The Tokyo International Conference on African Development (TICAD) Framework for Strategic Collaboration in Trade and Investment between Africa and Asia

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Abstract

TICAD framework for strategic collaboration in trade and investment between Africa and Asia

The TICAD framework for strategic co-operation in trade and investment between Africa and Asia is presented in this paper as the basis for enhanced partnership as spelt out in the Millennium Development Goal 8 for the promotion of African Small and Medium-sized Enterprises (SMEs). The paper outlines the outcome and lessons learned from the Fourth Africa-Asia Business Forum (AABF IV) held from February 12 to 14 2007 in Dar es Salaam, Tanzania. It provides a succinct overview of past AABF for an analysis of the strategic orientation of the AABF series, including support for financing African SMEs and women's increased participation in international trade and investment.

1. Introduction

Trade is one of the most effective engines of socio-economic growth and development in the world. Africa's exports are predominantly primary commodities, which account for more than two-thirds of all exports. Crude oil represents the continent's single largest export product. Many African countries export mineral and mining products as well as agricultural and fishery commodities, whereas other countries are exporters of manufactured products, most notably textiles and apparel.

On imports, transportation and communications equipment are among the major incoming goods. The others are food products. According to the World Bank[1], the increasingly industrialised countries in Africa have joined the global supply chain in their respective sectors. African exports to Asia have grown rapidly in the past decade, and accounted for 14.2 percent of total Africa's exports in 2000 from 7.7 percent in 1990.

In this context, Asia has emerged as an important partner in Africa's trade and investment. Since the first TICAD conference in 1993, trade between Asia and Africa has grown dramatically, although it is still small compared to Asia's overall levels of trade and the potential its holds. Of Africa's total export earnings estimated at about US$134 billion per year (2001–2003 average), 15 percent come from sales to Asia. The rate of increase in export values to Asia — about 10 percent per year — has been higher than similar rates for the European Union (EU) or the United States.

Over the same period, Asia's developing economies significantly increased their imports from African countries. For example, trade between India and Africa increased from $890m in 1991 to $6bn in 2004. Chinese customs statistics, on the other hand, confirm that China's trade with Africa increased from approximately US$1 billion to US$4 billion from 2001 to 2005. Now the world's fourth largest economy after the United States, Japan, and Germany, and the second largest consumer of energy in the world, China has become Africa's third largest trading partner, investing close to US$1billion a year. About 30 percent of the country's oil and gas imports are from sub-Saharan Africa. Trade partnership with the country as the world's most populous nation and the largest developing country in the world is worthy of note.

The EU has granted many African states wide-ranging trade preferences for the entry of their export products into the EU market. However, some agricultural commodities often deemed strategically important for African exports, remain excluded from this agreement. As a result, trade relations between Africa and Europe have become increasingly strained. African trade experts believe that the Chinese investment and competition in Africa could mean that the EU will be forced to forge new trade agreements and hold fairer negotiations with their African partners. Trade between Africa and North America, especially the United States, has been significantly boosted by the Africa Growth and Opportunity Act (AGOA), which allows duty-free access of African exports — about 1,800 product lines — into the US.

An analysis of the Foreign Direct Investment (FDI) of several Asian countries in Africa shows that relations between Asian investors and host

1. Toshihiro Toyoshima, Yutaka Yoshino, Chad Leechor (2004), *Patterns of Africa-Asia Trade and Investment : Potential for Ownership and Partnership*. The World Bank Group. Washington, DC, USA.

countries in Africa are deeply motivated by trade. It is worth noting that Asian investment in Africa takes three forms, the first type being investment targeted at products to be sold to Asia (i.e. natural resources and processed raw materials). The second type targets Africa's domestic markets. However, such investments have been constrained by the small size of local markets and the high transaction costs resulting from poor infrastructure. The third investment type targets the global market, typically the EU or the United States. Chinese and Indian foreign direct investment grew in the last five years[2], with China's amounting to US$1.18 billion by mid 2006.

Japan has demonstrated its willingness to play an even greater role in Africa's development. Japanese investment into Africa reached US$203 million in 2004 alone. The investors have been involved in a number of significant deals[3] in African countries, including Mitsubishi Corporation in Mozambique, Japan's Oil Gas and Metals National Corporation in Libya, and Oji Paper Company Ltd — one of the country's major paper and pulp manufacturers — in Tanzania. Japan, which still funnels the bulk of its investment into non-manufacturing, is developing niche investments such as Sumitomo Chemical's plan to increase production of its anti-malaria mosquito nets in Tanzania. South Africa is one of Japan's key trading partners in the continent, especially for cars. Last year, Isuzu Motors announced plans to invest in the country in a joint venture with General Motors.

Trade data indicate the existence of a significant potential for expanding trade and investment relations between Africa and Asia. To make remarkable progress in such trade and investment expansion, innovative initiatives such as the TICAD Process must be strengthened in order to enhance strategic dialogue between African and Asian countries, and to raise awareness about emerging opportunities among businesses in the two regions.

Building on the "TICAD Framework for Strategic Collaboration in Trade and Investment between Africa and Asia" is presented in this paper as the basis for enhanced partnership in pursuit of the achievement of the Millennium Development Goals (MDGs) in Africa[4], especially Goal 8, which is about "developing a global partnership for development".

The paper outlines the outcome and lessons learned from the Fourth Africa-Asia Business Forum (AABF IV). It also provides a succinct overview of past AABF fora and an analysis of the strategic orientation of the AABF series, including support for financing African SMEs and increased participation of women in international trade and investment.

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2. Harry Broadman (2007), *Africa's Silk Road : China and India's New Economic Frontier*, The World Bank Group. Washington, DC, USA.
3. Africa Investor (Jan.-Feb. 2007), *Tokyo Means business for Africa's Small Business*, London, UK.
4. Africa and the Millennium Development Goals, 2007 Update, published by the United Nations Department of Public Information. DPI/2458. New York, USA.

2. TICAD framework for co-operation in trade and investment

TICAD was launched in 1993 to promote high-level policy dialogue between African leaders and development partners[5]. It has since evolved into a major global framework to facilitate the implementation of initiatives for promoting African development under the principle of African "ownership" and international "partnership". A central feature of this framework is the co-operation between Asia and Africa.

TICAD enjoys the joint support of co-organisers, namely the Government of Japan, the United Nations Office of the Special Adviser on Africa (UN-OSAA), the United Nations Development Programme (UNDP), and the World Bank. Its stakeholders include all African countries and development partners, including Asian countries, other donor nations, international agencies, civil society organisations and the private sector. TICAD's co-organisers work together to keep Africa's development agenda in the forefront of the world's attention.

The TICAD process has significantly mobilised the international community to show interest in Africa's development. The first conference (TICAD I) took place in 1993. The co-organisers were determined to reverse the decline in development assistance for Africa, which had followed the end of the Cold War. Participants adopted the Tokyo Declaration on African Development, committing to the pursuit of political and economic reforms in Africa, increased private sector development, regional co-operation and integration, and the harnessing of Asian experience for the benefit of Africa's development.

Held in 1998, the second conference (TICAD II) renewed the commitment to Africa's development, with poverty reduction and integration of Africa into the global economy being the primary theme. It culminated in the adoption of the Tokyo Agenda for Action (TAA). The TAA outlined a framework of co-operation and underlined the need to adopt specific goals and targets in such critical areas as human development, including education and health ; economic development, including private sector development and agriculture ; and foundations of development such as governance, conflict prevention and consolidation of peace.

In 2003, the third conference (TICAD III) made an explicit commitment for TICAD to support African Union's (AU) New Partnership for Africa's Development (NEPAD), which is a blueprint for Africa's socio-economic growth and development. TICAD III was held in Tokyo with high-level participation of African leaders, including 23 heads of State, and 10 heads of international organisations. It was commended as one of the largest international conferences on African development. A political state-

5. TICAD/UNDP Africa Bureau. 2005 brochure. *Forging Strategic Partnerships for Africa's Development*. New York, USA.

ment on TICAD 10th Anniversary Declaration that renewed the commitment of leaders for African development was adopted at the conference.

A major follow-up to TICAD III, the Asia-Africa Trade and Investment Conference (AATIC) was held in Tokyo in November 2004 and promoted the idea of "Poverty Reduction through Economic Growth" as well as "Asia-Africa Co-operation". The Government of Japan proposed four key concepts at AATIC : 1) "Formulation of an appropriate policy« for establishing an industrial foundation ; 2) "Product development" with a focus on improving quality to increase competitiveness ; 3) "Empowerment of small and medium-size local enterprises (SMEs)" generating income and employment in local communities ; and 4) the "Promotion of a social contribution by private enterprises", prompting equitable growth.

The fourth conference (TICAD IV) in 2008 will seek to mobilise efforts by the international community to assist Africa to continue to make remarkable progress towards peace, stability, and prosperity.

3. Africa-Asia business forum (AABF)

The TICAD Initiative has for the past fifteen years spurred a wave of innovative activities in poverty reduction through economic growth. The impact of the TICAD Process is felt in a wide range of vital sectors, including peace-building, which has become a new pillar of Japan's international co-operation. Responding to several peace processes in Africa, Japan has disbursed more than US$550 million over the past few years, including assistance of approximately US$60 million to 14 African countries in March 2005. And in the realm of governance, TICAD stakeholders support the NEPAD Initiative of a Peer Review Mechanism among African countries.

In the agricultural sector, NERICA ("New Rice for Africa"), a crossbreed of Asian and African rice varieties that combines the resilience of West African rice and the high productivity traits of Asian rice, was widely disseminated under the TICAD Initiative. Through the TICAD Process, Japan is keen on continued support for scaling-up the NERICA dissemination, as well as support for agricultural research and policy development. Japan is also actively involved in providing anti-malaria bed-nets in Africa. The government provided 10 million long-lasting insecticidal-treated nets in 2007 in response to "Quick Win Actions" featured in the Millennium Project Report.

The TICAD Initiative foresees an unprecedented opportunity for significant collaboration in trade and investment between Africa and Asia. Following TICAD II in 1998, a face-to-face business negotiation process between qualified selected Asian and African firms was organised under the TICAD Initiative through three Africa-Asia business fora. Two major meetings were held between TICAD II and TICAD III — one in Kuala Lumpur, Malaysia, in October 1999, drawing together 110 African and Asian business people, and the other in July 2001 in Durban, South Africa, where more than

140 participants represented over 120 African and 60 Asian companies. AABF III was held in 2004 in Dakar, Senegal.

Initiated by the Government of Japan under the TICAD Initiative, the AABF series was designed as a South-South initiative where the Asian economic experience (both successes and failures), coupled with the increasing level of business interests in Africa by Asian companies, could represent a significant and viable business development opportunity of mutual benefit to both regions. All AABF fora aimed at creating more favourable conditions for identifying partners in future joint ventures, and at attracting greater flows of foreign direct investment and trade between Asia and Africa. Altogether, AABF I, II and III have led to business prospects worth over US$100 million.

Past AABF fora demonstrated an increasing demand from African companies for improved manufacturing capacity through the acquisition of better equipment and technology to maintain costs of production at some profit levels. Examples of past fora, particularly AABF I and AABF II, demonstrated that comparable equipment provided by internationally reputable companies such as UNILEVER, General Electric, among others, were made available through AABF at far better prices with equivalent capacity and efficiency by some Asian companies.

Now that global economies are becoming more harmonised in packaging of products, quality standards, and services through the over-arching role of the World Trade Organisation (WTO), for many African companies, the fledging nature of their businesses and their increasing desire for expansion into foreign markets have made the AABF fora an attractive platform to explore ways of meeting their business development objectives.

Against this backdrop, AABF IV was the continuation of the business linkage series aimed at injecting a significant role of the private sector in transforming Africa's economic and social development in an increasing global competitive business environment.

4. Outcome of Africa-asia business forum IV (AABF IV)

AABF IV was held from February 12 to 14, 2007, in Dar es Salaam, United Republic of Tanzania. Immediately after, a Small and Medium-sized Enterprises (SMEs) Financing Symposium was hosted by Technonet Africa from February 14 to 16, 2007. Technonet Africa is supported by UNDP's South-South Co-operation Unit.

This was the first time in the series of AABF, that all TICAD Co-organisers, along with the United Nations Industrial Development Organisation (UNIDO) and the Government of Tanzania, actively participated in the preparatory process. The Government of Japan was represented by the Vice Minister for Foreign Affairs, Hon. Hamada. The host government was represented by President Jakaya Kikwete.

UNIDO provided technical assistance through the TICAD Exchange Network[6], a Web-based platform that aims at improving a comprehensive information base on trade and investment to guide the identification of new business opportunities. It also provides an on-line facility for information exchange among users. Contained therein are macro and micro economic indicators, data on industrial production, trade and investment policies, and laws and regulations of African countries.

It was the first Forum that companies from Japan and North Africa participated in the AABF series. An invitation was also extended to the African Diaspora for the first time through Business Action for Africa. The latter is a London-based international network of businesses and business organisations from Africa.

A presentation by the 3J, namely the Japan International Co-operation Agency (JICA), the Japan Bank for International Co-operation (JBIC) and the Japan External Trade Organisation (JETRO), drew a large audience. It focused on the "One Village One Product" Initiative, a Power Lunch hosted by Standard Chartered Bank and organised by the Tanzania Private Sector Foundation. The presentation by the Japan Bank for International Co-operation and the Foundation for Advanced Studies on International Development (JBIC/FASID) highlighted the outcome of a research study on industrial clusters. The exhibition booths that participants purchased for display and sales of their merchandise, including Sumitomo Chemical's complimentary mosquito nets, also drew extensive attention, including that of President Kikwete. The exhibition gave the Forum a "market-place" atmosphere.

Some 269 companies — 228 from Africa and 41 from Asia — completed the Forum Application Forms. After a rigid screening process, 212 business people representing 160 companies participated in AABF IV. The African companies came from the following : Cameroon (10), Nigeria (16), South Africa (14), Tanzania (64), and Zimbabwe (24). The Asian companies were from China (3), India (1), Japan (7), Pakistan (6), Singapore (2), Sri Lanka (1), and Thailand (13). About 20 percent of all the participants were women. There were approximately 15 women-led companies, including a significant number from Zimbabwe.

AABF IV registered a total of 118 Memoranda of Understanding (MoUs)[7]. Eighty of them had values totalling US$152.3 million, a little less than the US$152.9 million in the declared value of the three previous AABF fora. The estimated value of the MoUs without declared value totalled more than US$42 million. If this was added to the declared value, the outcome of

6. The TICAD Exchange Network is developed and managed by the TICAD UNDP/Africa Bureau with technical support by UNIDO, and fully sponsored by the Government of Japan.
7. Final Report on the Fourth Africa-Asia Business Forum (AABF IV), 12-14 February 2007, Dar es Salaam, Tanzania. New York, USA.

AABF IV would have by far surpassed the combined declared value of the three previous AABF fora.

The majority of deals were overly trade-oriented. Sixty-three percent of the deals signed were exclusively a trade alliance. Approximately 10 percent of the deals were exclusively investments. Several deals were a combination of trade with investment, trade with technology, and investment with technology transfer. The Africa-Asia context within the AABF series must therefore increase the likelihood of this type of alliance outcome. To do so, however, may require a more targeted forum with smaller participation levels.

A sectoral analysis revealed that Agro-processing had the highest number and value of MoUs, followed by pharmaceuticals and chemical products, textiles/garments, and chemical products. Twenty-three out of 118 MoUs involved both trade and investment projects, whereas 73 MoUs solely dealt with trade. Ten of them were on investment. Sixty-nine MoUs stated the need for financing, out of which 23 deals identified potential financing sources.

Africa-Asia and intra-Africa deals split the MoUs fifty-fifty. Africa-Asia deals were valued at US$88.1 million from 58 MoUs. The intra-Africa deal value was US$64.3 million from 57 MoUs. Some Intra-African deals were joined by Asian companies, making it a unique tripartite co-operation. Deals involving Tanzanian companies, which represented 52 percent of the total value, were valued at US$79.6 million from 40 MoUs, while the deals from Pakistani companies represented 83 percent of the Asian MoUs with values worth US$ 73.1 million.

For the first time in the AABF series, Japanese companies were invited. The decision was made in recognition of the sizable presence of Japanese companies doing business in Africa and the organisers seeking to expand opportunities for investment in the continent through targeted Japanese industries, such as mining and energy. Ten Japanese companies participated, out of which five signed MoUs. The deals by companies were valued at US$8.5 million from 10 MoUs. The largest deal, worth US$6.5 million in the energy sector, was arrived at with a Rwandese company.

The intra-Africa dimension of AABF IV was an impressive result that emphasised the importance of its increasing relevance in future events, and required a strategic follow-up to nurture deals made and bring them to successful fruition.

AABF IV was able to attract several commercial banks, such as Standard Chartered Bank of Tanzania, the Bank of Industry of Nigeria, the Kingdom Bank (Zimbabwe and Tanzania), and the Bank of Tokyo (Johannesburg branch). In addition, the International Finance Corporation (Nairobi office) attended AABF IV.

The role of the private sector and the multilateral and bilateral assistance in developing countries often encourage efforts for increased participation of women-led companies in trade and investment. AABF IV was the most successful in meeting this objective, attracting 15 women-led companies and about 20 percent of the participants being women.

There is potential to effectively reduce poverty by supporting local entrepreneurship and business initiatives by women. Established by the Government of Japan in 1995 under the TICAD Initiative, the Japan Women in Development Fund (JWIDF) supports UNDP's efforts to promote the empowerment of women. Its purpose is to build women's capacities through innovative project initiatives in the areas of education, health, economic, and social participation. Many country-based, regional, and global projects have received funding through the JWIDF, including South Africa, Tanzania, and Rwanda.

A concrete income-generating activity under the Government of Japan's "One Village One Product" initiative, which aims to promote rural development by encouraging signature products particular to a locality, is the shea butter soap makers in the northern town of Tamale in Ghana, where local women have just got their finished products into novel Japanese shops.

5. Establishing a financing facility

Finance is a critical aspect of follow-up strategic plans to the AABF series. It is therefore significant that AABF IV was held as a back-to-back event with the SME Financing Symposium, managed and co-ordinated by the South-South Co-operation Unit of UNDP. The SME Financing Symposium attracted several banks and finance experts, including the Bank of Industry (Nigeria) and Kingdom Bank (Tanzania and Zimbabwe). The synergies between the AABF IV and the SME Financing Symposium were intended to develop mutuality of purpose and results.

Establishing a financing facility to meet the funding needs of African SMEs in the aftermath of AABF IV poses a great challenge. Each AABF event has resulted in a substantial number of MoUs. However, the momentum generated by this and the hopes of following-up on successful deals made, usually runs out of steam soon after. This is primarily due to the limited finance to assist African partners in meeting their obligations under the deals, and the inability of African companies to secure financing to operationalise many of the deals made.

Findings show that the problem lies with the commercial banking sector in Africa not being in an accommodating position to most business financing needs.

The Government of Japan, under its Enhanced Private Sector Assistance (EPSA) for Africa, has allocated funds to be administered by the African Development Bank (AfDB) for private sector development. It was agreed by the organisers of AABF IV to develop a proposal for a financing facility to be sourced from the AfDB in light of its management of Japanese funds under the EPSA for Africa.

The argument used for Japan's support is that the government of Japan is the primary contributor to AABF under the TICAD umbrella, and the AABF is an excellent representative initiative of the South-South dialogue that should qualify under EPSA.

The Financing Facility will have flexible and reasonable terms and conditions, and will be managed by a project team that is tasked with the review, monitoring, and management of the deals that qualify for financing from the facility. The financing facility is ever more important. The analysis indicates that 75 percent of the deals from AABF IV need financing.

UNDP has initiated negotiations with the Ministry of Foreign Affairs, JBIC as well as AfDB to come up with a viable financing mechanism as a concrete follow-up to AABFIV. The proposal has been favourably received by the Government of Japan, and UNDP is co-ordinating efforts to bring the proposal to fruition.

6. Conclusion

Trade and investment between Africa and Asia hold great promise for Africa's socio-economic growth and development. However, a wide range of policy reforms in both regions are needed, including the elimination of Asian tariffs on Africa's leading exports as well as on certain inputs that make its own exports uncompetitive ; reforms to improve Africa's basic market institutions ; trade facilitation infrastructure to decrease transactions costs such as customs bureaucratic administration, transport and communication ; reforms to improve corporate governance and inculcate a culture of corporate social responsibility ; and reforms that foster linkages between investment and trade to allow participation of African businesses in modern global production-sharing networks generated by Asian investments in Africa.

The AABF series, as an important feature of the TICAD Initiative, has generated much interest since its inception. But beyond the Memoranda of Understanding (MoUs) signed and the networks established, the event has been plagued by the inability of African companies to secure financing to operationalise many of the deals made during the fora. Efforts to establish a financing facility to be sourced from the AfDB in light of its management of Japanese funds under the EPSA for Africa, must be pursued vigorously.

Parallel to this, Africa and Asia trade and investment analysts are urged to call for trust and confidence-building between African business leaders, who must use their diversity and comparative advantages to promote business and to encourage investment that can generate employment for a positive spill-over effect on supporting the burgeoning local industry. AABF IV has the potential to make an important contribution to the increased role of the private sector in Africa.

Such a contribution by AABF, which represents an important component in the preparations for TICAD IV, would be its transformation from an event to a process. This strategy would incorporate a reliable and capable national identification mechanism and process ; a database of companies from all prior AABF events ; a strengthened Web-based, electronic platform for information sharing and networking ; a smaller event with targeted sectors ; inclusion of executive seminars as an educational and marketing tool of the attractiveness of both regions under the South-South umbrella ; and building the foundation for a sustainable event as part of the conversion to a process.

The AABF faces a bigger challenge, especially in terms of attracting finance into Africa's SME sector, in its ultimate aim to route those businesses to market and thus facilitate South-South trade. Future fora should consolidate gains made in terms of inculcating a more informed, educated, and positive awareness of Africa as a viable and profitable business destination. The AABF series can be instrumental in providing a catalytic input that strengthens the capacity of African SMEs and women entrepreneurs to genuinely participate in world trade and investment flows, and most importantly, to benefit from the new patterns of trade and investment with Asia.

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