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Africa – G20 and Proposals for Marshall Plans

New Instruments for New External Economic Settings?

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Africa ranks high on Europe's – and especially Germany's – political agenda for 2017. The broader framework of relations is in flux, with the United States' economic policies turning inward, China's economic growth tailing off, and a number of economic partnership agreements between the EU and African regions coming into force. Africa is a priority of the German G20 Presidency, but there are also discussions about ideas for a Marshall Plan proposed by the German Minister for Economic Cooperation and the President of the European Parliament respectively. These initiatives open up opportunities for Germany and Europe to evolve the foundations of cooperation with Africa.

The debates stirred by the refugee crisis have a welcome side-effect for Africa, with the urgent issue of sustainable development finally being addressed at all political levels under the banner of "addressing the root causes". And with progress observed in a number of countries, business interest is growing too. This has generated discussion about potentials to strengthen trade and investment flows between Europe and African countries. In fact, Europe's relative importance for Africa's economies has declined over the past two decades: while Europe supplied about 40 percent of Sub-Saharan Africa's imports in 1995, the figure had fallen to 24 percent by 2015. China on the other hand, has gone from having almost no trade with Africa in the mid-1990s to supplying 21 percent of its imported goods in 2015.

An Increasingly Attractive Economic Proposition

A number of African countries – including Ethiopia, Kenya and Rwanda – have achieved annual growth rates exceeding 5 percent in recent years. Less well-endowed with natural resources, they have instead improved internal conditions. This is reflected in the World Bank's Doing Business Index, where five African countries were among the ten most improved in 2013/14.

With its rapidly growing population – set to double to 2.5 billion by 2050 – Africa needs to create about 30 million new jobs annually. This also offers opportunities,

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especially in light of demographic ageing in the developed world, with the emergence of a consumerist middle class making Africa an increasingly attractive market.

Foreign direct investment inflows (FDI) in Africa have surged in recent years, even if the continent's global cumulative share in investment stocks is still tiny at 3 percent. Today significant investments flow to countries outside the established trio of South Africa, Nigeria and Kenya, too, while China, India and African countries have emerged as increasingly important sources of FDI. Although Chinese investments are welcomed with open arms as a route to infrastructure expansion, they also attract criticism for the declining share of grants and for partly bypassing domestic labour standards through some African-Chinese investment agreements. Moreover, about 60 percent of jobs created by Chinese investments in Africa are filled by Chinese workers so the employment effect is far smaller than expected.

Developments in 2017

Continental Free Trade Area

The African Union hopes to launch a Continental Free Trade Area (CFTA) in 2017. That does not, however, mean the end of tariff barriers for all intra-African trade flows, because the CFTA will be a long-term endeavour. For the moment, agreement on the structure of further talks is what appears possible. Such an agreement would itself have no effect on trade flows, but it would permit topics and negotiating mechanisms to be defined moving towards a CFTA. African representatives of business, governments and NGOs expect the negotiations to produce some initial results in very closely defined areas, in order to underline the project's political significance.

Global trade deals in limbo

Africa played no part in the two major regional agreements that have now been put on ice, the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) between the European Union and the United States. Conceived in part as geopolitical interventions, these projects possessed potential to cause trade diversion and further strengthen the United States' position as a trade and investment hub. So for the moment uninvolved third countries are spared such potentially harmful effects. But no significant substantive progress can be expected from the WTO's next Ministerial Conference in December 2017 either. Smaller countries are especially reliant on fair rules in a functioning multilateral system.

New framework for trade with the EU

A number of economic partnership agreements (EPAs) between the EU and African regions have already come into force on a provisional basis, for example with the Southern African Development Community (SADC) and since 2012 with Eastern and Southern Africa (ESA). The situation in other regions is patchy: Tanzania refuses to sign the EPA with the East African Community (EAC), so the next EAC summit will have to decide how to proceed; in the Economic Community of West African States (ECOWAS) bilateral interim agreements are in place with Ghana and Côte d'Ivoire. One fundamental difficulty is that all the African regions include least developed countries, which already enjoy free access to the EU market (i.e. without EPAs). In fact, however, LDCs have their own good grounds to participate in EPAs – in addition to their regional integration objectives not least to secure permanent free access to the EU market. Tanzania for instance could join the group of middle-income countries in 2020 if its present rate of growth continues, thus losing its LDC status and free market access.

The German G20 Presidency

Almost all the priorities Germany has defined for its G20 Presidency affect Africa indirectly. There is also specific discussion about a "Compact with Africa", and it is likely that the G20 will support reform packages for African countries in this context. Such approaches are nothing new in development policy. For example, international donors discuss sectoral budgets with African partner governments under the label "budget support", and provide financial support if these contain adequate provisions for reforms. Although politicians from conservative political parties in Europe in particular have tended to reject this instrument, the experience with budget aid and reform partnerships is worth drawing on. The WTO's Trade Facilitation Agreement also foresees development funding to support reform steps. In the G20 framework it would be especially interesting to identify and conclude agreements in areas where reforms on *both* sides are involved, and where instruments beyond those of classical development policy come into play. This would underline the G20's desire to conduct a dialogue *with* African partners rather than just talking among themselves *about* Africa. For example the G20 could offer to refrain from exporting chicken cuts to particular African countries, if they in return introduced reforms to support and develop local poultry production (see SWP Comments 57/2016). While this sector might appear marginal from the European perspective, it plays an important role in many African countries, both economically and politically. The G20 offers a suitable framework for such an agreement, as it includes all the biggest poultry exporters.

Marshall Plans

The German Minister for Economic Cooperation, Gerd Müller, proposes a Marshall Plan *with* Africa. Rather than financial transfers, the objective is reform to promote African development and opportunities for the private sector in Africa. His initiative does not at present have the status of a German government plan of action. The plan lays out a broad vision for future cooperation but is very disparate, naming no priorities and paying little heed to existing instruments and discussions. On trade policy for example, it is not concrete about how to further develop trade agreements. Under investments the instruments of the European Investment Bank and the World Bank are mentioned only in passing. Some of the proposals certainly appear unrealistic, and incapable of passing interministerial discussions. This applies for example to the idea of tax breaks in the scope of a development aid act, which is also rejected by the business organisations for contravening the principles of transparent fiscal policy. On the other hand, expanding guarantee instruments to promote trade and investment by German firms is of interest to German business – but this does not necessarily relate to development instruments. Operationalising the Marshall Plan will therefore require intense discussion and coordination – for which scope will be limited until after the 2017 Bundestag election. Reform partnerships are the proposal with the best prospects of realisation, as a similar programme is already included in Berlin's programme for the German G20 Presidency.

The idea of a Marshall Plan *for* Africa floated by Antonio Tajani, President of the European Parliament has yet to be specified in detail. What Tajani appears to have in mind is a multi-billion investment programme. Alongside private-sector investments, he places great weight on state investment in education and agriculture.

Conclusions

Over and above minor development projects, what the G20's discussion about Africa and Marshall Plans could achieve would be an exploration of new options for future cooperation with Africa and a review of the suitability of existing instruments. Germany should investigate the opportunities opened up by changing circumstances for new coalitions on various issues and examine the extent to which new instruments are required. Closer cooperation with China in Africa would be conceivable, for example on questions of climate change and infrastructure. The G20 offers a conducive setting for these discussions.

It is also right to discuss the role of the private sector for African development and take a closer look at German engagement. Because of the central role played by medium-sized businesses, the German private sector is especially reliant on a secure environment for its investments. "Classical" development policy already contributes to improvements here. If there are moves to incentivise German business engagement in Africa, it will be important to avoid harmful side-effects such as free-riding effects or the displacement of private investment by state support. But the discussion must not concentrate exclusively on the needs of the private sector. Although the latter will have to supply the bulk of investment and create the jobs Africa needs, this can only succeed if African governments create a productive environment through *their* policies and investments, for example in areas like education, health and infrastructure.

The economic partnership agreements with Africa put an end to the non-reciprocal trade preferences through which the European Union favoured former colonies and disadvantaged other developing countries. Accompaniment of EPA implementation is foreseen, to ensure that the opportunities are grasped and risks – for example for local production – avoided. But the African regions themselves must ensure that the future trade preferences they will grant to Europe under these agreements – however small they be – are not detrimental to their African trade partners. To that extent the EPAs represent an incentive to speed up the dismantling of trade barriers between African countries. African governments are therefore well advised to take seriously their declared goals of closer economic integration within regional communities such as ECOWAS and the EAC, and to implement decisions already made. In other words, the EPAs can be a step on the road to the CFTA, and an incentive to move more quickly.

As yet the African partnership agreements are restricted to liberalisation of trade in goods, and contain no provisions for dialogue formats between the EU and the Africa regions on sectoral questions such as investment or competition policy. African countries should grasp the opportunity offered by planned talks on wider issues to incentivise their own reform agenda. The example of the Caribbean EPA illustrates how this can successfully go beyond questions of market opening.

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