These include joint commitments to common reform agenda or policy processes, or agreements to carry out joint projects or programs such as a cross-border road, electricity or communication installations. These could also be activities which a country may unilaterally undertake, but economies of scale would only be enjoyed by some form of regional convergence. Joint commitment may be effective depending on the degree of economic integration and the concomitant opportunity costs of exit and the credibility of the punishment. With the emergence of the NEPAD, which is working closely with the Bank especially on infrastructure, the willingness and commitment of countries are at their highest.

2.12 In this context, the discussion will particularly seek to benefit from the Asian experience. In particular, Africa recognizes that an important determinant of Asia's economic performance has been its dedicated and careful investments in infrastructure, which seem to have paid off very well. This is a situation that Africa is yet to achieve. More needs to be done in order to meet Africa's infrastructure financing needs both through increased financing, which the Commission for Africa estimates at US\$ 20 billion, and through regional cooperation. In this regard, the need for regional cooperation in Africa is very important, given that many of the poorest countries in Africa are small and landlocked. The economic development of these countries is thus dependent upon their becoming more integrated with their neighbors.

### *Trans-Boundary Conflicts*

2.13 The general perception of Africa as a continent of high risk, weak institutions and poor governance owes, in part, to frequent social and political upheavals that characterized the continent for decades. While recent experience of political instability in Liberia, Sierra Leone, Democratic Republic of Congo (DRC) and Rwanda testify to this view, there is accruing evidence that this unpleasant trend is slowly abating; thanks to the growing strength of African regional organizations (some with peacekeeping arms) and the UN interventions. In spite of increased efforts by regional organizations such as the AU, ECOWAS, COMESA, SADC, among others, spontaneous conflicts and civil strife have not permanently stopped from emerging (e.g. Cote d'Ivoire, Eritrea/Ethiopia, Sudan, Chad, Guinea).

2.14 These conflicts emerge with political, economic and social catastrophes that need not be overemphasized here, often with severe implication for neighboring countries. Trans-boundary challenges also immediately emerge when large numbers of displaced persons pass cross-borders as refugees. This situation does not only aggravate the social and economic conditions of the host villages and towns on the short-term, but the conflicts often get exported on the long-term, as was witnessed with the Liberia war, which spilled over to Sierra Leone in the early 1990s, and now to Cote d'Ivoire and Guinea. While one concedes that Asia had also grappled with civil and political conflicts in the past (e.g. Indonesia, India, China), and had some still on going (Sri Lanka), the duration and extent of spread across borders has been significantly different. In a trans-boundary context, therefore, this session will create a forum for debate and exchange of experiences between Africa and Asia in dealing with conflicts of trans-boundary nature, so as to seek ways of permanently ending the vicious cycle of conflicts in Africa.

## **3. Addressing the Challenges**

3.1 While sovereignty remains crucial in dealing with Africa's trans-boundary challenges such as those highlighted above, political will is a key source of encouragement for countries to perceive common challenges and agreements as binding. Joint strategies, policies, frameworks and subsequent commitments to address trans-boundary only yield meaningful results if the commitments are honored, or the common rules mutually respected. While mechanisms for sanctioning violators sometimes may become incentives for cooperation on trans-boundary issues, lack of cooperation in most cases in Africa is related to lack of means for honoring the commitments. This is particularly the case for many of Africa's small countries which most often lack the technical, financial and human resource capacity to honor trans-boundary commitments, e.g. related to HIV/AIDS, Avian Flu, river basin management, cross border trade in forest resources, conflicts resources, international wildlife,

desertification, etc. Since the efforts of others cannot come into fruition without the cooperation of all parties concerned, there is a clear need for giving attention to strengthening the implementation capacities of trans-boundary commitments by African countries.

3.2 The second issue relates to the negotiation power of small and larger countries in Africa, with huge divergence in their technical, human and financial capacities. In the case of river basin management, up to date technical knowledge of the short- and long-term dynamics of the water situation is required by all parties for equal bargaining power at negotiations. However, experience in Africa (e.g. the Nile Basin Initiative) indicates that that Egypt is far ahead of others in hydrology and water science. Thus, capacity building and technical assistance, to level the playing field, are crucial elements that should not be neglected in addressing trans-boundary issues. By its very nature, trans-boundary cooperation requires a lot of co-ordination and synchronization of activities, since everyone's participation and contribution are critical to minimizing externalities (positive and negative) and avoiding free-riding on the efforts of others.

#### **4. The Role of the African Development Bank**

4.1 As the leading development institution on the continent, the African Development Bank has long recognized its important role in assisting Africa to overcome its trans-boundary challenges. In this regard, the Bank is actively providing support in critical areas of trans-boundary cooperation, including river basin management, regional economic integration, regional cooperation of health, collaborative research especially in agriculture, cooperation on infrastructure, and conflicts and conflict resolution. The Bank Group continues to increase its focus on programs that provide opportunities for overcoming these challenges to improve the access of the poor to productive resources (notably water and land), technology and knowledge, and social services. The Bank also continues to aim at placing a high premium on the promotion of good governance and post-conflict assistance.

4.2 In the area of trans-boundary river basin management, the Bank is actively supporting river basin authorities and institutions in many basins, including the Volta Basin Authority (West Africa), the Nile Basin Initiative (NBI) in Eastern and Northern Africa, and the Okavango and Limpopo Basins in Southern Africa, among others. This is done through grants via project operations, as well as from the African Water Facility. Given Asia's extensive experience and long tradition of managing trans-boundary rivers, collaboration in the areas of training and technical capacity building of riparian countries relying on shared river basins will be a crucial area for Asia to complement the Bank's current efforts.

4.3 Within the NEPAD, the Heads of State and Government Implementation Committee (HSGIC) of NEPAD in November 2001 mandated the Bank Group to be the lead agency for infrastructure development. This has given the Bank a unique leverage for pushing ahead with multinational and trans-boundary infrastructure programs on the continent. In infrastructure development, over the period 2002-2006, the Bank financed eighteen physical projects, including one private sector project, and twelve studies and three capacity building projects within the NEPAD framework for a total Bank Group financing of US\$1.024 billion, and mobilized about US\$1.6 billion in co-financing of some of these projects. Asia could add value to this process by synchronizing its infrastructure investment with these programs, so as to enhance maximum impacts. The Bank was further mandated to lead the development of financial infrastructure (banking and financial standards) and cooperate with ECA on

economic and corporate governance, where significant progress has been made. The Bank was also designated as a strategic partner to the African Peer Review Mechanism (APRM).

4.4 With its current structure that entails a 'Knowledge Centre' (The Office of the Chief Economist), the Bank has doubled its efforts in knowledge generation and dissemination, including research and training, and the provision of research and knowledge-related support to Africa. For selected areas of research such as agriculture and health, Asia could complement this process by supporting intense interaction between African and Asian scientists, and by directly supporting commodity-specific research that is of mutual benefit to both continents especially in the agriculture (crop, livestock) and health sectors (Avian Flu, HIV/AIDS), and other public goods.

## **5. Discussion Questions for the Panel**

5.1 This assessment of issues of trans-boundary cooperation in Africa has revealed both opportunities and challenges that need further attention in the evolution of the partnership between Africa and Asia. Therefore the Seminar will not only discuss these issues as past experiences, but will assess them as opportunities for sharing experiences in these key areas, with a view to helping Africa to derive maximum benefits from the Asian experiences with trans-boundary cooperation. With this in mind, we have developed guiding questions that will help focus the discussion:

- Given the opportunities and challenges highlighted in this paper, what are key areas of intensifying cooperation between Africa and Asia in addressing trans-boundary challenges in Africa?
- What are common experiences and lessons that could be shared for mutual benefit, with regards to: river basin management (e.g. Mekong, Nile), Avian Flu, HIV/AIDS? How can these experiences be used to increase Africa's capacity in water resource management, especially shared basins?
- What are challenges and what lessons can we derive for improving on the cooperation?
- Regional integration experience in Africa shows that most countries are hesitant to create supra-national bodies and to transfer power to them as a sanctuary authority. The RECS do not have the power and/or legal backing to enforce rules and regulations and to let members fulfill and discharge their obligations such as reducing tariffs and other trade barriers in accordance with their commitments. What lessons from Asia will help strengthen regional integration in Africa?

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