EUROPEAN LEAGUE FOR ECONOMIC COOPERATION

« Relations between Europe and Africa:
Economic exchange, partnership, association? The role of development aid, trade agreements, and regional agreements»
Translation: English / Original: French
Recommendations adopted by the Economic and Social Commission
On October 12th 2021,
and approved by the Central Council on December 3rd 2021

Executive Summary

The Facts:

- Long-standing and important Euro-African relations remain insufficient for both trade and capital flows, while Africa will weigh 40% of the world's population by 2100.
- The COVID-19 pandemic further weakens the health systems of poorly vaccinated African countries, with the risk of a boomerang effect on the countries of the North.
- North/South trade remains limited, despite recent progress, while China is increasing its penetration.
- European unilateral and bilateral aid efforts remain insufficient to create the necessary mass effect for take-off.
- Private capital flows are large but fluctuating, and investment reception remains a problem.
- The debt burden has more than doubled in 10 years; it increases because of China's often un-concessional and unconditional lending.

Our proposals:

- It is essential to address the demographic problem through a proactive policy, in particular on family planning and the education of girls; but the reception of new migrants is unavoidable and requires a harmonized European policy.
- The supply of vaccines to African countries must be intensified, both in the form of grants and in the form of technology transfers at cost price.
- A Euro-African partnership has to be established through expanded exchange and cooperation agreements, extended to the development of local capital markets and based on intra-African regional agreements.
- European ODA should be redirected towards Africa, while remaining conditional on good governance; agreement with China must be sought on these points.
- Capital flows should be encouraged to move more broadly towards Africa, including through guarantees and investment protection agreements.
- An international debt conference should be convened to oversee debt rates and financial conditions; it is crucial to involve China.

The Economic and Social Commission of the European League for Economic Cooperation (ELEC) gathered in Paris on October 12th 2021 to debate on the theme: « **Relations between Europe and Africa: Economic exchange, partnership, association? The role of development aid, trade agreements, and regional agreements** » with several personalities:

- Stefano **MANSERVISI**, Special Advisor to Commissioner Paolo Gentiloni, and Chair of GCERF (Global Community and Resilience Fund).
- Michel **CAMDESSUS**, former Governor of the Banque de France and former Managing Director of the IMF.
- Jean-Michel **SEVERINO**, former Vice-President of the World Bank and President of Investisseurs & Partenaires.
- Audrey **MAIGNAN**, Regional Director for Central Africa at PROPARCO

I. Facts

1) **Relations between Europe and Africa are long-standing and important**, for both geographical and historical reasons. They were already present in the original project of the Europe of the Six, however, they may appear to be very inadequate, particularly with regard to trade and capital flows. But current trends and demographic prospects indicate that the scope of the topic should make it a dominant issue for the future: with more than 4 billion people expected by the end of this century[1]Africa will weigh more than 40 per cent of the world's population. In addition to its increased weight in the international economy, this raises obvious questions about migration flows and ecology, with a high risk of destruction of natural resources and biodiversity.

2) **The COVID-19 pandemic has already caused considerable damage to the population and fragile health systems** of already impoverished African countries[2] (despite the actions of WHO and major ad hoc programs such as IVR or GAVI – see II.2), in the face of devastating epidemics such as malaria, tuberculosis, cholera, AIDS, Ebola[3], etc. African GDP per capita fell for the first time by 2% in 2020[4] and 32 million people lost their jobs, particularly the youngest and women. Although the spread of the disease has remained limited in most countries, for not yet fully understood reasons, an outbreak of infection is still to be feared in view of the current very low rate of

[1] According to the UN's World Population Prospects, Africa had 1,186 million inhabitants in 2015, out of a world population of 7,389 million, or 14% of the total.
This figure would double by 2050 to 2478 Mh and almost double again by 2100 to 4387 Mh, or 40% of the world's population of 11.2 billion by that date. At the same time, the European continent would decline from 738 Mh in 2015 to 646 Mh in 2100…

[2] As a reminder, the Spanish flu epidemic of 1918-19 began to wreak havoc in Africa, largely spared in the first wave, in a second wave strongly felt in August 1919 and a third in October, even as it was extinguished in the EU.

[3] Ebola hemorrhagic fever, with a very high fatality rate, is experiencing periodic re-surgeries, one of which is currently in the DRC; malaria continues to kill 400,000 people every year, mostly children, mostly in Africa. Tuberculosis continues to decline because of the development of new effective antibiotics; there were 150,000 cases and 3,000 cholera deaths in 17 African countries in 2017.

[4] It is expected to rise by 3.4% in 2021, according to the IMF, but catching up – with a total cost of $450 billion – would not have been achieved by 2024.

vaccination among the inhabitants[5]. It could have a boomerang effect on the countries of the North if new variants spread, that are more contagious and/or lethal.

3) **Economic relations between the North and the South of the Mediterranean**, while significant, weigh relatively little in the global economy: exports to Africa account for only 12.3% of total European exports[6] and those of Africa to the European Union for only 30% of the total exports of the African continent. .The globalization of recent decades has shifted “value chains” toward Asia rather than Africa, although interesting examples such as the manufacture of automobiles in Morocco or South Africa can be cited. Conversely, China is forging closer economic ties with the African continent – including developing mining and agricultural resources – faster than Europe is. Yet Africa offers the prospect of a huge and rapidly expanding market.

4) The European Union is making significant efforts to assist the development of African countries, notably through the European Development Fund (EDF), now replaced by the Global Europe program, and the European Investment Bank (EIB); its contributions[7] are in addition to the bilateral aid granted to these countries (more than half of the world’s ODA now comes from Europe). Aid transfers amounted to EUR 66.8 billion in 2020 (European ODA and Member States’ aid). It has made notable progress in some countries, but these are still insufficient to create the “mass effect” necessary for a real economic take-off. Moreover, aid budgets remain threatened by the financial consequences of successive crises experienced by developed countries (“sub-prime”, debt, COVID-19…).

5) **Private capital flows**, be they transfers of migrant workers to their countries of origin, portfolio investment or direct investment, have a decisive role to play. The amount is substantial - the EU remains the largest investor in inventories, but is overtaken, in new flows, by China, while Turkey is playing an increasing but fluctuating role. For example, foreign direct investment in Africa, after exceeding $50 billion annually, fell by 10% in 2019 even before the COVID[8] crisis; this decline continued in 2020.

   These flows are complemented by the increasing involvement of the private sector in equity investment in Africa. Specialized players such as the IFC or PROPARCO, as well as numerous venture capital funds, are contributing. However, the problems posed by the reception and treatment of European investments in Africa are still far from being resolved, despite the efforts made - notably in the context of regional cooperation - to create a climate of legal and financial security.

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[5] According to the WHO (September 2021 figures), there are currently only 60 million people vaccinated against COVID 19 throughout the African continent, a rate of only 4% on average (compared to 61% in high-income countries), even if countries such as Morocco or Mauritius are much more advanced.
Of the 54 States on the African continent, only 15 have so far managed to fully vaccinate at least 10 per cent of their population.

[6] EUR 235 billion out of a total of 1906, in 2018

[7] €30 billion is allocated to sub-Saharan Africa, more than €10 billion to North Africa

[8] According to the UNCTAD report of 16 June 2020. In addition, a further 16% drop appears to have occurred in 2020.

Unfortunately, capital outflows, including illicit flows, were particularly high. UNCTAD estimates them at almost 4 per cent of total African GDP[9], and these capital outflows virtually offset inflows. The announced creation of new regional currencies and the use of digital currencies such as bitcoin or E-yuan will no doubt play a role in future development, difficult to define a priori.

6) **The question of the debt of African countries**, linked to the preceding point, unfortunately risks slowing down desirable developments. Despite significant debt forgiveness, including through the G-20 and the Paris Club, the overall public debt burden has risen steadily over the past two decades, from $650 billion in 2010 to $1.4 trillion in 2020, and from 40% to 65% of GDP in 10 years. As a result, the rating of many countries tends to deteriorate, increasing the cost of borrowing. Moreover, China's strategy of financing major projects through debt at near-market rates and without conditionality, particularly in the context of "one belt, one road" (Silk Roads), poses serious risks for some countries whose spending has exceeded capacity; recent examples show this (see rail financing in Kenya and Ethiopia, or Zambia's default in 2020[10]). China's aggregate lending to developing countries would reach $843 billion over the past two decades, with outstanding Chinese borrowing alone exceeding 10% of GDP in 42 African countries[11].Since China is only participating very partially in multilateral discussions on this subject (e.g. the Paris Club), the problem is difficult to identify and solve.

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II. Proposals

1) **The indispensable treatment of Africa's demographic problem** requires a contribution from Europe on all aspects of the issue: the development of family planning policies; maternal and child protection; priority education for girls, often neglected or delayed for practical reasons (work in the fields, domestic work[12]) or cultural and religious work; social and health action.
There is a need, more broadly, for substantial efforts to settle people in their countries of origin by promoting rapid growth and new jobs. But, like it or not, the growing difference between areas of low population pressure in Europe and areas of high pressure in Africa, combined with the huge differences in living standards, will make it imperative to welcome new migrants from that continent, which European countries are increasingly refusing to contemplate. We must have the courage to face up to this problem and to negotiate and put in place a harmonized European policy on asylum, family reunification and economic immigration, for example by setting up reception

[9] According to the 2020 report of the United Nations Conference on Trade and Development (UNCTAD) (United Nations Commission on Economic Development) in Africa, published on 28 September 2020, illicit capital outflows reached 3.7% of Africa's GDP, or about $88 billion, higher than inflows ($74 billion).
[10] In August 2020, Zambia defaulted on a debt that was heavily burdened with 40% of this tax revenue and one-third of it held by China.
[11] According to a report published on 29 September 2021 by the American University of Virginia.
In the most recent period, payments or debt owed to China– mainly on commercial terms – reached $85 billion a year, twice the amount paid by the US and other major powers. According to the China Africa Research Initiative, China's lending to Africa between 2000 and 2016 would amount to $125 billion.
[12] In particular, fetch water.

quotas for those professions which have the most difficulty in recruiting in Europe. Of course, this policy of openness to migration – which must be complemented by a network of agreements with countries of origin and transit – is inseparable from a strong policy of training and acculturation for these migrant populations.

2) **The treatment of the COVID-19 health crisis requires an intensification of the supply of vaccines to African countries**, either in the form of donations already made by the EU through the COVAX[13] program and some countries, or financed by the "Initiative for Vaccine Research" or the "GAVI[14]"), or at cost prices. The issue of providing the most advanced countries of the continent – such as Senegal, Rwanda, South Africa, and the Maghreb countries – with technologies to produce vaccines and treatments locally is a key one[15]. While maintaining the legitimate protection of intellectual property in developed countries, we believe it is essential to allow such access, already provided for in WHO protocols. There is also a need to better support research in these countries, including from local animal or plant resources.

3) Africa could become part of the value chain of the European economy, as Eastern Europe was for Germany, thanks to its youth, the expansion of the middle classes and the dynamism of a number of its countries; see the examples of Ethiopia, Côte d'Ivoire and Kenya. Africa's share of total exports is expected to reach 20%, or 4% of Europe's GDP, by 2050. Going beyond this, **Africa could become a genuine partner of the European economy through trade and wider cooperation agreements[16]**. The 2020 European Recovery Plan includes this perspective, particularly in the areas of health, energy, transport and digital activities, leading to genuine global industrial cooperation.

   We therefore recommend the negotiation of a free trade agreement between the European Union and the countries of the African Union, along the lines of the agreements already concluded with Canada and Latin America. In addition, important joint work must be done on standards for traded products. Cooperation should also be extended to the development of local capital and stock markets and to support regional intra-African agreements.

4) **European ODA must be redirected** more towards the African continent, for the reasons mentioned above, by involving civil society and an often poorly informed public. The ACP (post-Cotonou) agreements[17], the new African protocol and the neighborhood agreement with the Maghreb countries provide a legal basis. It would be desirable to set a common goal, which could be, for example, to devote more than half of total multilateral and unilateral development assistance to Africa by combining the various instruments (grants, assisted loans, "blending", guaranteed market loans). The

[13] This program, slowed by manufacturing problems in India and the US, was supposed to deliver 2 billion doses of vaccine to countries in the South in 2021, but it was able to deliver only 311 million over the first nine months.

[14] "GAVI" is a partnership involving the Gates Foundation, the World Bank, WHO, and vaccine manufacturers, which has vaccinated 822 million children worldwide over the past two decades, half of them in Africa.

[15] A first project has just been announced in South Africa, which will host a platform for the transfer of COVID RNA vaccine technology near Cape Town (Afrigen).

[16] One should note that the first trip outside Europe of the new President of the European Commission, Ursula von der Leyen, was devoted to Africa, and that the term "partnership" was added to the name of the Directorate-General for Development. Many partnerships are being defined on health, digital, regional agreements, etc.

[17] African, Caribbean, and Pacific countries.

direct allocation to developing countries – presumably in part through regional or multilateral institutions (possibly including national development banks such as the AFD) – of a substantial portion[18] of the SDR 650 billion allocation[19] just decided by the IMF could contribute to the necessary increase in support. It remains important to link this aid to the good governance efforts of the countries concerned. In this regard, we believe that it would be highly desirable to negotiate an agreement with China to ensure that it too adheres to a minimum of internationally accepted rules of the game.

5) **It is crucial to encourage more capital flows to Africa**. The "Team Europe" approach provides for joint investment guarantees to encourage such transfers. In this respect, the negotiation of Euro-African agreements on investment protection would be a very useful contribution, as would support for regional cooperation to secure financial and legal capital. The stability of legal and fiscal rules in host countries is essential to attract investors.

6) To facilitate the development of enterprises and the private sector, **a considerable effort must be made in the field of higher education and technical and vocational training,** in particular in engineering, medicine/biology and digital technologies. It must be based both on local capacity – which implies a shift in public budgets, of which such training is often the poor parent, and support for private education – and on development assistance and the hosting in Europe of African students, in both private and public institutions, on the basis of a system of merit scholarships. European support should for example foster a network of cooperation between European and African higher education institutions.

7) **With regard to debt, an international conference should be convened to examine the situation of all the countries of the African continent** and to set debt-rate targets and financial conditions. These objectives could then be implemented within the framework of creditor clubs (Paris Club, London Club, etc.), in conjunction with the IMF and the World Bank. Again, it is crucial to involve China in this overall exercise, which must avoid a piecemeal and fragmented view of what is a single problem for debtor countries.

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[18] In the absence of a reorientation decision, the allocation of SDRs issued in proportion to each country's quota, under the current rule, would leave only 23 billion SDRs to African countries.
[19] SDRs: Special drawing rights, with a unit value of approximately $1.2; IMF: International Monetary Fund.