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Balancing Investment and Development Assistance in Africa: Growth Prospects from Asia–Africa Connectivity

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Key Issues:

- **Africa can benefit** from trade, investment, and development cooperation through a measured combination of investments and development assistance.
- **Balancing official development assistance** programmes with foreign direct investment initiatives is important for developing physical, institutional, and human resource capacities.
- **East Asian growth experience** and its connectivity with Africa can help to achieve this balance and enhance growth and mutual trust simultaneously.

Africa's young demography and developing economy require integration and expansion into the global value chains. Asia can share its growth experience with Africa. Africa can benefit from trade, investment, and development cooperation through a measured combination of investments and development assistance. The policy challenge facing the countries of Africa and their development partners is to balance official development assistance programmes with foreign direct investment initiatives, as physical, institutional, and human resource capacities must grow simultaneously.

Background

Relations between Asia and Africa are historical and they share contemporary aspirations. Their shared experience of past struggles and current cooperation efforts hold the prospect of a bright future in which forecasts for growth are enormous.

The economies of Asia, especially East Asia[1], have shown resilience and continue to provide a strong impetus to the global economy. Africa, on the other hand, is on a growth path. Its young demography and developing economy require integration into the global value chains in Asia. Together, Asia and Africa account for 70% of the global population and 37% of its gross domestic product (Figure 1). Increased connectivity between the two regions is expected to bring about economic prosperity and encourage sustainable development by establishing growth corridors and networks for capacity enhancement.

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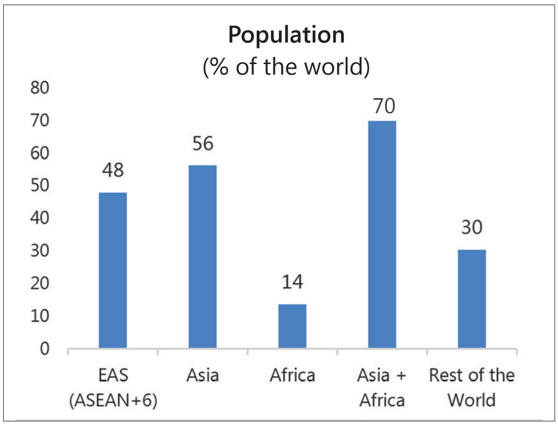
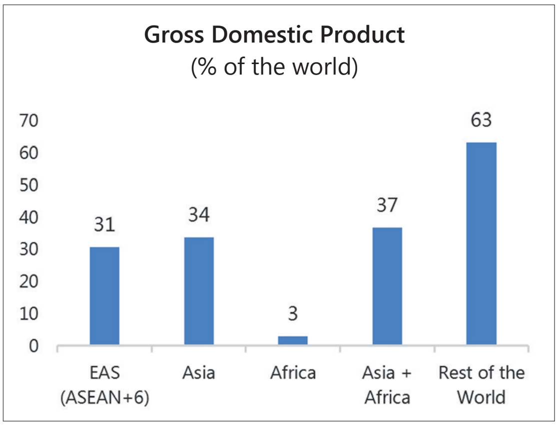
[1] The geographical concept of East Asia comprises of Southeast Asia, Northeast Asia, and Oceania, or the Association of Southeast Asian Nations (ASEAN) +6, which includes the ASEAN 10 (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam) plus Australia, China, India, Japan, the Republic of Korea, and New Zealand, corresponding to original 16 East Asia Summit countries. The East Asia Summit 16 is an economically compact region with free trade agreements between ASEAN and its six Dialogue Partners. The 16 countries are negotiating a regional comprehensive economic partnership agreement.

Figure 1: Combined Strength of Asia and Africa





Source: World Bank, 2017.

The next decade will be an opportunity for both regions to complement their economic and social potential and deepen their economic integration.

Key Questions

Asia can Share its Growth Experience with Africa

Southeast and East Asia can play an important part in enhancing Africa's connectivity with Asia by sharing their official development assistance (ODA) and investment-led growth experiences of past decades. Research on connectivity and trade facilitation conducted by the Economic and Research Institute for ASEAN and East Asia explains the development roadmaps to bring people, goods, services, capital, and institutions closer together.[2]

Asia–Africa connectivity will facilitate enhanced economic growth by linking economies in Asia and Africa through developing institutional and human capacity, connecting institutions and people, improving capacities for the planning and execution of projects, facilitating trade, developing improved technology, and enhancing the infrastructure – including ports, airports, industrial parks, telecommunications, and information technology – of the two regions. This will enable the regions to become a growth corridor and collectively emerge as a globally competitive economic region.

Through this connectivity, the development experience of East Asia, Southeast Asia, and South Asia can be shared with Africa and support the physical and institutional conditions that can lead to increased investment in Africa. This can be further strengthened with specialised development cooperation and assistance that are in sync with the development priorities of African countries. In this way, the development strengths of Asia can be shared and dovetailed with the development priorities of the countries and/or subregions of Africa.

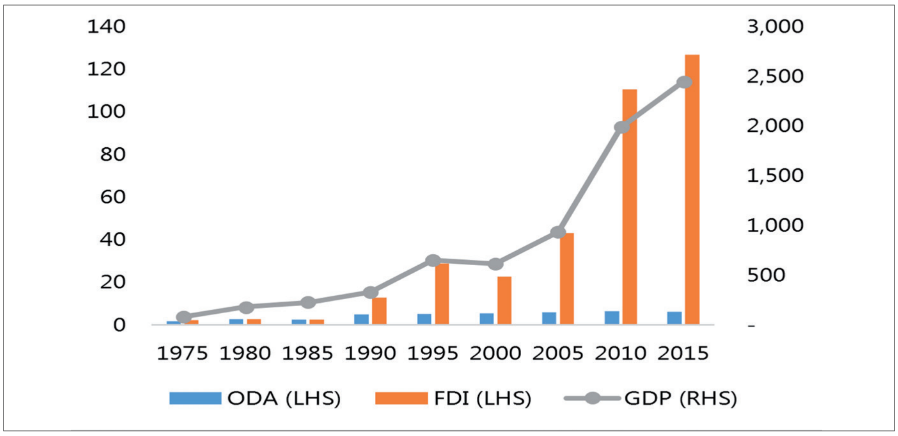
Trade, Investment, and Development Cooperation

East Asia's growth experience emphasises the importance of growth led by trade, investment, and development cooperation in Africa. The Association of Southeast Asian Nations (ASEAN) provides a good example of this growth model. Industrialisation, and the prosperity that has accompanied it, has helped to improve ASEAN's socio-economic and human development indicators. The subregion now has the world's most sophisticated value chains. East Asia's initial development was a result of ODA received from developed countries such as Japan and the United States. However, the critical mass of development and subsequent growth have been achieved through regular foreign direct investment (FDI), increased trade, and domestic consumption of goods and services. ASEAN was introduced to FDI-led growth early on. Through the 1970s and 1980s, the levels of ODA and FDI were roughly equal in this region. By the 1990s, investment in connectivity infrastructure and production networks had created conditions in which FDI accelerated, leaving ODA-led growth behind (Figure 2 and Figure 3).

In the case of Africa, ODA inflows were considerably larger than FDI during 1975–2000. Since 2005, FDI has only slightly exceeded ODA (Figure 4). To maintain its growth momentum, the continent requires a combination of FDI and ODA to develop physical infrastructure and institutional capacities to induce investment-led growth amongst its subregions.

[2]See research on connectivity and production networks, such as the Asia–Europe Connectivity Vision Document 2025, the Comprehensive Asia Development Plan (CADP), and CADP 2.0.

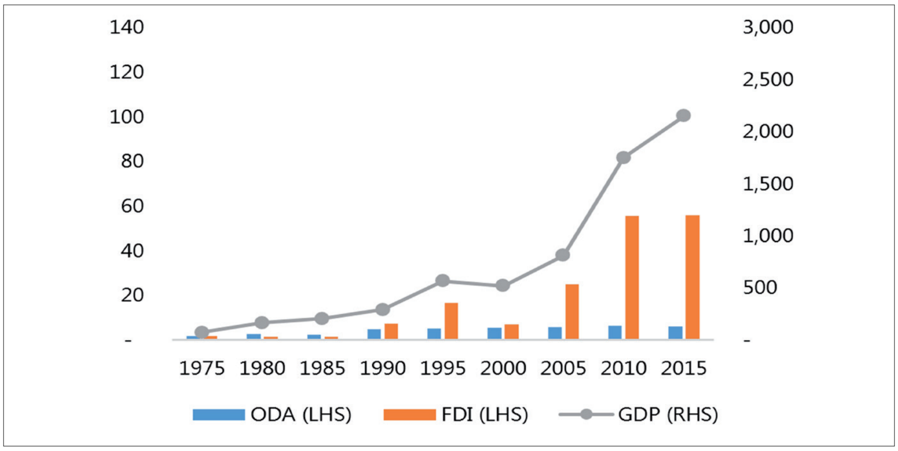
Figure 2: Official Development Assistance, Foreign Direct Investment, and Corresponding Gross Domestic Product Growth in ASEAN ($ billion)



LHS = left hand side, RHS = right hand side.

Source: Organisation for Economic Co-operation and Development, United Nations Conference on Trade and Development Statistics and World Bank, 2017.

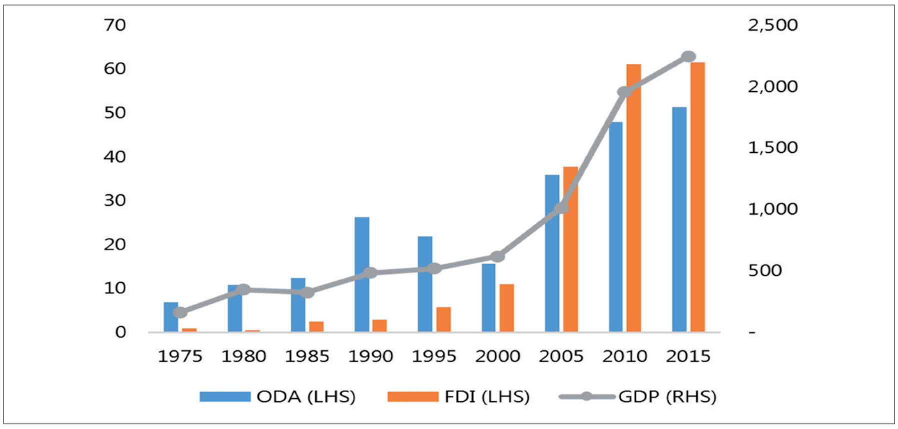
Figure 3: Official Development Assistance and Foreign Direct Investment, and Corresponding Gross Domestic Product Growth in ASEAN, Excluding Singapore ($ billion)



LHS = left hand side, RHS = right hand side.

Source: Organisation for Economic Co-operation and Development, United Nations Conference on Trade and Development Statistics and World Bank, 2017.

Figure 4: Official Development Assistance and Foreign Direct Investment, and Corresponding Gross Domestic Product Growth in Africa ($ billion)



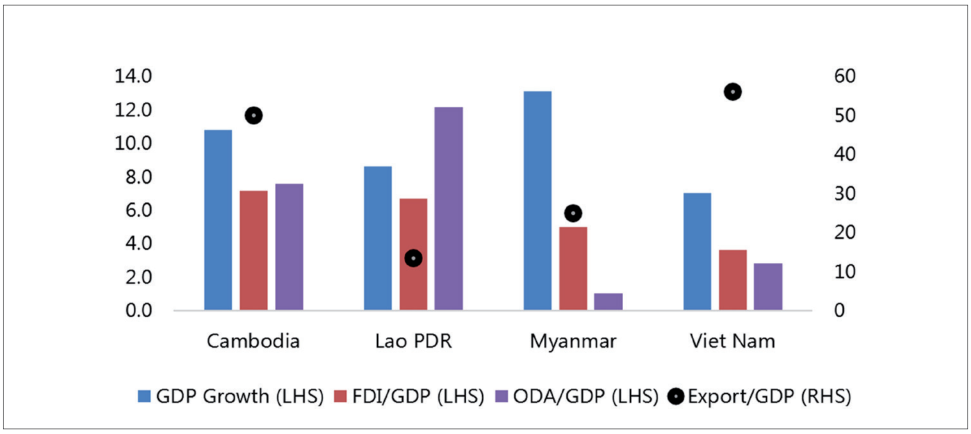
LHS = left hand side, RHS = right hand side.

Source: Organisation for Economic Co-operation and Development, United Nations Conference on Trade and Development Statistics and World Bank, 2017.

Trade and investment require the lowering of tariffs and improvements in trade facilitation measures, along with enhanced cross-border connectivity. Such measures have helped East Asia create a dynamic growth model, with largely sustainable results. An analogous growth of institutions and best practices, especially in less-developed countries, has also complemented and helped sustain growth in Southeast Asia. Besides FDI, economic and technical cooperation amongst East Asia Summit countries continue to play an important role in regional growth.

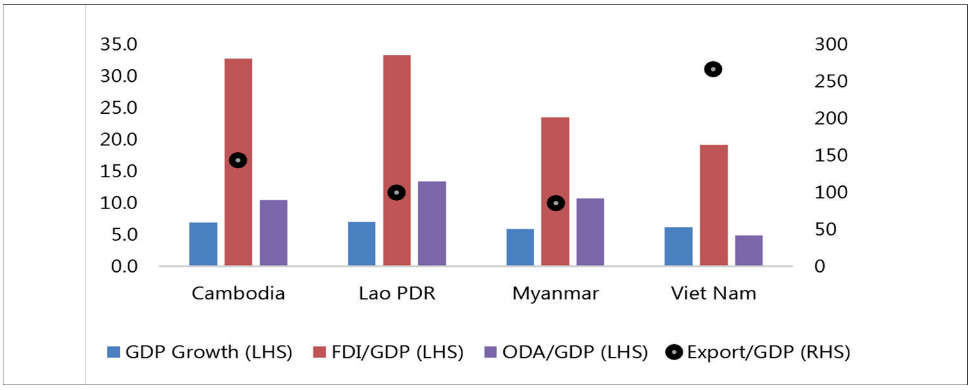
Lessons from the Asian experience of growth through participation in production networks and expanding the existing value chains and connectivities across regions is valuable for Africa, especially for invigorating intra-African trade as the engine for growth. Another valuable lesson, and one that attracts special policy attention, is ASEAN's role in inducing growth in Cambodia, Lao PDR, Myanmar, and Viet Nam[3] – its Least Developed Countries (LDCs). The rebalancing of ODA and investments in these economies of ASEAN, and resultant growth, holds valuable lessons for Africa's growth strategy (Figure 5 and 6).

Figure 5: Official Development Assistance, Foreign Direct Investment, Exports, and Gross Domestic Product Growth in Cambodia, Lao PDR, Myanmar, and Viet Nam, 2006 (%)



LHS = left hand side, RHS = right hand side.
Source: World Development Indicators, World Bank; International Trade Center; and Organisation for Economic Co-operation and Development, 2017.

Figure 6: Official Development Assistance, Foreign Direct Investment, Exports, and Gross Domestic Product Growth in Cambodia, Lao PDR, Myanmar, and Viet Nam, 2016



LHS = left hand side, RHS = right hand side.
Source: World Development Indicators, World Bank; International Trade Center; and Organisation for Economic Co-operation and Development, 2017.

[3]Viet Nam was not a least-developed country. It had a low income level with some of economic vulnerability. It has good human capital, and is now a strong example of investment-led economic growth in a developing country.

Recommendations

Measured Combination of Development Assistance- and Direct-Investment-led Growth in Africa
The challenge for African economies is to expand and integrate into the value chains in Asia to facilitate a two-way flow of goods and services. To achieve this, the continent requires a measured combination of investments and development assistance. The policy challenge facing African countries and their development partners is to balance ODA programmes with FDI initiatives in such a way that the region's human resources and institutional and physical capacities grow simultaneously.

The policy recommendation for African countries and their development partners is to create conditions and capacities in the recipient country or subregion that will support direct investments for the production of goods and services and sustain the resulting growth. Africa's natural diversity can be developed to reduce its dependency on resource-based trade and to bring in investment projects that ensure the quality and diversity of growth. Green Projects will be prioritised.

As Africa catches up with growth trends in diverse fields, development and investment plans must focus on people, capacities, agriculture, energy, infrastructure, institutions, and trade facilitation measures. Such a focus will help enhance both quality and quantity of growth in Africa and improve the livelihoods of the continent's diverse peoples.

Matching Africa's Growth Strategy with its Development Priorities
The policy challenge is to match the growth strategy outlined with the development priorities of Africa's subregions and countries. In designing the balance between investments and development assistance, the strategies must

(i) be designed around the development priorities of countries and/or regions in Africa, in particular Agenda 2030, the African Union's Agenda 2063, and its Programme for Infrastructure Development in Africa;
(ii) put people at the core of connectivity and development and cater to their aspirations and needs;
(iii) create development programmes and projects based on an equal partnership, mutual trust, and cooperation; and
(iv) reduce development gaps amongst multiple dimensions, including those relating to geography (rural and urban), industry (large and small, multinational, and local), income, gender, and age.

The Asian growth experience and its connectivity with Africa can help achieve the balance between investment- and development-assistance-led growth, while complying with the development dimensions listed above. Such a balance will enhance growth and mutual trust simultaneously.

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