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BRIDGES AFRICA

Trade and Sustainable Development News and Analysis on Africa

VOLUME 6, ISSUE 1 – FEBRUARY 2017

Financing Africa's development: Challenges and opportunities

AFRICA

How can Africa finance its development and maintain debt sustainability?

E15 EXPERT GROUP ON FINANCE AND DEVELOPMENT

Policy options on trade, finance, and development

INDUSTRIAL GOODS

African manufacturing: What can the continent learn from Asia?

International Centre for Trade and Sustainable Development

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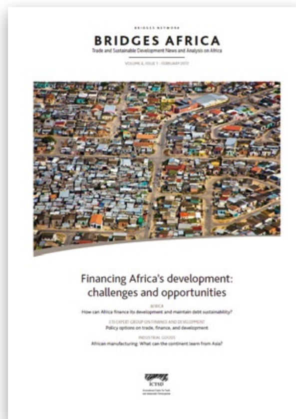
Financing Africa's development: Challenges and opportunities



With the global 2030 Agenda for Sustainable Development, as well as Agenda 2063, the continent's own development vision, Africa aspires to fulfil major development objectives in the coming years. A key challenge for African countries to succeed in these ambitious development efforts will be to mobilise adequate financial resources, and use them effectively so as to reduce poverty, transform their economies, and create the conditions for inclusive and sustainable prosperity.

Considering the scale of Africa's financing needs, the task is not an easy one. While assessing the amount of financial resources needed in a precise manner remains extremely complex, it is clear that achieving the Sustainable Development Goals (SDGs) in Africa will require the provision of an unprecedented level of development finance.

To be sure, meeting these financing needs will require strengthened international support through traditional channels such as official development aid, but not only. For the continent to meet the SDGs, enhanced resource mobilisation at the domestic level, from the private sector, and through innovative modes of finance will also play a critical role, as recognised in the Addis Ababa Action Agenda, the global development finance framework adopted at the Third International Conference on Financing for Development in 2015.

In this context, an important concern also lies in debt levels, which, after a period of decline thanks to debt relief initiatives, is on the rise again in many African economies. In the first article of this issue, Claudia Roethlisberger and Junior Davis focus on debt sustainability and its implications for African countries' efforts to finance their development. The authors offer insights on how African governments can simultaneously keep debt in check and secure sufficient funding to implement the SDGs.

This piece is complemented by a second contribution, in which Jean-Louis Arcand draws from the work of the E15 Expert Group on Finance and Development. This article presents concrete policy options through which policymakers can improve the enabling environment for trade and finance to better contribute to sustainable development.

In his contribution, Edward Chisanga looks specifically at the manufacturing sector, which will also be crucial in shaping Africa's ability to meet the SDGs. The author suggests that African leaders would do well to strengthen their efforts to learn from the experience of various Asian economies.

Finally, Marianna Nerushay's article focuses on investment provisions in regional trade agreements, underlining a gradual shift to providing states with ampler regulatory space in the pursuit of sustainable development objectives.

As usual, we welcome your substantive feedback and contributions. Write to us at bridgesafrica@ictsd.ch.

AFRICA

Financing needs and debt sustainability in Africa

Claudia Roethlisberger and Junior Davis

The financing needs of Africa related to the SDGs are enormous, amounting to at least US$600 billion a year. As both external and domestic debt are growing, how can Africa finance its development aspirations and maintain debt sustainability?

In 2015, the international community adopted an ambitious global development agenda aimed at eradicating poverty, protecting the planet's environment, and ensuring prosperity for all. This vision is encapsulated in the Sustainable Development Goals (SDGs). Along with implementing Agenda 2063, Africa's own continental development vision, achieving the SDGs is one of the major development aspirations of the continent.

The financing needs related to the implementation of the SDGs and Agenda 2063 are immense. Schmidt-Traub estimates that the incremental costs of financing the SDGs in Africa amount to more than US$600 billion per year.[1] This amount equates to almost one third of Africa's aggregate gross national income. But this may be a conservative number, as estimates differ depending on the method used. Chinzana et al. estimate the required GDP growth rate to achieve SDG 1 (ending poverty) and the corresponding investment-GDP ratio and financing gap-GDP ratio, assuming that savings, official development assistance (ODA), and foreign direct investment remain at current levels. According to this method, an annual GDP growth rate of 16.6 percent per year will be required, along with additional investment of US$1.2 trillion per year, to meet SDG 1 only.[2]

The level of growth and financial resources required for realising the SDGs will be challenging to achieve. After more than a decade of unprecedented growth in Africa, the economic conditions have been rapidly changing and look less favourable. The steep decline in commodity prices, the slowdown of Chinese demand, and unstable international financial markets are likely to negatively impact Africa's growth prospects.

Moreover, the global development finance landscape has evolved, as reflected in the outcome document of the Third International Conference on Financing for Development, the Addis Ababa Action Agenda. There is a shift from a model centred on ODA and the coverage of remaining financing needs through external debt, to a framework with greater emphasis on the mobilisation of domestic resources.

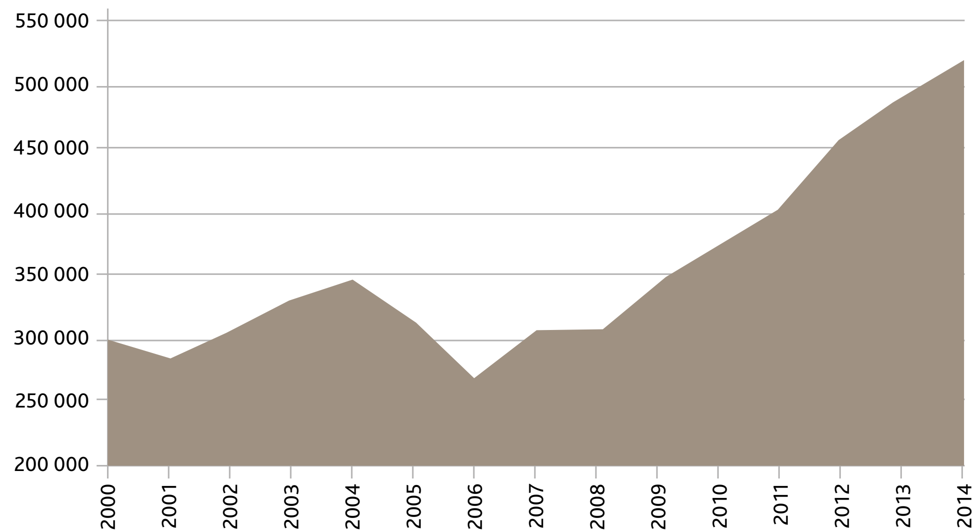
At a time when debt levels are rising and donor funds have become scarcer, these changing economic and financing conditions raise concerns on how Africa can finance its development aspirations and maintain debt sustainability.

Scale of the debt exposure in Africa

Following the decline in debt burdens through debt relief, external debt is again on the rise in Africa. During the period 2011-2013, Africa's external debt stock grew by an average of 10.2 percent, as compared with 7.8 percent in 2006-2009, with an annual average of US$443 billion in 2011-2013. While external debt as a share of GNI (22 percent in 2013) appears to be manageable, its rapid growth is a concern.

The composition, terms, and conditions of external debt are changing and getting tougher, especially for the heavily indebted poor countries (HIPC). First, the share of concessional financing declined in two thirds of the HIPCs in Africa from 2005-2007 to 2011-2013. Second, these countries have experienced a marked, steady decline in the maturity and grace period of new external debt commitments on average since 2005. The average interest on their new external debt commitments has also worsened, although it remained below the average for non-HIPCs in Africa, as well as for low-income countries. Third,

Figure 1: Africa's external debt stock, total (million current US$), 2000-2014



Source: World Bank, International Debt Statistics

public and publicly-guaranteed debt from private creditors has not only risen in both HIPC and non-HIPC, but has also become more diversified.

As of November 2015, the IMF classified nine out of 39 African countries for which data are available as being in debt distress or at high risk.[3] This includes Burundi, the Central African Republic, Chad, Djibouti, Ghana, Mauritania, Sao Tome and Principe, Sudan, and Zimbabwe. Countries are considered in debt distress when they are already having repayment difficulties, and they are classified in the high risk category when the baseline scenario and stress tests indicate a protracted breach of debt or debt-service thresholds.

The rise in external debt is occuring for two main reasons. First, the more than a decade of strong economic growth has provided many African countries with the opportunity to access international financial markets. As interest rates were low owing to quantitative easing policies and the issuance of government bonds by developed countries in response to the financial crisis, African countries could borrow when it was relatively cheap. Second, and more recently, the decline of commodity prices has led to reduced export revenues, a widening current account deficit, and slower economic growth. Several African countries recurred increasingly to external borrowing to balance their fiscal accounts.

Domestic debt is also on the rise, albeit from a low level. This development has been driven by the need to fill the gap created by a decline of ODA as a share of total external flows, and robust economic growth accompanied by low and stable inflation, which created conditions for developing domestic debt markets. Some countries have adopted specific policies to, for instance, build their bond markets with the active support of international financial institutions. Africa also made progress in financial sector development and access to banking services, and several local currency debt markets are opening up to non-resident investors.

The analysis of the evolution of domestic debt in five countries (Ghana, Kenya, Nigeria, the United Republic of Tanzania, and Zambia) shows that domestic debt increased from 11 percent of GDP in 1995 to around 19 percent at the end of 2013. Furthermore, these countries recorded an increase in marketable versus non-marketable domestic debt, and succeeded in building domestic capital markets through broadening participation beyond traditional holders (central and commercial banks) and in issuing local-currency-denominated debt securities with long maturities. Their ability to issue long-dated instruments is closely related to general macroeconomic conditions and the emergence of large institutional investors such as pension funds and insurance companies. While the broadening of the investor base offers new sources of available finance and lowers the risk of crowding-out, it also means that new risks arise as the number of creditors and debt

instruments expand. Hence, debt becomes more difficult to manage and requires greater institutional and statistical capacity.

A major concern with regard to domestic debt lies in its interest costs relative to external debt. On average, the aforementioned five countries face a much heavier interest burden on local-currency-denominated domestic debt compared with external debt. This, however, needs to be assessed with a critical eye as the cost of servicing external debt can greatly increase if the local currency depreciates. As the currencies of many African countries continue to be exposed to exchange rate risks, this factor is still an important source of vulnerability.

How to keep debt in check

Maintaining debt sustainability and securing sufficient funding to finance the SDGs requires responses, processes, and policies at the national and international level.

There should be a distinction in terms of the use of debt. When debt is used for strengthening productive capacities and spurring structural transformation, it contributes to a country's economic resilience, long-term capacity to prosper, and also its ability to service debt. On the contrary, if debt is used to finance consumption or recurrent expenditure, the borrowing tends not to generate long-term benefits or enhanced capacity to service debt.

To reduce commodity dependence and achieve structural transformation, African countries need to implement policies that foster economic and export diversification. This will reduce their vulnerability to shocks and expand their sources of public revenue. Ensuring that debt is used productively requires sound investment programmes that contain carefully selected projects as well as effective mechanisms to identify bottlenecks and support timely project implementation, thus guaranteeing project quality and viability.

The use of debt should also be recognised as a criterion when assessing debt sustainability. The existing joint World Bank-IMF Debt Sustainability Framework (DSF) should make adjustments or afford more flexibility to debt channelled to productive investments related to the SDGs than to debt used for consumption. The DSF could also be improved through implementing temporary payment caps on debt service for low-income countries. This would mean that debt service payments would be limited, and that beyond the threshold, payments to all creditors (including commercial creditors) would be proportionally reduced.

African governments need to weigh the benefits and risks of external and domestic debt. Regarding external debt, several countries have experienced a rapid increase, especially in comparison to their GDP growth rate. In these cases, and where external debt as a share of GDP is already high, actions to contain debt growth are required so as to avoid a recurrence of the debt crisis of the late 1980s and 1990s.

With the rising share of non-concessional debt and the move towards commercial funding and higher integration into global capital markets, debt monitoring and debt management capacity should be strengthened. This new complexity of financing options requires a new skill set geared towards private financial markets that government officials may not have developed yet. There is also a need to systematically collect data on domestic debt, as this will help countries to improve the quality of their debt database, and thus contribute to better transparency and accountability, debt reporting, and debt sustainability analysis.

Complementary modalities of finance

Given the complexity of Africa's development challenges and the scale of its development finance needs, African countries need to leverage all possible sources of finance. UNCTAD's Economic Development in Africa Report 2016 suggests that African countries should tap into diaspora savings and make greater use of remittances, which reached US$63.4 billion in 2014. Diaspora savings could be attracted through diaspora bonds, foreign-currency-

denominated deposits and syndicated loans with remittances as collateral. These mechanisms, however, require the use of formal remittance channels; hence, efforts should be undertaken to facilitate and lower the cost of formal remittance channels.

Governments should also try to leverage resources from the private sector, for instance through the use of public-private partnerships (PPPs). While PPPs are complex contractual undertakings and bear borrowing risks, they can offer access to specialised skills, technologies, and innovation from the private sector. These factors can lead to greater operational efficiency and thus better quality and competitiveness of public services. To avoid that the contingent liability of PPPs turns into a debt burden, governments must strengthen PPP frameworks and regulation at the national and regional levels. This requires legal, managerial, and technical capacities to clarify the roles and responsibilities of contracting partners, provide clarity in case of litigation, plan and monitor implementation effectively, and carry out robust investment appraisals and financial analysis.

Finally, together with the global community, Africa must tackle illicit financial flows (IFFs), which deprive Africa from important resources for development. Between 1970 and 2008, Africa lost an estimated US$854 billion in IFFs, roughly equal to all ODA received by the continent during the same period. At the international level, cooperation in tax matters and IFFs should be sustained and enhanced. At the national level, capacities of public revenue authorities should be strengthened in various areas, particularly with regard to tax issues and detailing and curtailing IFFs.

Conclusion

Africa's financing needs are enormous and require African governments to carefully evaluate their financing options and how they impact on debt sustainability. History has shown that there is a fine line between sustainable borrowing and debt distress.

While external debt as a share of GNI is currently at a manageable level in most African countries, the ratio has been rapidly increasing in several countries. Moreover, owing to the decline of the share of concessional debt, the increase of interest rates, and the shortening of maturities and grace periods, the external debt burden of heavily indebted poor countries is likely to increase. Caution is hence warranted. Case studies suggest that there is, however, scope to further deepen domestic debt markets. To monitor new investors and flows, enhanced debt management capacities are needed. It is also recommended that owing to the scale of its financing needs, Africa should consider and assess all possible options to access additional finance, including complementary modalities of finance such as PPPs or instruments to attract diaspora savings. Tackling these debt management challenges will require strengthened institutional capacity at the national level and supportive international cooperation.

This article is based on UNCTAD's Economic Development in Africa Report 2016: Debt Dynamics and Development Finance in Africa.

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E15 EXPERT GROUP ON TRADE, FINANCE AND DEVELOPMENT

Trade, finance, and development: Getting the institutions right

Jean-Louis Arcand

What should policymakers do to improve the enabling environment for trade and finance to better contribute to sustainable development?

The primacy of economic institutions as determinants of economic growth and development is a key empirical regularity that has emerged from the past two decades of research. The mechanisms through which trade and finance affect development do not escape this pattern. A country's institutional environment – where institutions are understood in their economic (and not political) sense in terms of social and regulatory structures, such as the rule of law or the protection of property rights – is thus central for economic activity to develop and flourish.

Broad agreement was reached among the members of the E15 Expert Group on Trade, Finance and Development, convened by ICTSD and the World Economic Forum in partnership with the Center for International Development at Harvard University, that strengthening the enabling environment through concrete policy proposals in the trade and finance arena is one of the most important ways of advancing the 2030 Agenda for Sustainable Development. Members of the group were also aware of the fact that, to be politically acceptable, its proposals would have to pass the "market failure test." Namely, any meaningful policy recommendation would have to be justified on the basis of the underlying problem not being adequately dealt with by the private market system.

Correcting market and institutional failures thus constitutes the crux of the Expert Group's policy options, which are primarily directed at low-income economies. Policy-makers and developing country governments dealing with trade and finance must concentrate on "getting the institutions right."

Conceptual framework

One of the leading explanations for poverty in the world today is that it is partly a product of departures from Pareto-optimality. When markets, firms, and households are subject to market, institutional, and informational imperfections, Pareto-inferior equilibria occur, leading to deviations with respect to the first-best optimum. This manner of seeing the world holds that inefficiencies lie at the heart of underdevelopment. If one takes this view as the point of departure, the big questions for the realm of trade, finance, and development are the following: what are the main sources of deviations with respect to the first-best optimum, and what can be done to tackle these deviations in concrete policy terms? All of the policy options put forward by the expert group lie squarely within at least one of the canonical types of market, institutional, or informational failure:

- Externalities, particularly network externalities, including international standards and other problems of coordination failure;
- Public goods and common property resources, which includes the regulatory and enabling environments, as well as other sundry institutions;
- Natural monopolies, in which problems are more efficiently solved at the regional rather than at the national level;
- Asymmetric information, which can be on the side of the country (lack of capacity) or on the side of the firm (unreliable information available to foreign investors).

A benefit of using the market failure framework is that all of the policy options that emerged from the expert dialogue process correspond to problems that will not be solved

by the market mechanism. The options, grouped under the four market failure headings, aim at improving economic institutions—national and supranational—in some shape or form.

Externalities and coordination failure

Externalities arise when the private cost or benefit of an activity is not equal to its social cost or benefit. Four policy options fall under this category.

Strategic use of ODA and blended finance

The analysis of trends in financial flows to least developed countries (LDCs) reveals that official development assistance (ODA) has played a relatively marginal role, in comparison to domestic public and private finance, in underwriting the Millennium Development Goals (this policy option refers explicitly to LDCs). However, ODA enjoys a number of unique developmental advantages over other forms of financial flows, with concessionality being one of the most important. Strategic use of this scarce resource will be one of the main challenges for LDCs as they position themselves to implement the Sustainable Development Goals in their domestic context. There is a need to focus ODA in a manner that increases its marginal productivity, often through a focus on building institutions that strengthen the enabling environment, as well as by using it to leverage private sources of capital through blended finance. There is also the potential for improving the productivity of domestic financial resources. In basic economic terms, the social benefit of ODA is significantly higher than its private benefit, and current arrangements fail to "internalise" this potentially valuable positive externality, including ODA's role in helping to ensure a stable macroeconomic environment.

Mobilisation of domestic resources through tax revenue

Tax policy is a key determinant of the behaviour of firms, be they domestic or multinational. In order to increase the capacity for domestic resource mobilisation of poor countries, major efforts—both at the international and domestic level—need to be made in terms of revamping policies aimed at combatting "base-erosion and profit-shifting" (BEPS). Corporate tax from multinational enterprises (MNEs) is an important source of government revenue in many developing countries, particularly the poorest. Tackling BEPS by MNEs could substantially increase tax collection. A particular challenge arises from "transfer mispricing." A major portion of global trade takes place within firms, and tax authorities need to be able to discover the transactions that have taken place, assess whether the correct amount of tax has been paid, and collect any tax due. It can be difficult for a tax administration to know about offshore transactions, so a high level of international cooperation between tax authorities is required. For developing countries, more support is thus needed in two areas: (i) strengthening domestic institutions and legal arrangements so that they can implement new international standards on BEPS measures initiated by the OECD; and (ii) strengthening the international tax system so that it facilitates the work of developing country tax authorities.

Guidelines for broadly used private standards affecting trade

The road to diversification, value addition, and industrialisation in a modern economy involves linking up effectively with global supply chains. In some of these, important purchasing firms act together and establish industry-wide standards that affect a large number of suppliers. These standards may be conflicting or even contradictory. For many developing country exporters, private standards are more significant constraints than official sanitary and phytosanitary standards or technical barriers to trade. There is a manifest issue of coordination failure involved when it comes to international standards set by dominant private firms, and which cannot be solved in existing fora such as the WTO. The adoption of standards is a typical example of a situation where coordination, in order to achieve a socially efficient outcome, is paramount: in the absence of outside involvement, coordination failure is likely. The gains to adopting well-crafted standards can also be characterised as a situation where there are significant positive network externalities to be internalised. For private industry-wide standards not to be a constraint but rather a conduit for effective participation in global supply chains, particularly for small and medium-sized enterprises, existing limitations need to be tackled.

E15 Initiative

Implemented jointly by ICTSD and the World Economic Forum, the E15 Initiative was established to convene world-class experts and institutions to generate strategic analysis and recommendations for government, business, and civil society geared towards strengthening the global trade and investment system.

Duty-free and quota-free preferences and rules of origin
There has been a distinct lack of coordination (and political will) in terms of duty-free and quota-free (DFQF) preferences when it comes to LDCs. The United States, first and foremost, and large emerging markets should grant such access where they have not, and include liberal and simple rules of origin with extended cumulation provisions to maximise preference utilisation by LDCs.

Public goods
At the intra-country level, economic institutions are the key public good. Public goods and services possess two characteristics. First, they are non-exclusive: once they are provided, they are available to all irrespective of whether or not they were involved in their financing. Second, they are non-rival: the consumption of the good or service by a given agent does not reduce its consumption by others. As such, they are the best example of goods, services, or institutional structures that will be underprovided by the market mechanism and where outside intervention is needed. The group formulated five policy options that fall under the public goods heading. All are typical examples of institutional public goods that would go a long way towards improving the enabling environment in low-income countries, allowing them to harness the development potential of international trade.

Development-led legal and regulatory reform
Within institutions such as the WTO, current approaches to trade and development have focused primarily on access to developed country markets through trade preference programmes and special and differential treatment for developing economies—which are important but not sufficient to achieve economic diversification and poverty reduction. What is missing is a process (both top-down and bottom-up) for effectively assessing the development benefits of trade policy at the national and regional levels, addressing non-tariff measures from a development perspective, and applying a more widespread, inclusive, and coordinated system for implementing trade frameworks through legal and regulatory reform. Without a well-functioning legal and regulatory framework, economic activity will not develop, but these structures have to be better adapted to developing country circumstances. While this is not a policy recommendation per se, it should be kept in mind when designing concrete legal and regulatory policy options.

Trade facilitation framework for services
Given the pro-poor bias of the services sector, and in light of the fundamental contribution which efficiency in the services sector will make to the realisation of the Sustainable Development Goals, WTO members should urgently embark on a joint process to establish a comprehensive Framework for Trade Facilitation in Services. This Framework should encompass both cooperative and negotiating mechanisms, complemented by capacity building and technical assistance, through which the multilateral trading system can spur concerted action. The Framework should include arrangements for public-private dialogue with services stakeholders and allow for the implementation of measures on a regional, plurilateral, and multilateral basis.

Aid for Trade funding for services
The incentives that determine the sectoral allocation of Aid for Trade funds, which currently tend to ignore the services sector, need to be modified. Insufficient attention is given to services trade in Aid for Trade, especially via multilateral mechanisms, including the Enhanced Integrated Framework. This constitutes a misallocation of funding given the significant development dividends available from services growth. Boosting growth in the services sector is largely about getting the regulatory setting right, so that public policy objectives can be met without unduly increasing the costs of doing business. Regulatory regimes in services are often complex and overlapping. There is a need to fund country studies to address policy and regulatory failures and to develop well-tailored reforms to reverse those failures – including mechanisms geared towards helping governments apply the guidance set out in recent World Bank regulatory toolkits designed to boost services competitiveness. Aid for Trade funds should be applied to this problem.

Correspondent-banking availability
Heightened regulatory requirements in the financial sector (e.g. Know Your Customer, Anti-Money Laundering) have led many low-income countries to become functionally cut off from international financial markets by the simple lack of a correspondent (international) bank. The consequence of this financial exclusion is particularly serious when it comes to the exchange of goods and services since, without the ability to exchange information or funds, local companies struggle to enter into the contractual obligations that underpin international trade. Solving this problem in the short run, which is both feasible and relatively low cost, would make a significant contribution to facilitating international trade for firms located in low-income countries. The proposal is that each country should house at least one local bank with a fully-fledged correspondent-banking arrangement with international financial institutions.

Coordination efforts for trade and supply chain finance
A comprehensive global coordination mechanism for trade and supply chain finance is needed. It is recommended that a working group be established (within the E15Initiative or as part of another international coalition of experts and institutions) to propose ideas and commission studies that could contribute to improved global coordination efforts in this area.

Natural monopolies at the regional level
Natural monopolies occur when it is socially efficient, from the cost standpoint, to have a single supplier for a given good or service. The productive efficiency argument immediately begs the question of how to regulate the ensuing monopolistic structure. For the two policy options that fall under this heading, the natural monopoly framework is used in a slightly less restrictive form. The main point is that there are a number of key institutional failures that are more efficiently dealt with at the regional, rather than national, level because of the importance of underlying economies of scale and scope.

Regional regulatory cooperation in financial services
Regional mechanisms dealing with the regulatory aspects of cross-border financial services need to be strengthened. The integration of financial services has generally received insufficient attention in regional integration efforts. This has made it difficult for banks and other financial entities to operate regionally and support their customers so that they can enjoy the benefits of diversified, efficient, and cheaper financial services. It is important to ensure that the full extent of benefits arising from the economies of scale accrue to those in need of finance, such as micro, small and medium enterprises. Access to finance has been highlighted as the single most important constraint for such enterprises to face the competition of an integrated regional market and connect with the global economy. Key issues to be addressed include the heterogeneity of regulatory frameworks and restrictive market access, significant checks on the mobility of talent, and constraints on cross-border data flow and offshoring regulatory structures.

Enhancement of regional aid for trade
Given the many small markets in developing countries, it is clear that sustained economic growth needs to rely in part on creating larger, more viable markets through the rule-based sharing of resources and production assets. Deepening economic integration via regional cooperation has thus emerged as a key priority in the reform strategies of most developing economies. Implementing regional aid for trade initiatives is often complicated by: technical standards and financing issues; mistrust among parties; membership of overlapping regional organisations; non-implementation of regional agreements; poor articulation within national strategies; and, national and regional capacity constraints. This creates significant problems in terms of ownership, mainstreaming, and aligning national strategies around regional aid for trade priorities. Bridging these gaps by enhancing regional aid for trade initiatives through appropriate incentives is thus an important policy recommendation.

Least developped countries (LDCs)

Least developed countries (LDCs) are low-income countries confronting severe structural impediments to sustainable development. There are currently 48 countries classified as LDCs by the United Nations.

Asymmetric information

Asymmetric information arises when, in a bilateral relationship, one party knows something that the other does not. In the market failure framework, this can be interpreted as there being a missing market for the underlying information, which can lead to severe inefficiencies. The two policy options grouped under this heading involve: (i) strengthening the capacity of developing country governments to negotiate and implement public-private partnerships (PPPs); and (ii) providing low-income countries with access to world class advice as well as in-country capacity building geared towards improving their position when in comes to designing and negotiating sovereign bond issuances and restructuring. In both of these areas, low-income countries are currently at a serious informational disadvantage vis-à-vis their international interlocutors.

Technical advice on PPPs and sovereign debt contracts

Demographic trends together with anticipated robust economic growth in low-income countries is increasing demand for physical infrastructure. Financing this infrastructure will require enormous amounts of capital in the coming decades, and only part of this can come from domestic savings or aid. Developing country governments are increasingly turning to PPPs in a bid to attract foreign investment and address this gap. However, they face two types of problems in realising the benefits that can accrue from PPPs. First, despite the potential for high social rates of return, relatively small amounts of private foreign capital are flowing into infrastructure in developing countries. The obstacles include: investments that are large and lumpy; construction risks that are high; returns that are reliant on regulatory agencies and the creditworthiness of national governments; and, individual infrastructure projects that require complex legal arrangements often involving multiple parties and government agencies. Second, even when foreign investment does arrive, many PPPs fail in practice to deliver high public benefits. High-quality PPPs are complex to design, negotiate, and manage. Developing country governments face very substantial resource and informational challenges. These include: asymmetries in cost and technology information; insufficient institutional capacity to conduct solid prefeasibility studies or to structure contracts effectively; and, public sector liabilities triggered by PPPs that can be very sizeable (an aspect of PPPs that is very important in the context of rising developing country external debt profiles). Consequently, the institutional capacity of developing country governments to design, negotiate, implement, and evaluate PPP projects in all sectors, with a particular focus on infrastructure, should be strengthened.

Adoption of model solvency schemes and restructuring approaches

A striking new trend in international finance is that the governments of many low-income countries are issuing sovereign bonds to finance public debt. Developing countries are entering uncharted territory as they turn towards international financial markets, which offer credit on harder terms than “traditional” donors and present new economic and political risks. While such bonds can provide funding for large projects, create domestic financing space for the private sector, and can be less costly than local issuance, they also come with refinancing risk, re-pricing risk, and exposure to exchange rate fluctuations. In some countries there has been a deterioration in sovereign balance sheets amid expansionary fiscal stances that have led (in some cases) to the rebuilding of debt stocks, with mounting concerns about debt sustainability. As global yields normalise, there is the real risk of sovereign debt difficulties in developing countries. Yet there is a dearth of suitable mechanisms for dealing with defaults and restructurings in an orderly, timely, and fair manner. In practice, restructurings have been conducted under various frameworks without a consistent approach that normalises local laws and provides clarity for investors. Issuing governments have found themselves vulnerable to competing stakes that carry inherent conflicts of interest. Dependence on the market has led to restructuring outcomes that are counterproductive for the policy initiatives of the sovereign issuer. The precise legal provisions in bond contracts can make a very substantial difference for developing country governments, and the contracts that underpin many issuances are weak. These governments should be supported to strengthen the legal underpinnings of the bonds they issue—including through the adoption of model legal language.

Next steps and measuring progress

The policy options presented above range from ambitious recommendations, in that they will most probably only be feasible in the long term, to options that should technically (if not politically) be easy to implement in the short term. In all cases, work on these options should start immediately.

Short-term options

Three options deserve immediate attention in that they can deliver benefits rapidly. First, ensuring correspondent-banking availability depends on mobilising the international banking community. In addition, the two capacity-building options (technical advice on PPPs and adopting model solvency schemes and restructuring approaches) are relatively shortterm ventures, although they do involve coordinating a broad range of players at the international and domestic levels.

Medium-term options

The two services-centred options (implementing a trade facilitation framework for services and encouraging Aid for Trade funding) should be actively pursued in international fora for medium-term implementation. In addition, expanding DFQF and simple rules of origin (with extended cumulation) to all LDCs depends on nudging major preference givers. At the regional level, where there may in some instances be a greater convergence of interests, enhancing regional aid for trade and improving mechanisms for regional regulatory cooperation in financial services have a good chance of being adopted—perhaps by having successful regional groupings, such as ASEAN, mentor less successful ones. Providing guidelines for broadly used private standards affecting trade could be taken up by international organisations such as the International Organization for Standardization.
Long-term options

Options that involve the revamping of part of the international trade and finance architecture are long-term in nature and require the buy-in of a plethora of players. This is the case for the proposals on making strategic use of ODA and blended finance, and constructing a global coordination mechanism for trade and supply chain finance. Finally, two of the options (fostering development-led regulatory reform and mobilising domestic resources) are also long-term and (largely) need to be implemented at the national level. Perhaps a limited number of "test case countries" could be identified in which the political will for such reforms is likely to exist.

Measuring progress

A central element of the empirical literature on the impact of institutions on income per capita and growth is the use of protection against expropriation risk as the main indicator for economic institutions. The work of the Expert Group suggests that alternative indicators of what can be termed the "enabling environment" could be constructed. Based on the weaknesses in country-specific trade and finance characteristics identified through the proposed policy options, the constituent elements of this new index could be the following: a Herfindahl index of concentration in the banking sector; the existence of a functioning antitrust authority; an indicator of fluidity of visa policy; the number of correspondent foreign banks; the existence of a national or regional credit bureau and/or a rating agency; and, the legal system under which sovereign bond issuance takes place. This list of indicators could be complemented with data from the World Bank's Doing Business survey, and standard composite indicator methods could then be applied to arrive at an aggregate index of "institutional readiness." This is work in progress, and it is proposed that a working group be set up to operationalise the construction of this index.

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INDUSTRIAL GOODS

African manufacturing: What can the continent learn from Asia?

Edward Chisanga

Despite the continent's ambition to diversify economically, African manufacturing remains underdeveloped. What can African policymakers learn from Asia's experience?

When the Millennium Development Goals (MDGs) were adopted in 2000, Asia's manufacturing value added as a proportion of the world's US$5 trillion stood at 11 percent, or 11 times that of Africa, which only represented 1 percent of the world total. As the total grew significantly to reach US$12 trillion at the global level in 2014, Asia's share climbed to 39 percent. While other factors also contribute to explain Asia's onward surge in international trade in manufactured goods, it is essential not to ignore the contribution of this fundamental in Asia's economy. Meanwhile, Africa endured a difficult time, with its share reaching only 2 percent in 2014, an increase of only 1 percent since 2000 (Table 1). This low level of manufacturing value added, standing at US$225 billion in absolute terms, may be at the heart of the continent's marginalisation in international trade in manufactured goods and the African manufacturing sector's lack of vitality to contribute effectively to poverty reduction, job creation, and inclusive development.

Table 1: Manufacturing value added as a proportion of the world total (in percent)

	2000	2014
Africa	1	2
Asia	11	39

Source: UNCTADstat

Exports of manufactured goods speak in favour of Asia, not Africa

Strong manufacturing value added must have made a remarkable contribution to Asia's dominant influence in international trade in manufactured goods, and in turn to the region's economic development and efforts to advance the MDGs. Although no empirical evidence is provided in this paper, it is most probable that Asia's trade in manufactured goods, with a share of world exports swelling from 24 percent in 2000 to almost 40 percent in 2014, was one of the major driving forces behind the successful advancement of some of the MDGs in the region, in particular regarding poverty reduction. At this rate, it will not be surprising if Asia's share in world exports of manufactured goods reaches 50 percent in the next decade or two.

Conversely, Africa's performance has been very modest at best. In contrast with Asia, very few African countries export significant volumes of manufactured goods abroad. In 2015, only fifteen countries accounted for almost 91 percent of Africa's US$90 billion of exports of manufactured products, meaning that close to 40 countries accounted for the remaining 9 percent. The fact that six countries – South Africa, Morocco, Tunisia, Egypt, Kenya, and Côte d'Ivoire – accounted for 80 percent of these exports is even more striking (Table 2). Clearly, most African countries are hardly participating in exports of manufactured goods. In 2015, Rwanda exported only US$68 million worth of these products, Djibouti only US$35 million, the Seychelles US$45 million, and Burundi US$20 million. In Asia, Cambodia, an LDC, exported US$10 billion worth of manufactured goods in 2015.

Table 2: Top African exporters of manufactured goods in 2015 (in thousands US$)

	Exports of manufactured goods
Africa	**89,109,964**
South Africa	31,588,200
Morocco	14,788,703
Tunisia	11,225,534
Egypt	9,858,386
Kenya	2,039,210
Côte d'Ivoire	1,847,116

Source: UNCTADstat

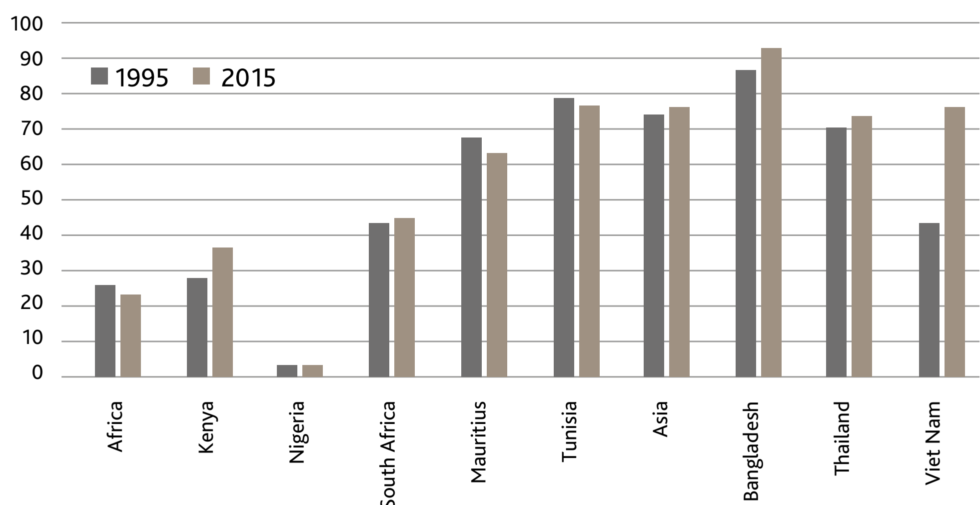
Africa's ambition to diversify into manufacturing remains unfulfilled

In the last two decades, many African countries made public pronouncements presenting economic visions largely aimed at diversifying exports away from primary commodities and towards manufactured goods. However, most have proved to be nothing more than "paper tigers." Africa's exports of manufactured goods as a proportion of its total exports eroded from 26 percent in 1995 to 23 percent in 2015. During the same period, the share of manufactures in Asian exports increased from 74 to 77 percent (Figure 1).

The problems associated with an over-dependence on exports of primary commodities are well known. Due to falling global prices of commodities, all top African exporters of minerals and fuels experienced declining export revenue last year: Angola down from about US$60 billion in 2014 to US$34 billion in 2015, Equatorial Guinea from US$12 to US$6 billion, Nigeria from US$100 to US$51 billion, South Africa from US$50 to US$38 billion, and Zambia from US$8 to US$6 billion.

For the overwhelming majority of African economies, however, shares of manufactured goods in national exports remain too low to signal a genuine diversification process. The share only rose from 28 to 37 percent in Kenya, and from 44 to 45 percent in South Africa, while it stagnated at 3 percent in Nigeria. In Asia, diversification has taken a more serious step. Bangladesh, an LDC, increased from 87 to 93 percent the share of manufactures in its exports, and Thailand and Viet Nam also show impressive records. What these figures demonstrate is that while Asia has been able to drastically reduce its dependence on exports of primary commodities, the same cannot be said about Africa, where the dependence has increased. Notwithstanding, there are a few African countries like Mauritius and Tunisia that are achieving good results, with shares of manufactured goods in total exports reaching 63 and 77 percent respectively.

Figure 1: Proportion of manufactured goods in total exports (in percent)



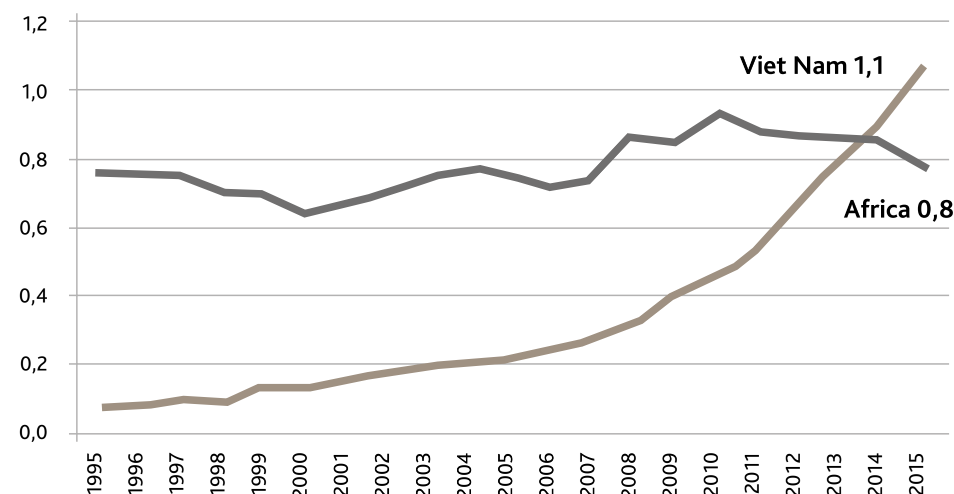
Source: UNCTADstat

Africa and Viet Nam: a striking contrast

More surprisingly, Africa has lost its global competitiveness in exports of manufactured goods to Viet Nam, a small developing country in Asia. World exports of manufactures grew from about US$4 trillion in 1995 to US$11 trillion in 2015. Between 1995 and 2012, Africa had a dominant annual average share of those exports in comparison to Viet Nam. However, the period 2013-2015 shows that the continent was overtaken by Viet Nam, which registered a 1.1 percent share compared with Africa's 0.8 percent in 2015 (Figure 2).

This might be explained by one noticeable difference between Viet Nam and Africa. Starting prior to the birth of WTO, Viet Nam has devoted considerable efforts to developing its productivity and supply-side capacity, while also changing basic things like the mindset, in order to prepare itself to take advantage of WTO market access opportunities such as those generated by the abolishment of the Agreement in Textiles and Clothing (ATC) in 2005. When Viet Nam was welcoming this development, Africa was asking for an extended period to continue using quotas or delay liberalisation. Africa's unpreparedness has meant a drastic loss of market share in exports of textiles and clothing, a topic that would require a discussion of its own. While the WTO will remain an important multilateral arena for global rule-making, it is important for Africa to understand that without a robust supply base, market access alone means nothing, as evidence from LDCs has shown.

Figure 2: Proportion of exports of manufactured goods in the world (in percent)



Source: UNCTADstat

Without manufacturing, achieving the 2030 Agenda will be a real challenge for Africa

The 2030 Agenda ambitiously promises to transform our world. In Africa, where countries do not run trade surpluses in manufactured goods, realising the agenda's aspiration will be very challenging. It is widely acknowledged that manufacturing is of tremendous importance for development, and historically, the sector has been the main driver of economic growth and structural transformation. During the MDG period, Asia recorded significant trade surpluses in manufactured goods, while Africa has not been able to build competitive manufactures and experienced growing trade deficits in the sector, a trend that is still ongoing. Asia's trade surplus of around US$1 trillion in 2015 is not only huge, it also contrasts sharply with Africa's own US$266 billion deficit (Table 3). In 2015, while Asia exported about US$4.6 trillion worth of manufactured goods and imported close to US$3.6 trillion, Africa's exports reached only US$89 billion, about four times less than its imports which stood at US$354 billion. This trade deficit highlights the weakness of the African manufacturing sector. The continent is currently not able to benefit from the sector's important potential in terms of socio-economic development and poverty reduction, in particular though the substantial export revenues it can generate. Clearly, current African exports of manufactured goods are not robust enough to contribute effectively to the continent's overall achievement of the 2030 Agenda.

Table 3: Trade balance in manufactured goods in Asia and Africa (in thousands US$)

		1995	2015
Asia	Exports	798,606,462	4,640,781,122
	Imports	856,876,847	3,603,686,569
	Trade balance	**-58,270,385**	**1,037,094,553**
Africa	Exports	28,383,598	89,109,964
	Imports	82,385,071	354,673,649
	Trade balance	**-54,001,472**	**-265,563,685**

Source: UNCTADstat

What approach should Africa adopt?

What should Africa do to build a stronger manufacturing sector? Rather than list a number of policy actions to which the continent is now accustomed, I would suggest that Africa spends more resources on learning from more successful developing countries like Bangladesh, Cambodia, China, Mauritius, Tunisia, Bangladesh, and Viet Nam. It is striking to note that there are only four African embassies in Viet Nam. One would expect countries like Rwanda, that are ambitious and want to modernise their economy, to have established an embassy there, with a view to acquiring knowledge and drawing lessons from the Vietnamese experience. Sometimes, technological advancement comes out of learning, as the Indian example of semi-conductors shows. The Indian diaspora who joined the Silicon Valley learnt, took that knowledge back to their country, and used it to bolster India's growing trade in electronics.

Another point worth mentioning is that the key to Africa's diversification does not necessarily lie in the multilateral trading system, but rather at the domestic level. It is mainly domestic factors that will enable the continent to stimulate domestic and foreign direct investment, strengthen human resource capabilities, and develop much-needed infrastructure, among other things. Of course, multilateralism has a role to play, but this role is complementary, as the example of Viet Nam shows. By negotiating and implementing global trade rules that can support Africa's efforts to industrialise, the WTO can make a substantial contribution, but the continent's development will largely come from inside. This point is important because there seems to be a strong belief among some African countries that the WTO is the answer to Africa's massive economic problems: a belief that would make sense for a country like Viet Nam, with strong supply-side capacities.

The views expressed in this article are those of the author and do not in any way represent those of the institution with which he is affiliated.

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INVESTMENT

Promoting sustainable and socially responsible investment through regional trade agreements

Marianna Nerushay

The study of investment provisions in regional trade agreements reveals a gradual shift from protecting foreign investments to providing states with ampler regulatory space in the pursuit of sustainable development objectives.

Since the very emergence of investment treaties in the 1950-60s, these instruments have traditionally aimed at providing guarantees to foreign investors regarding the stability and predictability of a host state's investment framework. Conceived as a vehicle for both protecting and attracting foreign direct investment (FDI), the conventional purpose of investment treaties has therefore been to prevent the abuse of state sovereignty, often without according due consideration to the development dimensions of state measures.

Nonetheless, the emergence of what UNCTAD has characterized as a "new generation" of investment policies – aimed at liberalising and promoting investment, while also incorporating flexibilities for public policy objectives – is forcing the traditional model to evolve.[1] In this context, as sustainable development gains momentum in international fora, provisions aimed at encouraging sustainable or socially responsible investment are also becoming the norm in international treaties.

The definition of sustainable investment largely mirrors the goals of sustainable development as defined in the 1987 Brundtland report as well as more recent international instruments[2]. Accordingly, sustainable investment may be defined with reference to its positive contribution to the economic and social development or environmental protection within the host state, namely by upholding labour or environmental standards or sustainable production methods. Sustainable investment can also be linked to the industry sector in which investment is channelled, such as, for instance, clean energy resources or sustainable tourism.

Amid the complex mosaic of investment regulation, this article examines how investment provisions in regional trade agreements (RTAs) in particular can contribute to the promotion of sustainable investment.

Limitations on investment protection provisions

The investment chapter of a RTA typically provides for a number of obligations imposed on the host state. Among them, the protection of foreign investors from the uncompensated taking of property by the host state has traditionally constituted one of the main guarantees in international investment agreements (IIAs). While there is great uniformity across RTAs for the conditions of lawful expropriation and the standard for compensation, recent treaty practice demonstrates a new outlook with regard to the scope of expropriation.

More recent treaties tend to carve out non-discriminatory regulatory actions adopted in the interest of legitimate public welfare objectives – such as public health, safety, and the environment – from the scope of the expropriation provision. This, in turn, increases the realm of measures a host state may undertake to pursue sustainability objectives without giving rise to mandatory compensation. Such carve-outs are typically included in RTAs signed after the adoption of the US 2004 Model bilateral investment treaty (BIT) and are present in about half of all expropriation provisions in RTAs today.

GATT Article XX

GATT Article XX lays out a number of specific instances in which WTO members may be exempted from GATT rules. Pursuant to these two of these exceptions, WTO members may adopt policy measures that are inconsistent with GATT disciplines, but necessary to protect human, animal or plant life or health, or relating to the conservation of exhaustible natural resources.

Reservations and screening mechanisms

In addition to the investment protections contained in the traditional BIT model, RTAs tend to provide for investment liberalisation, obliging states to remove market access barriers and allow the entry and establishment of FDI. Despite these commitments, RTA parties can retain discretion regarding the entry and establishment of FDI and preserve the right to select investments of suitable quality with respect to their sustainability goals. On the one hand, RTA parties can do so by listing certain industry or service sectors as reservations or exemptions from obligations under the treaty, thus retaining maximum flexibility for domestic laws and regulations in these areas. On the other hand, they can retain flexibility by instituting domestic review or assessment mechanisms prior to the entry of FDI on their territories. For instance, the IISD Model International Agreement on Investment for Sustainable Development, a prototypical IIA template promoting sustainable development goals, encourages the idea of using such processes as a means of assessing the projected environmental and social impact of a potential investment.

General exceptions and provisions on the "right to regulate"

Another common technique for allowing regulatory flexibility that can be used to promote sustainable investment is the inclusion of general exceptions. Such provisions seek to justify host state measures that are otherwise inconsistent with an obligation under a RTA. Exceptions will typically allow the RTA parties to implement programmes designed to protect human, animal, or plant life or health, or to conserve exhaustible natural resources, without incurring liability for breaching the agreement. The catalogue of exceptions is often similar to Article XX of the WTO General Agreement on Tariffs and Trade (GATT) or Article XIV of the WTO General Agreement on Trade in Services (GATS), which are at times incorporated *mutatis mutandis* into the treaty text. A number of RTAs that extend the applicability of general exceptions to the investment chapter, particularly those signed by Canada and ASEAN, also mirror the *chapeau* of these WTO provisions so as to prohibit disguising protectionist measures through the use of exceptions.

Alongside exceptions, a number of RTAs (in their investment chapters) adopt provisions that confirm the parties' "right to regulate" in favour of public interests. While the language of such clauses aims to explicitly preserve regulatory space and may be relied upon in the pursuit of sustainable development goals, it comes short of an exception and will thus not excuse a measure inconsistent with the parties' investment obligations.

Investment promotion and cooperation

Many RTAs begin with a preamble that reflects the parties' sustainability goals. Preambular references to sustainable development, the environment, living standards, and other issues of social concern are plentiful and constitute valid contributions to the interpretative process of RTA provisions in investor-state dispute settlement (ISDS).

A large number of IIAs also contain commitments to promote and facilitate investment, and to foster information exchange, technical assistance, and capacity building, as well as the setting-up of joint initiatives or institutionalised investment committees. Such promotion schemes may seek both further investment liberalisation and the achievement of certain sustainability goals: RTA parties may, for instance, undertake to cooperate specifically on matters such as sustainable trade and investment opportunities or against bribery and corruption, taking into account their national priorities and available resources. For the most part, however, such goals and provisions are formulated in broad and aspirational language, leaving states with ample discretion as to their implementation.

Investment incentives

Domestic policies often go beyond the investment promotion commitments discussed above by offering concrete incentives to foreign investors, most commonly through fiscal incentives or tax benefits. So-called behavioural incentives or performance requirements (PRs) – i.e. incentives that stimulate investors to engage in specific conduct as part of a mandatory policy requirement or with the aim of receiving a benefit – can be particularly effective in fostering positive linkages between investment and local development, for instance through encouraging the development of local infrastructure, the creation of

jobs, the transfer of technology and know-how, or increased investment in R&D projects. Through incentives, host states may also incite investments into sectors of sustainable nature or impose responsible investment commitments impacting foreign investors.

While there are little to no disciplines on investment-related subsidies or support measures, it is rather frequent for investment chapters of RTAs to specifically prohibit PRs, including investment incentive schemes, as well as export, local sourcing, or domestic content requirements, among others. Prohibitions of PRs can be found in over half of RTAs covering investment, at times through the incorporation of the WTO Agreement on Trade-Related Investment Measures (TRIMS). However, some of the more elaborate PRs provisions, such as those of NAFTA, contain carve-outs in favour of environmental or health measures, thus leaving some room for flexibility.

References to standards and sustainability goals

A number of RTAs also contain provisions on maintaining or implementing a set of commonly recognised international standards for responsible investment. Some RTAs include references to fundamental labour principles, encourage compliance with social corporate responsibility standards, or seek to facilitate the participation of RTA parties in relevant organisations. References may include the OECD Guidelines for Multinational Enterprises or the International Labour Organization (ILO) core standards. In addition, a number of more recent RTAs go as far as to include in the treaty text an obligation to prohibit corrupt practices.

These policies are useful not only in harmonising standards across RTA parties, but also in signalling to potential investors that they too bear responsibilities within the investment regime, thus breaking the asymmetry inherent to the traditional IIA model. Such provisions may also increase investors' compliance with applicable standards, especially if the set of standards is explicitly referenced and the consequences of their breach are outlined. However, the mention of concrete standards remains rather infrequent in the context of IIAs. In the absence of well-articulated commitments and minimum thresholds, either in the treaty text or in an arbitrable contract concluded between the host state and an investor, such treaty provisions remain largely unenforceable in case of non-compliance.

The goal of upholding certain socially desirable norms may also be achieved through so-called "not-lowering of standards" clauses that discourage the parties from relaxing national health, safety, environmental, or labour requirements with the aim of attracting FDI. While in practice relaxing standards may boost FDI by artificially increasing a state's competitive advantage, they may also lead to a so-called "race to the bottom" among states with regard to regulatory standards. To combat this, RTAs often contain provisions that recognise such measures as inappropriate in the context of investment.

Sustainability chapters and side-agreements

Despite its similarity with BITs, the particularity of the RTA structure allows the parties not only to simultaneously negotiate the rules of several regimes (most importantly the rules on trade in services, with which investment provisions may partially overlap), but also to extend the effect of commitments aimed at promoting sustainable development to a number of chapters beyond investment, including trade in goods, intellectual property, and others. More recent RTAs involving the US, Canada, and the EU, for example, often reflect this by including all-embracing chapters on the environment, labour, and transparency.

Moreover, beyond the treaty text itself, sustainability provisions frequently extend to side-agreements or freestanding memoranda of understanding as a supplement to RTAs covering investment. In this regard, the North American Agreement on Labor Cooperation (NAALC) and the North American Agreement on Environmental Cooperation (NAAEC), both additions to the NAFTA, or the various Southern African Development Community (SADC) protocols, namely on health, energy and against corruption, constitute interesting examples.

Transparency in investor-state dispute settlement

A large majority of RTAs support their investment protection provisions by offering ISDS as a means of resolving disputes. In response to widespread public criticism of this mechanism, recent RTAs have shown efforts in introducing much needed reforms to the transparency of dispute settlement proceedings. Post-2004 RTAs concluded by the US, Canada, Australia, and New Zealand, in particular, contain the most far-reaching transparency obligations applicable to ISDS proceedings. These provide for mandatory public disclosure of key documents and awards, public access to hearings, and the admissibility of *amicus curiae* submissions: essential elements of a system in which civil society and other stakeholders can provide valuable input in arbitration proceedings with respect to issues related to sustainable development.

Conclusions

The study of RTAs reveals a plethora of options available to negotiators and policymakers in order to promote sustainable development goals. Limiting the scope of investment protections, providing for exceptions and carve-outs in favour of certain policy objectives, clearer promotion and cooperation strategies, as well as references to commonly recognised core standards are all attempts at seeking the much-needed balance between investment protection and regulatory space for development.

It goes without saying that international treaties alone cannot fully achieve this balance. The content of national investment statutes as well as contracts or concessions between the host state and foreign investors are equally important. Indeed, all levels of the investment framework should reflect this balance in order to maximise the potential positive spillover effects of FDI for sustainable development. Moreover, a state's investment regime does not hang in a vacuum: a sustainable investment model requires fostering linkages between a host state's various economic, trade, competition, and fiscal policies.

With cases concerning regulatory measures making the headlines in international arbitration (such as environmental regulations under NAFTA arbitration or recent high-profile cases on health-related tobacco measures), it is becoming clear that states are gradually adapting their approach to negotiating investment provisions. This gradual shift in focus, from stabilising the investment framework and protecting foreign investments to providing ampler regulatory space for development and public policy objectives, is a break from the past in a field that has largely evolved in isolation of such concerns.

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1. See UNCTAD Investment Policy Framework for Sustainable Development (IPFSD)

2. World Commission on Environment and Development. "Report of the World Commission on Environment and Development: Our common future." 1987. For further instruments, see UN Resolution A/RES/66/288 of 11 September 2012, UN Resolution A/RES/70/1 of 25 September 2015, among others.

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The newsroom

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New UK economic development strategy puts emphasis on trade

Trade will occupy a strengthened, pivotal place in the UK's development policy, indicates UK's Department for International Development (DFID) in its "first ever economic development strategy". The document details how DFID intends to work across government departments through an approach that integrates trade, investment, and aid policies to foster economic development and drive poverty reduction.

While DFID's focus on economic development is not new, the document attempts to build on previous efforts and "bring them together into something that is more actionable, and more coherent," according to Stefan Dercon, the department's chief economist.

Through this strategy, which is presented as a "vital part" of the new "Global Britain" doctrine, DFID vows to put a particular emphasis on the world's poorest countries, many of which are to be found in Africa.

LDCs propose new caps on trade-distorting farm subsidies at WTO

WTO members must agree to cuts and new ceilings for trade-distorting farm subsidies, says a proposal from the group of Least Developped Countries (LDCs) at the global trade body.

The submission, which was tabled by Benin on 13 January, identifies "urgent" actions to be taken ahead of the WTO's ministerial conference in Buenos Aires this December, as well as a separate set of measures which the group believes need to be tackled in the longer term. It follows a flurry of submissions from other countries and groups that were tabled at the WTO in November.

Trade-distorting support in agriculture continues to create unfair competition for LDC producers, the proposal says, noting that "the bulk of LDC farmers are small-scale or semi-subsistence farmers." It also argues that the farm sector is "crucial" for export revenues, rural livelihoods, poverty reduction, and food security.

WTO makes permanent IP rule upgrade to improve access to medicines

A long-awaited revision to the World Trade Organization's intellectual property (IP) rules was made permanent on Monday 23 January, formalising an existing waiver aimed at allowing the organisation's poorest members to have easier access to cheaper, generic versions of medicines produced abroad.

At issue in the amendment, known also as the TRIPS protocol, is the topic of compulsory licensing – in other words, when a government allows another actor to make a version of a patented good even without the right holder's permission – with regards to the production of generic drugs. The protocol was finally confirmed after enough of the global trade body's members had submitted their ratifications. Under WTO rules, this threshold requires two-thirds of the organisation's membership.

UN report projects modest growth pickup in Africa in 2017

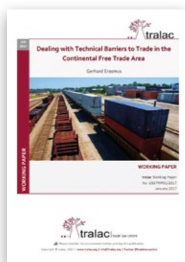
Economic growth is expected to experience a modest recovery in Africa this year, according to the United Nations' World Economic Situation and Prospects 2017 (WESP 2017) report. African GDP should grow by 3.2 percent in 2017 and 3.8 percent in 2018, according to the report. This "modest" pickup follows last year's important growth deceleration on the continent, with an estimated growth rate of only 1.7 percent in 2016.

The anticipated increase in commodity prices on global markets is contributing to the modest improvement of growth prospects in heavily commodity-dependent countries, indicates the report. Other countries with stronger economic fundamentals, enjoy more promising growth prospects. This is the case in East Africa, as well as in some West African countries.

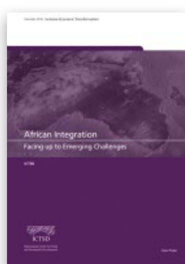
Publications and resources

G20 Guiding Principles for Global Investment Policymaking: A Stepping Stone for Multilateral Rules on Investment - E15 Initiative (ICTSD and WEF) – February 2017
This paper introduces the G20 Guiding Principles for Global Investment Policymaking, beginning with a background review of their crafting and various attempts at devising guiding principles on international investment, and identifying some of the guidelines that have paved the way for the Principles. It also outlines the objectives, scope and content of the G20 Guiding Principles and considers their potential impact on policymaking at the domestic and international levels. http://bit.ly/2lPvo4B

The Role of Development Banks in Promoting Growth and Sustainable Development in the South – UNCTAD – February 2017
This report argues that development banks at all levels can play a critical role towards the achievement of the Sustainable Development Goals. It first details the rationale for national development banks and developing country experiences with such banks in the past. It then discusses the role of regional and subregional banks, in particular in supporting smaller countries facing greater obstacles in setting up development banks at the national level. Finally, it discusses the recently created Southern banks, both regional and cross-regional. http://bit.ly/2ky9f93



Dealing with Technical Barriers to Trade in the Continental Free Trade Area – TRALAC – February 2017
In order to shape the CFTA as a comprehensive legal framework suitable for 21st century challenges, numerous issues need to be addressed, including customs procedures, tariffs, non-tariff measures, corruption, trade facilitation, trade remedies, dispute settlement, finances, transport, corridors, as well as investment, industrialisation, and the movement of capital and persons across borders. This paper discusses one of the practical issues now on the agenda: the design of a continental scheme to deal with Technical Barriers to Trade. http://bit.ly/2l8pFGQ



African Integration: Facing up to Emerging Challenges – ICTSD – December 2016
This paper examines the key elements bearing upon regional integration in Africa. It argues that integration should be conceived as a a means to respond to the development aspirations of societies across the continent starting with concerns around poverty alleviation, food security, and access to essential services. The paper presents the key motivations for deepened integration in Africa, provides a comprehensive overview of experiences to date at the continental level, and on the back of this analysis advances forward-looking options. http://bit.ly/2ljzVye

Regional Integration and High Potential Value Chains in West Africa – ICTSD – December 2016
This paper aims to provide an understanding of West Africa's potential for participation in GVCs. Upgrading strategies require identifying value chains in which West Africa has existing capabilities and that also offer (i) dynamic markets, (ii) potential to support Sustainable Development Goals (SDGs) and the most vulnerable countries in the region, and (iii) concrete upgrading opportunities in the near term. Through this approach, the paper identifies the value chains with the highest potential in the region. http://bit.ly/2kq0Pp1

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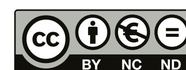

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