

[ WORKING PAPER ]

# European Development Cooperation in a Changing World: Rising Powers and Global Challenges after the Financial Crisis

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# **EUROPEAN DEVELOPMENT COOPERATION IN A CHANGING WORLD: RISING POWERS AND GLOBAL CHALLENGES AFTER THE FINANCIAL CRISIS**

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## List of Acronyms

ACP	African, Caribbean and Pacific Group of States
CEEC	Central and Eastern European Countries
CFSP	Common Foreign and Security Policy
COP	UNFCCC Conference of the Parties
DAC	OECD Development Assistance Committee
DIE	German Development Institute/Deutsches Institut für Entwicklungspolitik, Bonn
DFID	UK Department for International Development
ECDPM	European Centre for Development Policy Management, Maastricht
ESDP	European Security and Defence Policy
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Cooperation
GDP	Gross Domestic Product
ICEI	Instituto Complutense de Estudios Internacionales
IEA	International Energy Agency
IFIs	International Financial Institutions
IFPRI	International Food Policy Research Institute, Washington DC
IIF	Institute of International Finance
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
MDGs	Millennium Development Goals
ODA	Official Development Assistance
ODI	Overseas Development Institute, London
PPP	Purchasing power parity
UNCTAD	United Nations Conference on Trade and Development
UNFCCC	United Nations Framework Convention on Climate Change
WTO	World Trade Organization

## Introduction

This paper is written as part of a programme of work on the prospects for European Union development cooperation in the period up to 2020. One part of this programme focuses on "New Actors in International Development" and includes analyses of a variety of "new actors", ranging from private foundations to countries in Eastern Europe, some of which are developing aid programmes for the first time, and to rising powers such as Brazil, India and China.<sup>1</sup> This particular paper addresses the significance for EU development cooperation of two large and important new actors in this field, China and India. More specifically, it considers these implications in the context of new challenges for development cooperation arising from global instabilities and the 2008-9 global financial crisis.

The increasing presence of China, in particular, as an actor in Africa has led to substantial comment and debate about China's cooperation policies and the challenges they pose for Western donors. Much of this discussion about Chinese development cooperation has focused on the modalities of aid and the implications of 'non-interference' for the human rights, good governance and democracy agendas in Africa. This is where China's policy directly challenges the practices of the OECD Development Assistance Committee (DAC) donors and also encroaches on what the EU has regarded as its sphere of influence.

Nevertheless, it will be argued in this working paper that the most important challenge to EU development cooperation in the coming decade originates not from the role of China and India as new donors with new practices, but rather from the shifting global balance of power that has seen China and India emerge as new global and regional powers. This process has been accelerated by the global financial crisis of 2008-9 and its aftermath, and it is gaining additional importance as a result of the new global governance challenges that are posed by increasing global volatility and global resource constraints. These will pose particular challenges for developing countries and for development cooperation that will bring to the fore unresolved issues about the relationship between EU development cooperation and policies concerning energy, security and climate change.

In other words, this paper explores the extent to which the major challenges to EU development cooperation in the next decade might not come from the continuation of pre-2008 trends, but rather from the increasing economic and political influence of these rising powers in the context of new global challenges. These challenges will lead to pressures for change in how development cooperation is managed, the goals of this cooperation and how development cooperation concerns are linked to the broader strategic and foreign policy goals of the EU.

The paper addresses these issues in six stages:

- Section 1 identifies the specific historical circumstances that led to the creation of the DAC consensus on aid and discusses the evolution of the EU's development cooperation policy.

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<sup>1</sup> For an overview of this work, see Grimm *et al.* (2008).

- Section 2 characterises the ways in which the development cooperation policies of China and India in Africa appear to challenge the consensus on aid established by the DAC.
- Section 3 analyses the emergence of new powers in the global economy.
- Section 4 examines the impact of the global financial crisis on relationships between developing and developed countries.
- Section 5 identifies new challenges for global governance and considers the implications for development cooperation programmes.
- Section 6 considers how the EU might respond to the situation created by the rise of new powers and the emergence of new global challenges.

## **1 The changing nature of EU development cooperation: evolving policies and changing external circumstances**

EU development cooperation has been evolving since the Treaty of Rome and the first Lomé Convention, signed in 1963. Olsen (2005) argues that policy is determined by two different factors: broad policy characteristics are explained by the national interests of member states and the EU as a whole, while more specific policy characteristics can be explained by bureaucratic policy-making that reflects the interests of "the elites involved in development aid" (2005: 578).

The ways in which the European Commission has sought to improve the effectiveness of EU policy and development cooperation expenditure in the 1990s and 2000s have been discussed by Arts and Dickson (2004), by Olsen (2005), by Deardon (2008) and Grimm (2010). However, this paper is concerned with the relationship between strategic interests and development policy, and in particular with the changes in development policy in the 1990s following the collapse of the Soviet Union. It was in this period that the DAC consensus on aid was developed and implemented.

The 1990s were a period of exceptional influence for the DAC donors. On the one hand, their control over development spending was particularly notable. As Manning points out (2006: 371-2), the 1990s were an exceptional period in which the DAC donors accounted for "routinely some 95% of all international aid" in the context of the collapse of the Soviet Union and reductions in spending by Middle East donors. On the other hand, the collapse of the Soviet Union freed development cooperation from great power politics and removed competition for influence on developing countries.

This context allowed the DAC donors to emphasise two important aspects of development cooperation policy. The first was the focus on conditionality – particularly on human rights, democracy, good governance and the battle against corruption. The removal of aid competition allowed donors to pursue the conditionality agenda with more rigour (Smith 2004: 62). For Europe, in particular, the end of the Cold War placed human rights and democracy issues on the agenda in its relationships with Central and Eastern Europe.

The second important element of the DAC consensus at this time was the de-linking of development cooperation issues to broader foreign policy and security concerns. The DAC consensus tries to distinguish between aid and the strategic interests of particular countries. By linking aid to recipient needs (poverty

reduction and aid directed to the poorest nations) rather than donor strategic interests, and by prioritising grants over loans and untied over tied aid, the DAC has emphasised the role of aid as an obligation from rich countries in general to poor countries in general rather than as an element of country-specific foreign policy.

The international consensus on development cooperation was defined and operationalised through a series of international agreements, and in particular: the Millennium Declaration in 2000, which led to the Millennium Development Goals (MDGs) and the 2015 target date for achieving them; the international commitments on development finance agreed at the UN summit in Monterrey in 2002; and the agreement on how development cooperation should be managed made in Rome (2003), Paris (2005), and Accra (2008). These agreements and commitments were achieved because the donors brought together in the DAC, to which the European Commission and Member States contributed, were able to forge a development consensus about what constituted aid and how it should be measured, and procedures and principles relating to issues such as untying of aid, the dominance of grant aid over loans (Manning 2006: 378).

This consensus is still at the heart of the European Commission's development strategy. The Commission identifies poverty reduction as the first of three basic elements of its common vision for development. This is followed by promotion of development based on 'Europe's democratic values', which are defined as "respect for human rights, democracy, fundamental freedoms and the rule of law, good governance, gender equality, solidarity, social justice and effective multilateral action, particularly through the UN." <sup>2</sup> In other words, democratic values are expressed both within nation states and within the multilateral system.

The DAC consensus should also be seen as an expression of both confidence and global responsibility in a particularly favourable period for globalisation. The early 1990s saw not only the collapse of the Soviet Union, but also the apparent triumph of the Anglo-Saxon free-market economy, encapsulated in Francis Fukuyama's iconic analysis, *The End of History and the Last Man*, published in 1992. This was a period of accelerating global integration. The 1990s and first eight years of the 21<sup>st</sup> century was a period in which trade and FDI expanded rapidly. As can be seen in Table 1, merchandise trade in relation to GDP increased nine percentage points between the first half of the 1990s and the first half of the 2000s. In the same period, global FDI increased from US \$1 trillion to US \$4.5 trillion, with the greater part of the increase coming in the second half of the 1990s.

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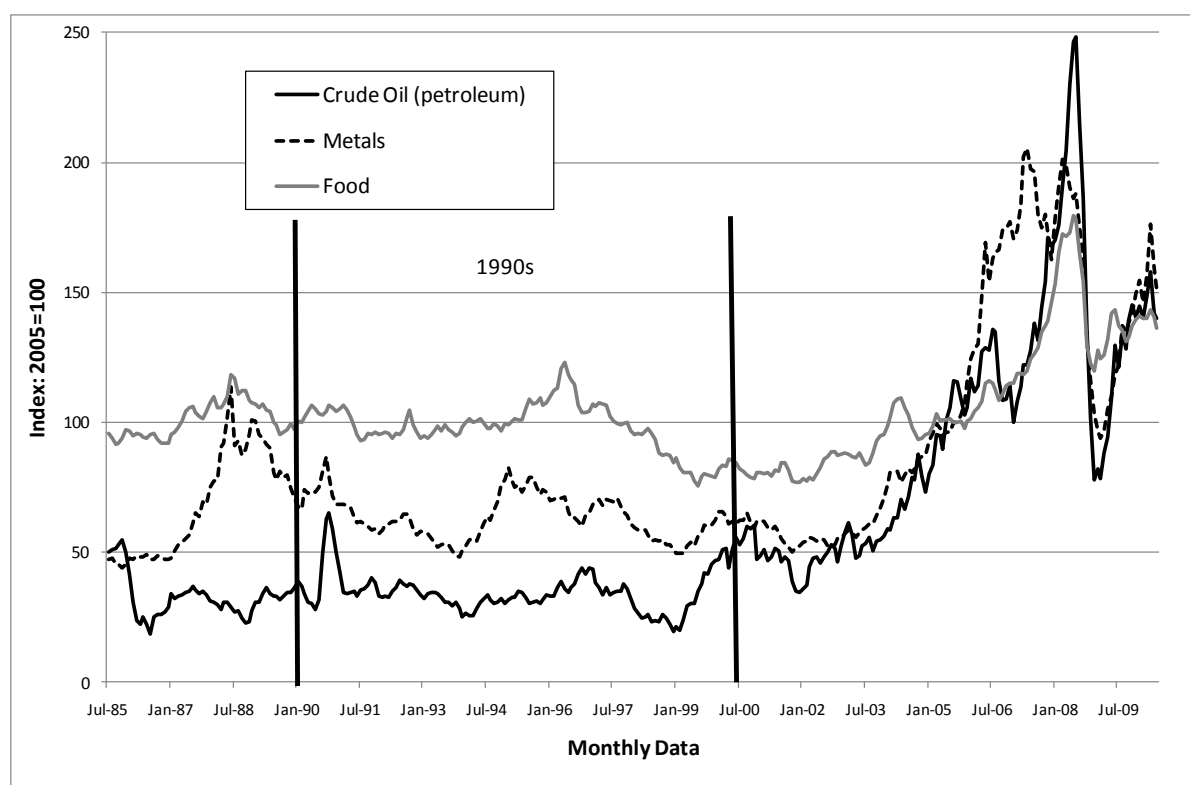
<sup>2</sup> [http://ec.europa.eu/development/policies/consensus\\_en.cfm](http://ec.europa.eu/development/policies/consensus_en.cfm)

**Table 1: Growth of global FDI and trade, 1980-2004**

Period	Merchandise trade as % of GDP, average for period	Aggregate FDI over five-year period (net inflows, US dollars millions)	FDI, increase over previous period (%)
1980-84	34	283,500	-
1985-89	31	625,459	120.6
1990-94	32	998,329	59.6
1995-99	36	2,961,491	199.6
2000-04	41	4,444,244	50.1

Source: World Development Indicators database, except for OECD and non-OECD trade in goods and services, which is taken from OECD statistics, <http://stats.oecd.org/index.aspx>.

This is also a period of stability and global crisis. Global expansion was not hampered by rising prices for energy or raw materials, or by excessive volatility, as can be seen in Figure 1. The price indices for oil, metals and food were flat or declining over the 1990s as a whole, and volatility was low compared to the late 1980s and the early part of the 21<sup>st</sup> century. The figures for the first ten years of the 21<sup>st</sup> century, on the right hand of the graph, show a very different picture, which will be discussed in a later section of this paper.

**Figure 1: Price indices for selected energy and commodity products**

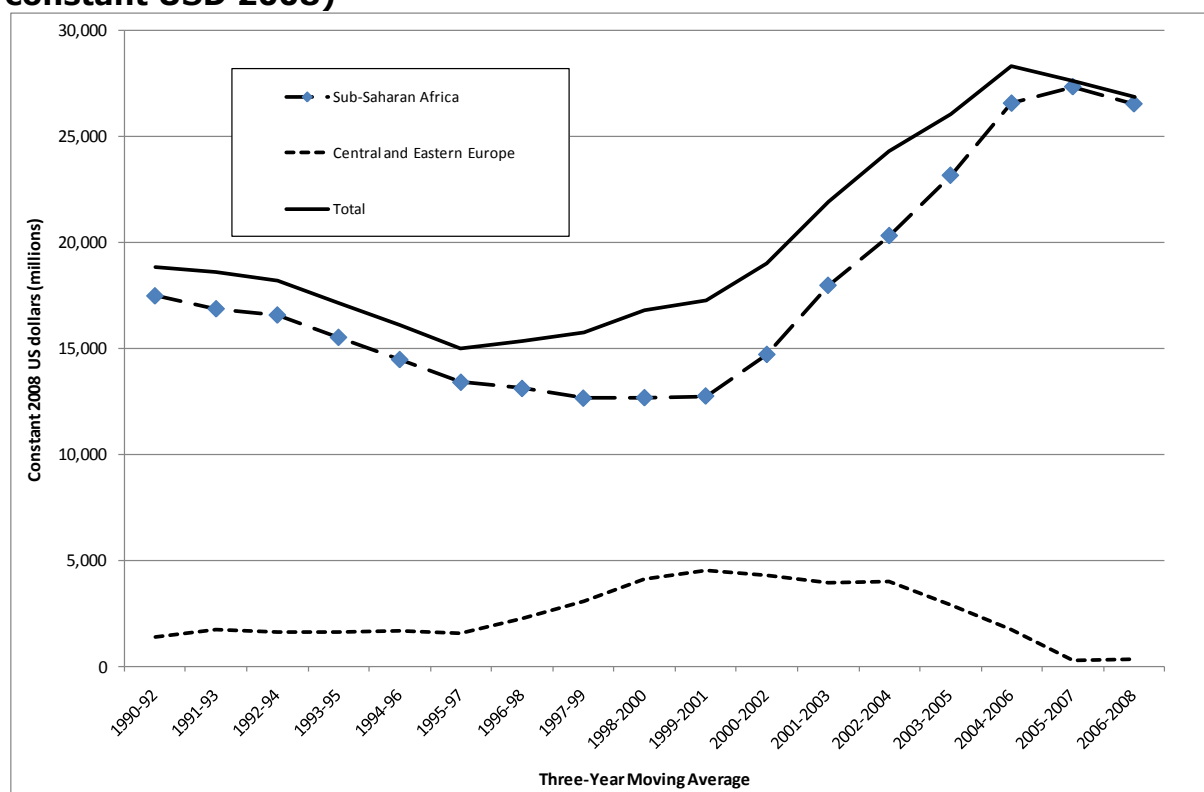
Source: <http://indexmundi.com/commodities>

The DAC principles have helped to shape the practice of development cooperation. Nevertheless, the separation of development cooperation from broader foreign policy and strategic concerns is hard to maintain. This was already evident in the 1990s. It has been well documented that following the end



of the Cold War there was a shift in EU spending priorities that reflected the emerging needs of the former Soviet bloc countries in Central and Eastern Europe. As has been highlighted by Smith (2004) among others, EU development assistance to sub-Saharan Africa fell in the 1990s, while disbursements to Central and Eastern Europe rose. This shift is documented in Figure 2, which presents data from the OECD DAC for gross aid disbursements by the European Commission from 1990 to 2008. The data have been presented as a three-year moving average in order to iron out fluctuations. In constant 2008 US dollars, aid to sub-Saharan Africa clearly declines in the mid- to late-1990s, falling in 1997-99 to 72.4% of the level registered in 1990-92. In parallel with this, aid disbursements to Central and Eastern Europe rise in the 1990s. From 1996 onwards they increase to a level substantially higher than before, peaking around 2000 at three times the level of 1990-92. There is not a clear switch of funds from one recipient group to another: net disbursements are far from constant over the period, falling in the 1990s and rising again sharply in the early 21<sup>st</sup> century. However, the disbursement patterns are compatible with the idea that the EU turned its attention to Eastern Europe following the collapse of the Soviet Union, and that this led to a lesser focus on sub-Saharan Africa and a fall in aid disbursements.

**Figure 2 Net disbursements of aid from the EU to sub-Saharan Africa and Eastern Europe (three-year moving average 1990-2008, millions of constant USD 2008)**



Source: Calculated from country-by-country data on disbursements compiled by OECD DAC: <http://stats.oecd.org/WBOS/Index.aspx?DatasetCode=TABLE2A>

Notes: (a) Disbursements to Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Rep. of Chad, Comoros, Congo, Dem. Rep. Of the Congo, Rep. of Cote d'Ivoire, Djibouti, East African Community, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mayotte, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome & Principe, Senegal, Seychelles, Sierra Leone, Somalia, South

- Africa, St. Helena, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia, Zimbabwe, South of Sahara regional.
- (b) Disbursements to Albania, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Belarus, Moldova, Ukraine, the states of the former Yugoslavia and the CEEC.
- (c) The DAC stopped collecting data on Part II countries in 2005. As a result, data comparable with the earlier period are not available.

Behind these data lies a more general point. The largest recipients of EU aid in recent years have not been the ACP countries, or the countries of sub-Saharan Africa. Even though the table shows that aid disbursements to sub-Saharan Africa rose strongly after 2000, countries in the region did not figure prominently as recipients of EU aid. In 2004, the 10 largest recipients of EU aid were Turkey, Morocco, Serbia, Sudan, Gaza strip, Egypt, Congo DRC, Afghanistan, Lebanon and India (ÖFSE 2009: 22). Clearly, decisions about aid are influenced by a range of EU interests, including stabilisation of the Eastern European neighbourhood, Mediterranean integration and relations with Turkey.

These changes in policy, which have involved quite substantial shifts in spending patterns, priorities and linkages between development objectives and broader foreign policy, security and strategic objectives, show how the development agenda has evolved in response to both changing circumstances (for example, the end of the Cold War and the opportunities and threats posed by the newly-independent Central and Eastern European economies) and by strategic and policy concerns that go beyond narrowly-defined development issues.

In the EU, there are continuing pressures to link development cooperation to broader foreign policy and security concerns. This has been driven by two factors. The first is the perception that EU policy must address new threats to European security and that some of these threats arise in developing countries. In particular, there has been a clear shift to identifying problems such as drugs, terrorism and migration as emerging in some developing countries and seeing the promotion of economic and social development as a route towards containing them (Gibert 2009: 624). Equally, however, many commentators have seen the EU's concern with security and conflict prevention, and its willingness to project European influence outside of the EU and its immediate neighbourhood as part of a process of strengthening the EU's collective identity through external protection (the bureaucratic agenda noted by Olsen above). Developing countries are part of the process of developing the Common Foreign and Security Policy (CFSP) and the European Security and Defence Policy (ESDP). Inevitably, development policy becomes increasingly tied up again with foreign policy and security policy and the pursuit of European strategic interests in the context not only of a changing set of strategic challenges, but also the increasing diversity of the EU following enlargement.<sup>3</sup>

## **2 New actors and new approaches to development**

In recent years, the development consensus supported by the EU has come under challenges from some of the new actors in development cooperation, and most notably China. China has, much more than India, come to prominence in Africa for both economic and political reasons. The rapidly evolving economic

<sup>3</sup> For further discussion on this issue, see Olsen (2004) and The European Think Tanks Group (2010b).

relationships between China and African countries have been summarised by Besada *et al.* Trade and FDI expanded rapidly in the early years of the 21<sup>st</sup> century. Total trade (exports plus imports) as a whole between all African countries and China rose from \$10.6 billion in 2000 to \$73.3 billion in 2007 (Besada *et al.* 2008: 3).<sup>4</sup> The same authors estimate that the stock of Chinese FDI inflows into sub-Saharan Africa grew from a modest \$49 million in 1990 to \$2.6 billion in 2007.

Compared to the presence of the established economic powers in Africa, this presence was still modest. In 2007, China was the third largest trade partner with Africa, behind the United States and the EU. While China's activities in the oil industry have been widely discussed, China still lagged considerably behind the Western powers. A factsheet on China and Africa produced by DFID in the UK pointed to China's share of Africa's oil exports as 11%, compared to 33% for the United States and 36% for the EU (DFID 2008: 2). Similarly, China's increased FDI in Africa is still small compared to the massive overall increase of FDI going into Africa after 2000.<sup>5</sup>

In other words, it has not been the absolute size of China's involvement in Africa that has generated so much interest and concern. The degree of concern stems from four factors:

1. The sudden rapid increase of China's economic relationships with Africa. The speed of the expansion of trade relationships, for example, means that by 2010-11, it will become Africa's largest trading partner.
2. China's influence is very substantial in a number of African countries, particularly the new oil exporting countries and some natural resources exporters. China accounted for 82% of oil exports from Sudan in 2007, 31% from Angola and 28% from the Congo (Ademola *et al.* 2009: 494).
3. Alongside economic ties, China has also developed diplomatic linkages. 2006 was China's 'Year of Africa', in which numerous diplomatic contacts and policy statements culminated in the high profile and political success of the Forum on China-Africa Cooperation (FOCAC) meeting in Beijing in November 2006 (Alden *et al.* 2008b). This was attended by 48 African leaders, and this high-level participation emphasised both the rapid development of China Africa relationships and the high political priority accorded to them by the Chinese government.<sup>6</sup> These diplomatic linkages have been particularly high profile in the cases of Sudan and Zimbabwe.
4. China has explicitly distanced itself from the practice of Western countries with respect to how it operates in Africa and how it characterises its own motives in increasing economic and political relationships. This point requires further discussion.

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<sup>4</sup> This is equivalent to a compound growth rate over the period of 31% per annum. For sub-Saharan Africa alone, the equivalent figures were \$7 billion and \$59 billion.

<sup>5</sup> UNCTAD's interactive Foreign Direct Investment database shows that annual average FDI inflows into Africa rose from \$2.2bn in the 1980s, to \$6.6bn in the 1990s and \$38bn for the period 2000-2008.

<sup>6</sup> Between 2000 and 2007 President Hu Jintao and Premier Wen Jiabao between them made eight visits to Africa.

Kragelund summarises the challenge posed by China's re-engagement with Africa:

"The West no longer enjoys monopoly over Africa's future development. For the first time since the end of the Cold War, other nations are taking notice of African politics and economics. They do not stand passively aside, but actively provide aid to, trade with and invest in African economies to leverage international politics, obtain access to growing markets and acquire much needed raw materials" (Kragelund 2009: 479).

China's economic and political ties with Africa have attracted attention and comment, not only because of their rapid development, but also because they represent a political challenge to the Western powers and a challenge to the DAC consensus. First, China itself emphasises the differences in its approach to development cooperation, and in so doing asserts its credentials as a partner for developing countries whose behaviour differs from that of the former colonial powers. The terms "aid" and "donor" are rejected in preference to the term "South South cooperation". "Aid" in the form of grants or concession lines is not clearly distinguished from trade, investment and commercial loans. In contrast to the DAC emphasis on good governance and human rights, China emphasises non-interference and non-conditionality (with the exception of non-recognition of Taiwan) as matters of principle. The stance is seen as one indication of China's position as a non-colonial power. The Head of the Chinese Mission to the EU expressed this position pointedly at a meeting on the EU, Africa and China in Brussels:

"Indubitably, China and Europe's histories in Africa are not the same: some European countries have long histories of a few hundred years of colonial rule in Africa: as well as establishing closely linked political and economic relations, some also were involved in the enslavement of Africans and plundered their natural resources. In contrast, China and Africa have had similar misfortunes in history and similar bitter experiences: in the wave of struggles for independence and liberation, China and Africa supported and helped one another, cementing a deep and profound friendship" (Guan 2007: 3).

As part of its approach, China has refrained from explicit criticisms of states that have been the object of EU censure (such as Sudan and Zimbabwe) and has granted loans and promoted projects without the same degree of conditionality as would have been the case for the DAC donors and international financial institutions.<sup>7</sup>

While China's high profile has attracted both admiration and criticism, India has also been engaging with Africa, albeit on a smaller scale. As Pham points out, with attention focused on China and Africa, "India's expanding relations with the African countries have gone largely unexamined" (2007: 341). India has also sought energy and raw materials from Africa, and has invested extensively in oil production, infrastructure and exploration across a number of countries, including Sudan, Nigeria, Gabon, Ivory Coast, Libya and Egypt (Naidu 2008:

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<sup>7</sup> Many authors have written about these relationships and the implications of China for development policy in Africa (among the many books and papers written on this topic, see Alden 2007; Alden *et al.* 2008a; Brautigam 2008; Gu 2009; Raine 2009; Tull 2006).

117-9; Pham 2007: 343-45). India has also emphasised its commitment to a policy of non-interference; it was a co-formulator of the 10 Bandung Principles signed by Asian and African countries in 1955, of which non-interference was one. Its current adherence to this principle is seen most noticeably in Myanmar. In July 2010, for example, India hosted a visit by Myanmar's military ruler Than Shwe, and India has taken the position of non-interference in domestic affairs and refrained from criticising Myanmar's human rights record (Buncombe 2010). India is competing in Myanmar with China for access to oil and gas deposits in the country, and it is more dependent on imported oil than China.<sup>8</sup>

In response to Chinese policy in particular, European politicians have expressed criticisms on these issues, not only in private, but also in public. In February 2007, the UK Secretary of State for International Development, Hilary Benn, made critical remarks, summarised by The Guardian in the following terms:

"Britain has warned China that its offer of billions of dollars in unconditional aid and cheap loans to African governments risks driving back into debt countries that have only just benefited from debt relief, and undermines efforts to create democratic and accountable administrations. The international development secretary, Hilary Benn, on a visit to Malawi, told the Guardian that Britain has already made its concerns known to Beijing but that it is planning to 'ratchet up' the level of representation on the issue" (McGreal 2007).

Similarly, the German Finance Minister, Peer Steinbrück, stated in May 2007 at the G8 finance ministers meeting, "We see there's a growing interest by China related to African resources, and by their relation to African states, they are willing, when buying resources, to re-launch [...] what we wanted to break with our debt relief." (AFP 2007). This same G8 meeting issued a call for a "charter for responsible lending", although it did not specifically mention China, in spite of pressure from Germany to do so.

In this context, Western donors fear that some new donors will undermine the DAC consensus on good governance and aid modalities. To address this issue, the dominant EU policy with respect to China and India has been 'engagement'. The new actors are accepted as having a significant impact on development cooperation and development issues more broadly. To the extent that the behaviour of these new actors does not conform to what the EU (and other DAC members) regards as good practice, then their strategy of engagement is designed to modify their behaviour. A strategy of engagement could also signal two-way learning and adjustment of behaviour: one frequently mentioned area of learning from new donors is China's own experience in poverty reduction (see, for example, European Commission 2008: 7). However, engagement can also mean 'trying to change the behaviour of other countries', such as when the EU states its desire to engage with other states to reduce their trade barriers (European Commission 2004: 6). But is a focus on development cooperation and the adherence or non-adherence of China and India to DAC principles, the best way of understanding either the motivations of these countries or the challenges they pose for EU development cooperation?

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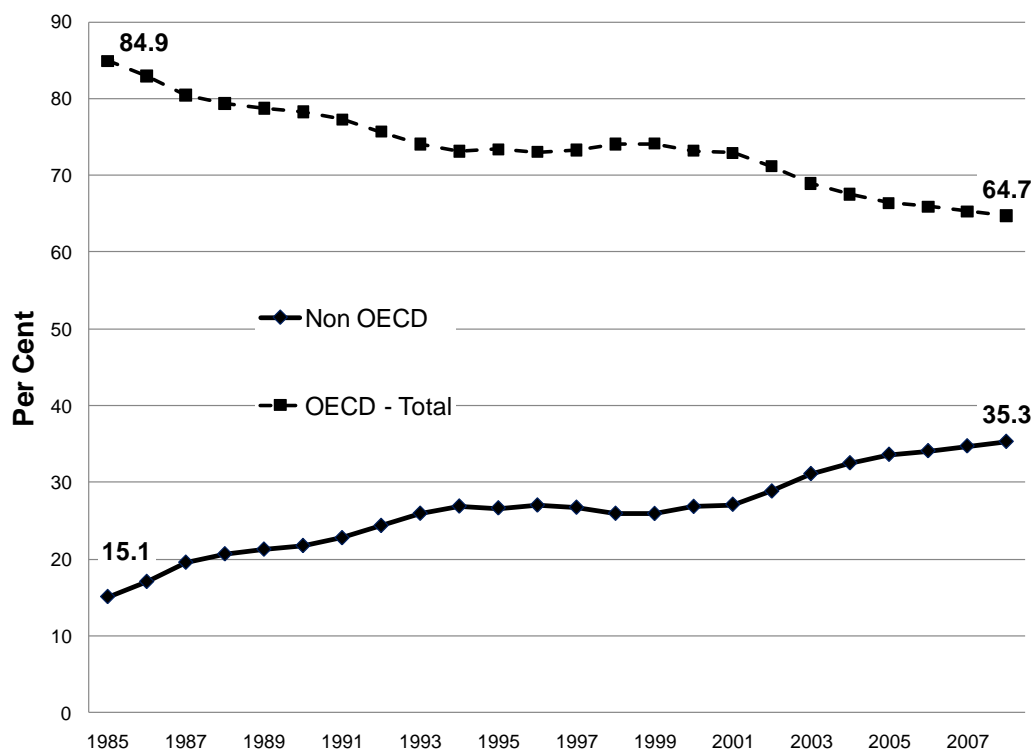
<sup>8</sup> The French company, Total, is also operating in Burma.

### **3 China and India: new actors or new powers?**

Notwithstanding the relevance of China and India to development cooperation, a fuller understanding of their significance for EU development cooperation requires a different perspective. China and India are best seen as new (or emerging) powers rather than simply as new actors in development cooperation. Their engagement with other developing countries, and in particular sub-Saharan Africa, should be placed in this broader context.

As a consequence of the rapid acceleration of global integration discussed in the previous section, the global economy has undergone a deep, structural transformation. As well as the rise in trade in relation to GDP shown in Table 1 (and which continued to rise sharply between 2004 and 2008, when it reached 53%) and the rise in FDI, the period was also characterised by an increasing share of global output and trade taken by non-OECD countries, as shown in Figure 3. Over a period of 23 years, the share of non-OECD countries in world trade in goods and services rose from 15% to 35%. Much of this increase originated in East Asia, where a combination of rapid economic growth and increasing outward orientation led to very large rises in trade. Between 1980 and 2000, the real GDP growth in high-income countries averaged 2.9%: in the developing countries of East Asia and the Pacific, it averaged 8.5% (World Bank 2007: 3). In this period, East Asia as a whole not only developed rapidly but also became increasingly integrated. Intra-regional trade expanded and region-wide vertical divisions of labour and production sharing intensified (Humphrey and Schmitz 2008). China acted as the final assembly point of the East Asian production system that drove FDI, exports and imports across the region (Ando 2005; Ng and Yeats 2003).

**Figure 3: OECD and non-OECD shares of world trade in goods and services, 1985-2008**



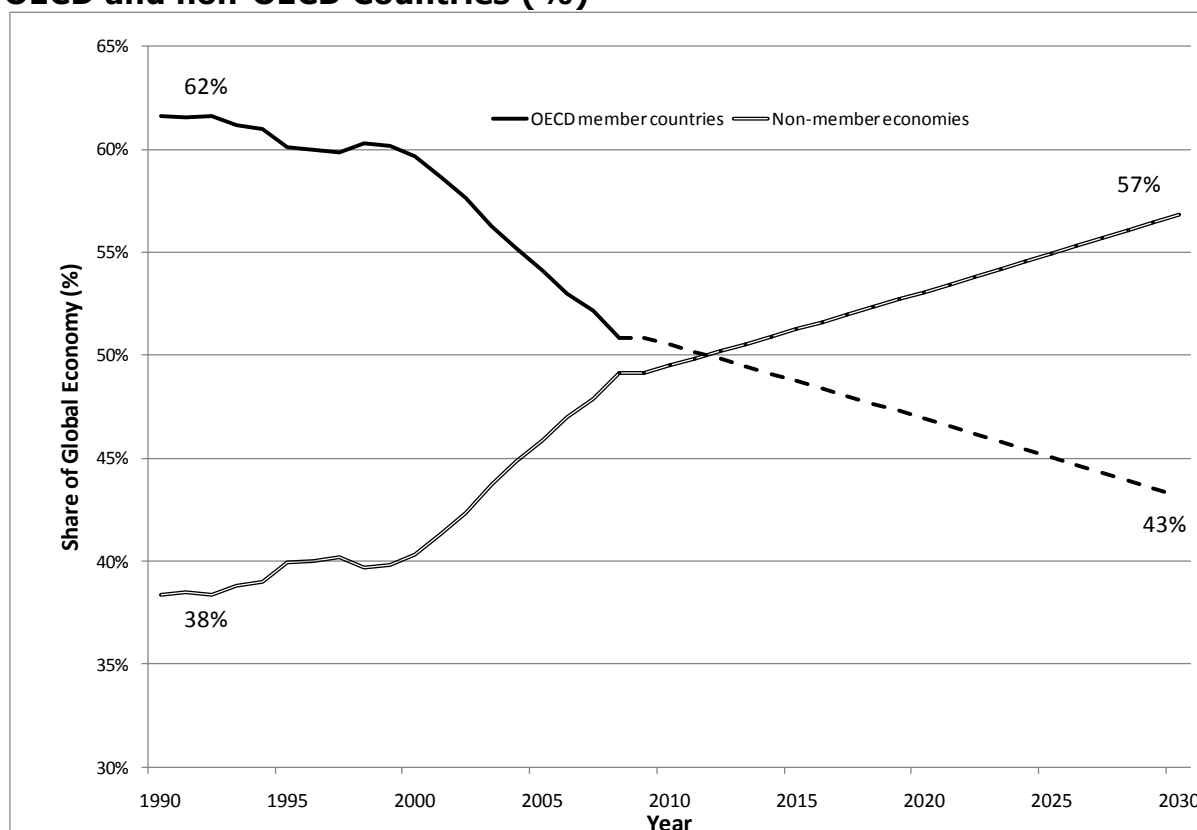
Source: OECD Factbook 2009: Economic, Environmental and Social Statistics.

India's growth also accelerated in the 1990s, with the foreign exchange crisis in 1991 signalling the beginning of external liberalisation and an acceleration of domestic reforms. The results were not immediate, but in the first decade of the 21<sup>st</sup> century between 2000 and 2007, annual GDP growth rates accelerated towards 9-10%, merchandise trade increased from 20% to 31% of GDP and foreign direct investment jumped from US\$3.5 billion to US\$23 billion. By 2007, the World Bank could comment on "the growing economic weight of developing countries in the international economy, notably the emergence of new trading powerhouses such as China, India, and Brazil" (World Bank 2007: vii). Nevertheless, India remains substantially smaller than China, both in absolute size and global footprint. In 2007, India's economy was about one third the size of China's and merchandise trade as a percentage of GDP was half that of China's (30.9% compared to 64.2% for China). As a result, India's merchandise exports were only one sixth of the level of China, and growing more slowly.<sup>9</sup>

The increasing weight of the non-OECD countries in the global economy is also shown by data on GDP. As can be seen in Figure 4, estimates of GDP in OECD and non-OECD countries (calculated in terms of purchasing power parity, which reflects the real buying power of incomes) show a rapid convergence in the two groups, with equality likely to be reached before 2015.

<sup>9</sup> Data taken from World Bank, World Development Indicators database.

**Figure 4: Shares of global economy in purchasing power parity terms, OECD and non-OECD Countries (%)**



Source: OECD (2010: 24).

The world has seen emerging countries before, both in (recent) history and in parallel to the rise of China and India. Yet, a consideration of China and India as emerging powers should make clear how these powers differ from others. In particular, Japan emerged as a global economic power in the 1970s, creating new challenges for global economic management and bilateral trade relations (notably with the United States with respect to trade deficits and exchange rates). Japan's sustained high rates of growth over a period of 20 years were roughly similar to those seen in China after 1978. Later, South Korea and the other 'tiger economies' enjoyed a period of sustained, export led growth. South Korea moved from being a relatively poor country to membership of the OECD. Both countries have become actors in development cooperation. Japan is a major global aid donor and Korea has been increasing its development cooperation budget for some time, becoming a DAC member in 2010 (for analysis of the Republic of Korea, see OECD Development Cooperation Directorate 2008). However, neither of these two countries has posed a challenge to aid practices and the DAC. They have both aligned themselves to established aid practices, and it is worth bearing in mind that both were closely aligned to the United States during the Cold War.

With respect to the countries currently gaining recognition as emerging powers, Brazil's size and its increasing regional and global political profile has established its status as an emerging power. Similarly, South Africa has become influential within the sub-Saharan African region and with respect to global governance issues more generally. Beyond this, the countries included in the broad remit of emerging powers include China, India, Brazil, Indonesia, Mexico, Nigeria, South Africa, Turkey, etc. Of these, only Nigeria is not a member of the G20 finance



ministers group<sup>10</sup> and did not attend the G20 London Summit in April 2009.<sup>11</sup> These countries have come to prominence in a variety of ways. For example, for the Doha Round negotiations, Brazil, China and India and South Africa played important roles in the WTO trade negotiations at Cancun in 2003. India and Brazil formed part of the six-country grouping that met in Geneva in July 2006 in order to try to find a solution to the trade negotiation impasse. The same two countries met with the US and the EU at Potsdam in June 2007, and along with China, they met with the EU, US, Japan and Australia in Geneva in 2007. Similarly, a number of these countries play significant roles within their respective regions and at the very least can play blocking roles in global negotiations.

Contrary to other emerging countries, China and India are emerging powers with an increasingly global reach: <sup>12</sup>

- China and India are large countries with substantial populations and rapid rates of growth. Given its substantial global footprint, China is a significant economic partner for a large number of countries whose exports, imports and investments have sufficiently large effects for relationships to be considered strategic. It is estimated, for example, that Chinese demand for iron ore and soya from Brazil in the early part of the 21<sup>st</sup> century added 1% to Brazil's GDP growth. Similarly, China and Japan together account for over half of all Australia's exports.
- The rapid growth of these two countries, combined with their increasing dependence on imported energy and raw materials creates particular challenges that these countries address through strategic initiatives that go beyond particular regions. Both countries need to secure increasing quantities of imported energy to sustain growth, and China is also dependent on a range of imported raw materials for its industrial production and food sectors. The strategic interests of China and India now encompass a broad range of economic and political linkages that go beyond their particular regions. China has invested heavily in developing diplomatic relations in most areas of the world. Its activities in sub-Saharan Africa are well-known, and it has developed trade and investment relationships with Latin America and East Asia, as well as with the OECD countries. As China's economy becomes more dependent on imported energy and raw materials, so it tries to reduce its risk exposure by gaining access to resources. This can be done by reinforcing diplomatic and economic ties with new entrants to global resource markets (for example, in Angola and Guinea) instead of rivalling established powers in key resource-providing regions.<sup>13</sup>
- These two countries recognise themselves as emerging or actual global powers. As important, other countries view them in the same way. In this sense, the designation of Brazil, China, India and Russia as the BRIC countries created by Goldman Sachs in 2001 (O'Neill 2001) was

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<sup>10</sup> See [http://www.g20.org/about\\_what\\_is\\_g20.aspx](http://www.g20.org/about_what_is_g20.aspx).

<sup>11</sup> For an analysis of the many different ways in which "emerging powers" have been conceptualised and classified in the field of development studies, see Scholvin (2010: 9-14).

<sup>12</sup> As has been noted above, this is more a case for China than India.

<sup>13</sup> Like China, the EU, the United States and Japan also seek to reduce dependence on Middle East oil supplies. The EU and the United States are more substantial importers of oil from Africa than China. Similarly, South Korea has been seeking to buy up oil assets in order to secure energy supplies.

both a recognition of the increasing importance of these countries (but implicitly a downgrading of the importance of others) and a boost to the self-image of these countries as important global actors. This is reflected in meetings of the BRIC countries and other related groupings such as the IBSA group (Brazil, India and South Africa), and South Africa's aspirations to be recognised as part of the BRIC(S) group.

- The economic and political importance of these countries means that global governance challenges can only be meaningfully addressed with their cooperation. Equally, they are faced with the expectations of other countries (both richer and poorer) that they will act in certain ways to secure not only their interests, but the interests of other groups of countries in negotiations.

These factors explain some of the characteristics of China and India as new development actors, and they also indicate some of the challenges facing EU policy. First, both China and India have an interest in an ordered global economy. Both countries have contributed considerably to global governance institutions and initiatives. China has a strong interest in the stability of global institutions. Gu, for example, has highlighted the ways in which China has devoted considerable efforts to working within the WTO system and becoming an active participant in the disputes resolution procedure (Gu *et al.* 2007). Nevertheless, both China and India are also prepared to stake out their own positions on global issues and to advance them in international fora.

Furthermore, China's involvement in UN peacekeeping operations in Africa shows its desire to present itself as a good global citizen.<sup>14</sup> These peacekeeping operations are frequently aimed at the resolution of civil conflicts and involve interventions in failed states. They also frequently involve promotion of human rights and the rule of law. Notwithstanding the fact that this goes against the principles of non-interference and national sovereignty, China is still an active participant in such interventions. Suzuki argues that China wishes to gain Western approval and to play down the 'China threat', positioning itself as a 'responsible great power'. He further argues that the 'audience' for this activity is Western governments.

Even in the field of development cooperation, there is scope for identifying contacts, exchanging views and seeking cooperation. The potential for (mutual) learning and greater accommodation can also be seen in the increasing number of jointly operated development projects between China and Western donors in Africa. The UK's Department for International Development has a joint project with China in the Democratic Republic of the Congo. The Chinese Academy of Social Sciences is, for example, conducting research together jointly with the German Development Institute in Rwanda, and there is a functioning DAC-China group.

Equally, China and India's strategic interests point to the limits of cooperation with the EU. As has been mentioned above, India's policies are not radically different even though they have received much less attention and criticism. Respect for human rights and the promotion of good governance have been

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<sup>14</sup> This discussion of Chinese peacekeeping operations in Africa is based entirely on Suzuki (2009). See also Gill and Huang (2009b; 2009a). India also contributes to UN peacekeeping in a number of countries, including Lebanon, Sudan and Congo DRC.

central goals for EU development cooperation, and in addition to the high profile problem areas for the EU-China relationships over Africa - Sudan and Zimbabwe - there are more general concerns about transparency and accountability with respect not only to development cooperation but also to foreign direct investment, management of natural resources and export revenues.<sup>15</sup> These questions are likely to continue to be contentious.

#### **4 The global financial crisis and its consequences**

By 2008, there was an increasing recognition of the role of the emerging economies as global economic powers. *The Economist* is but one good barometer of the transformation in perceptions. In 1999, it observed that "The US bestrides the globe like a colossus. It dominates business, commerce and communication; its economy is the world's most successful, its military might second to none" (The Economist 1999: 15). In 2006, it was emphasising the importance of the emerging economies: "Emerging economies are driving global growth and having a big impact on developed countries' inflation, interest rates, wages and profits. As these newcomers become more integrated into the global economy and their incomes catch up with the rich countries, they will provide the biggest boost to the world economy since the industrial revolution" (The Economist 2006: 3). The emerging economies are heralded as having a positive impact on growth, inflation, etc. in the developed economies.

At this stage, it was possible to imagine a steady rise in economic and political power and influence of the emerging powers. From the perspective of development cooperation, the strategic goal would be to incorporate the new actors into development orthodoxy and adjust the orthodoxy through a process of learning from the new actors. So, the key challenge would be to increase cooperation in order to avoid exacerbating problems caused previously by donor proliferation and to find strategies of incorporating the new actors into the existing development cooperation regime.

The global financial crisis in 2008-9 has radically changed these expectations because of its uneven impact on developed and developing economies: it has affected the developed economies more than the developing. This was unexpected. In the 1990s and in the first decade of the new century, financial crises were mainly concentrated in emerging economies. A succession of crises hit Latin America (Argentina, Mexico, Brazil), Russia, Asia (the Asian financial crisis in 1997). In all these cases, there was an element of contagion as a crisis in one emerging market tended to induce negative sentiments about emerging markets in general, leading to capital outflows, which in turn led to rapid

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<sup>15</sup> In fact, the EU faces a more general challenge in this area. Gowan and Brantner examined the EU's success at the United Nations in pursuing its human rights agenda – and point towards a general waning of influence of Europe that is not compensated by the current level of EU internal cohesion. The executive summary begins with the sobering observation that: "The European Union (EU) is suffering a slow-motion crisis at the United Nations (UN). The problem is not a lack of internal cohesion...The problem is fading power to set the rules of the game. The EU's members insist that the UN is central to their vision of international order and universal human rights – but the UN is increasingly being shaped by China, Russia and their allies" (2008: 1).

reductions in the availability of finance for trade and in the domestic economy in general.<sup>16</sup>

At the end of 2008 dire predictions were made about the impact of the crisis in emerging and developing countries. Global trade was contracting very quickly, and it was assumed that these countries would be most severely affected, as had been the case in previous financial crises. Trade credit was identified as an important issue and addressed by the G20 summit communiqué issued after the London meeting in March 2009 (Group of Twenty 2009). Financial flows were predicted to fall very sharply. The International Institute of Finance forecast that net private financial flows to emerging market economies would fall from \$929 billion in 2007 (and an average of \$588 billion per annum for the period 2003-7) to just \$165 billion in 2009 (Institute of International Finance 2009).<sup>17</sup> The World Bank foresaw major financial problems for developing countries arising out of reduced flows from IFIs and problems with refinancing sovereign debt (World Bank 2009).

Contrary to these expectations, the recent crisis has hit OECD countries hardest. It originated in these countries, particularly the United States and parts of Europe, and most of the steepest declines in GDP in 2009 were registered there. The most severely affected countries have been in North Western and Central Europe (Iceland, Ireland, the UK plus Hungary and the Baltic states in particular) in 2008-9. In 2010 attention has focused more on government deficits and government in southern Europe (Greece, Portugal, Spain). Governments spent heavily to stabilise the banking system and contain the financial crisis, which led to increased government debt and debt servicing requirements. By the middle of 2010, increasing public sector deficits and government indebtedness, the exposure of banks to weaknesses in property markets and lending to recession-hit governments, and deflationary measures taken to address government deficits all placed question marks on the likelihood of recovery.

The impact of the crisis in the European Union is shown clearly in Table 2. Rates of real GDP growth in the 27 EU countries averaged 2.4% per annum between 2000 and 2007. This dropped to below 1% in 2008, and GDP in the 27 members of the EU following the accession of Romania and Bulgaria contracted by 4.2% in 2009. The data for smaller groups of European countries (such as the 15 'Western European' EU member states in 1995, or the Eurozone countries) shows very similar results.<sup>18</sup> These averages hide important differences across the EU. Some countries had grown rapidly in the period leading up to the crisis. This rapid growth prompted asset bubbles which exacerbated the impact of the crisis. This is seen clearly in the cases of Ireland and Latvia. The rates of growth prior to the crisis are higher, and the contractions in 2008 and 2009 correspondingly greater. While there was some degree of recovery late in 2009, global growth remained sluggish, and in 2010 increasing public indebtedness and fiscal

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<sup>16</sup> A comprehensive analysis of financial crises in this period and their impact on credit and trade can be found in Wang and Ronci (2005).

<sup>17</sup> Data on financial flows to emerging markets taken from Institute of International Finance (IIF) website in March 2009. The estimate for financial flows made by IIF in January 2010 revised the 2009 figure to \$435 billion (Institute of International Finance 2010).

<sup>18</sup> The 15 Member states in 1995 were Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom. The Eurozone countries are Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

imbalances in Europe (most notably, Greece, but also Ireland and Portugal) have raised the prospect of cuts in government expenditure across many European Union countries and continuing low rates of growth for the foreseeable future.

**Table 2: Rates of growth of real GDP in Europe 2000-2010**

Year	EU 27 countries	Ireland	Latvia
2000	3.9	9.4	6.9
2001	2.0	5.7	8.0
2002	1.3	6.5	6.5
2003	1.3	4.4	7.2
2004	2.5	4.6	8.7
2005	2.0	6.2	10.6
2006	3.2	5.4	12.2
2007	2.9	6.0	10.0
2008	0.7	-3.0	-4.2
2009	-4.2	-7.1	-18.0

Source: Eurostat. <http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes>.

In contrast, many developing countries, and in particular the emerging powers have, so far, come through the crisis relatively unscathed. As *The Economist* noted at the end of 2009, this was unexpected:

"Developing countries have come out of the recession stronger than anyone had expected. This will have profound consequences for the rest of the world. [...] This was not expected a year ago. Then, it seemed likely that normal rules would apply - that when the rich world sneezes, developing countries get swine flu" (The Economist 2009).

Many countries in Asia saw growth slow in 2008-09, but did not go into recession and were able to resume growth, as can be seen in Table 3. This group includes China, India, Bangladesh and Indonesia. These growth rates were below those registered in previous years, but were substantially higher than in many parts of the world. At the very least, these economies were able to maintain the differential that had opened up in the 1990s between developed and developing country rates of growth (Brahmbhatt and Pereira da Silva 2009: 2). Not all Asian economies avoided contractions in GDP. The Republic of Korea, Hong Kong, Malaysia, Singapore, Taiwan and Thailand all contracted in 2009 (Asian Development Bank 2009: 170). The recovery is also expected to be rapid in Asia. As can be seen in Table 3, growth estimates for 2010 suggest that in a number of Asian economies growth will have resumed at levels similar to those before the crisis. The Asian economies that contracted in 2009 were all expected to grow in 2010.

**Table 3: Rates of growth of GDP, selected Asian countries (% per year)<sup>(a)</sup>**

Year	China	India	Republic of Korea	Vietnam	Indonesia	Bangladesh	Sri Lanka
2005	10.4	9.5	3.7	7.0	3.4	6.0	6.2
2006	11.6	9.7	4.8	6.9	4.8	6.6	7.7
2007	13.0	9.2	4.8	7.1	5.0	6.4	6.8
2008	9.6	6.7	2.0	5.0	4.7	6.2	6.0
2009	8.7	7.2	-0.1	3.5	3.3	5.9	3.5
2010 (estimate)	9.6	8.2	4.9	5.1	5.0	5.5	6.0

Source: Asian Development Bank (Asian Development Bank 2010: 263).

Note: (a) These data are not directly comparable with the data in the previous table for Europe. However, both data sets correspond fairly well to the data on GDP growth in the World Development Indicators database. This latter database, however, contained no data beyond 2008 at the time of writing.

In fact, developing countries as a whole weathered the recession much better than the developed economies. Canuto (2010: 4) shows that while the median rate of growth for the advanced economies in 2009 was -3.7%, for developing countries the median rate of growth was +2.1%.<sup>19</sup> In 2009, the gap in growth rates between the Euro area, on the one hand, and China and India on the other, widened to more than 12% in the case of China, and 9.5% in the case of India, as can be seen in Table 4. The IMF's projections for economic growth in 2010 and 2011 suggest that a sizeable gap in growth rates will persist. In 2010, the gap between the Euro area and China is estimated to reach 9%, and between the Euro area and India 6.7%. For 2011, the gaps are 8.1% and 6.2%.

**Table 4: Actual and projected growth rates in the Euro Area, China and India (%)**

	Euro Area	China	India
2008, actual	0.6	9.6	7.3
2009, actual	-3.9	8.7	5.6
2010, projected	1.0	10.0	7.7
2011, projected	1.6	9.7	7.8

Source: IMF (2010: 2).

The size and persistence of these gaps in economic growth raises the question of how developed and developing countries (and in particular, China and India) are coupled with the advanced economies. Following the economic downturn in 2008-9, various scenarios for recovery were suggested. Four commonly-discussed stylised scenarios, summarised by Brahmbhatt and Pereira da Silva (2009: 8-10), were:

- V-shaped recession with rapid recovery;
- stagnation, along the lines of Japan's experience in the 1990s;
- double dip recession, possibly triggered by a new banking crisis;
- post-crisis moderate growth.

In the course of 2010, the negative factors pointing to the possibility of stagnation or further recession in Europe have increased. The factors that might undermine recovery include the exposure of European banks to property and

<sup>19</sup> The use of the median growth figure means that the figure for developing countries as a whole is not distorted by the weight of China and India.

bond markets, the weak fiscal positions of a number of EU member states and cutbacks in government expenditure in many EU states.

While each of these scenarios would have significant consequences for Europe, from the point of view of Europe's relations with China and India, the issue of decoupling or switchover is more important. Prior to the crisis, it was assumed that even if the financial crisis started in the advanced countries, it would spread to emerging economies through declining demand for these countries' exports and through global financial turbulence in general. Even if the growth gap persisted, the two sets of economies would remain synchronised, as argued by Canuto (2010: 2): "Since the early 2000s, the cyclical synchrony [between rates of growth in advanced and developing economies] has been combined with systematically higher growth rates in developing relative to advanced economies."

Given the robustness of growth in developing countries, and in particular in China and India, through the financial crisis, together with projections for continuing strong growth in 2010 and 2011, the prospects emerge for two different scenarios: either a decoupling of advanced and developing economies, or even a switchover towards developing countries providing the driving force of economic growth and global economy (Canuto 2010).<sup>20</sup> One reason for the second possibility mentioned by Canuto is the increasing weight of non-OECD countries in the global economy, as was shown in Figure 4 above. This raises the possibility that the gap between the relative rates of growth in Europe and Asia and the resources available to governments to pursue global objectives in the areas of foreign policy and development cooperation could persist or even rise over the next few years. At best, export-led recovery in Europe would be based on exports to the rapidly-expanding non-OECD countries.

This would have two consequences for EU development cooperation. The first consequence of the crisis arises from its impact on broader economic relations between developing countries and the EU and the rising powers. If Europe lags behind China and India, then the relative attractiveness of the new powers as trading partners and investors, as models of development and as visions of what successful development means will increase. In other words, the challenges already posed by the new actors (as discussed in Section 2) may increase if the growth gap widens. When this is combined with an increased confidence and assertiveness on the part of these new powers as they participate even more actively in global affairs, the shift in perceptions and credibility accelerates, making the EU less attractive a partner in comparison and thereby reducing Europe's "soft power".

The second consequence is simply that government budgets for development cooperation in developed countries have been put under strain by the need to support the financial system and increase government spending to prevent recession. The prospects for 2010 and beyond are for constrained or possibly reduced government expenditure in order to rebuild public finances, and in the context of slow growth and fiscal tightening, it will not be easy to generate public support for current levels of development assistance, let alone increases. The

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<sup>20</sup> Ironically, the relative strengths of developing and advanced economies can be attributed to the macroeconomic prudence of the former compared to the latter, as discussed by Canuto (2010: 10-11).

comparison of the official development assistance to expenditure by OECD countries for 2008 and 2009 by the Real Instituto Elcano in Madrid showed a fall of 2.2% (Olivíe 2010: 2). Furthermore, even in a country such as the UK, where the government has reiterated its commitment to increase levels of ODA, a survey of public opinion in the second half of 2010 showed that 63% of respondents thought that the aid budget should be cut to help meet the budget deficit (Henson and Lindstrom 2010: 2). This directly shrinks the tools for interaction between Europe and developing countries.

## 5 Intensifying global challenges – constraints to growth and development

A further element needs to be added to the challenges facing EU development cooperation on relationships with the rising powers. This is the issue of resource scarcities and global instability. It was shown in Figure 1 that the 1990s were a period of stability in global commodity prices. However, the long boom of the Western economies and the rapid and resource-hungry expansion of the Chinese economy led to sharply increased demand for natural resources and rising commodity prices. This is also demonstrated by Figure 1: from the late 1990s, there are both sharp rises in all three price indices and an apparent increase in price volatility. More detailed data are presented in Table 5. The price indices for metals, crude oil and food commodities all rise substantially between 1999 and 2004, and again from 2004 to 2007. By this time, metals and crude oil prices were about four times the level of May 1999, and the food commodities index was 50% higher. While the metals index fell back from the high point registered in May 2007, crude oil prices doubled in the following 14 months, peaking in July 2008. Similarly, the food price index rose rapidly – by 50% in 12 months, peaking in June-July 2008. In fact, in the second half of 2008, when the threat of a global financial crisis was just beginning to make itself felt as financial markets seized up following the collapse of Lehman Brothers, the main concern in many developing countries was the impact of sharply rising food prices on the poor, as discussed by Hossain (2009).

**Table 5:Commodity Price Indices, 1999-2009 (indices, 2005 = 100)**

<b>Date</b>	May-99	May-04	May-07	Jul-08	Jul-09
<b>Price Indices</b>					
Commodity Metals Price Index <sup>1</sup>	53.90	81.39	205.38	187.96	122.15
Crude Oil (petroleum) Price Index <sup>2</sup>	30.21	70.52	122.01	248.43	121.18
Commodity Food Price Index <sup>3</sup>	80.53	109.52	119.55	178.29	137.11

Source: <http://indexmundi.com/commodities>

- Notes:
- 1 Commodity Price Index. Includes copper, aluminium, iron ore, tin, nickel, zinc, lead and uranium price indices.
  - 2 Crude Oil (petroleum). Simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh.
  - 3 Commodity Food Index. Includes Cereal, Vegetable Oils, Meat, Seafood, Sugar, Bananas, and Orange price indices.



Rising commodity and energy prices have been attributed to the rapid growth of the world economy in the period up to 2008 and under-investment in development of new sources of supply in a previous period of lower prices. In the case of food, the sharp price rises up to 2008 have been attributed to a mixture of structural factors, such as rapid economic growth, underinvestment in agriculture and the growth of biofuel production, and also conjuncture on factors such as low inventories, some poor harvests, the depreciation of the dollar and commodity speculation (Gilbert and Morgan 2010: 3023).

The food price hike in 2008 does not point conclusively to a long-term upward trend in prices. Gilbert and Morgan argue that compared to earlier 1970s and 1980s, food prices cannot be shown to have been conclusively more volatile in the current decade (2010: 3024). Nevertheless, there is no doubt that sharply rising and fluctuating prices for food, commodities and energy in this period, combined with the global financial crisis and the uncertainties that this created, did heighten the sense that the world was facing the prospect of multiple crises and that these crises have the potential to be more damaging and more difficult to handle because they are interrelated.<sup>21</sup>

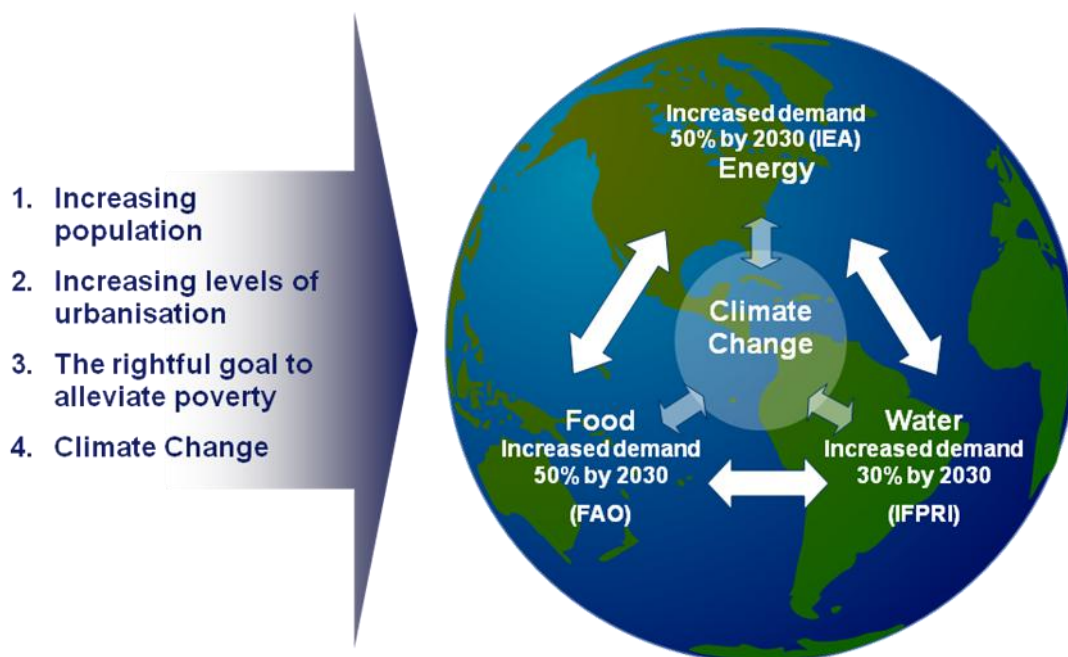
One clear statement of global challenges and their interrelatedness (and hence their increased complexity) came from Professor John Beddington, Chief Scientific Adviser to the UK government. He refers to the interrelation of energy, food, water and climate change challenges as a "Perfect Storm" of global events, as shown in Figure 5. On the one hand, world demand for three crucial resources – food, water and energy – will increase substantially in the next 20 years, driven by population increases, rising incomes and urbanisation. In the case of food, for example, Kearney points to rising population and rising incomes driving not only an increased consumption of food, in general, but also a switch in the composition of food intake from staple foods rich in carbohydrates to vegetable oils, meat and dairy products and sugar (2010: 2795). The latter require greater resource inputs for their production.

A similar perspective on long-term global challenges has been put forward by Evans *et al.* (2010). In a report entitled "Confronting the Long Crisis of Globalisation", they add the issues of terrorism, insecurity and fragile states to the issues highlighted by Beddington. Clearly, these items also interact with each other. The interactions highlight the need for policy coherence and the need to recognise the changing global balance of power and to develop policies that enable Europe to engage effectively with both the old and new powers.

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<sup>21</sup> For an argument outlining the energy security challenges for the EU, see Umbach (2005).

**Figure 5: The "Perfect Storm" of global events**



Source: Presentation by Professor John Beddington, Chief Scientific Adviser to the UK government, London, September 2009

Food production will need to rise to meet growing demand. It is possible that global agriculture will be able to meet this challenge. Jaggard *et al.*, for example, suggest that by 2050 50% more food could be produced without bringing extra land into use (Jaggard *et al.* 2010). However, the many interactions between food production, water supply and use, energy demand and climate change mean that there are considerable uncertainties. Climate change, for example, will change precipitation patterns and potentially damage agriculture through (in differing locations) declines in rainfall and an increased prevalence of extreme precipitation events. Changing availability of water will also influence inland fisheries and the viability of aquaculture. Higher energy prices will affect intensive agriculture. The complexity of some of these interactions are set out by Gornall *et al.* (2010).

In the face of the complexity of these interactions, it is impossible to say whether food supply will keep pace with food demand. Similarly, there are uncertainties about whether energy shortages will increase in the next few decades. However, the important point is that in the face of uncertainty, government and non-governmental actors that have the capacity to plan ahead and possess more than very short time horizons are likely to be prudent and consider how to safeguard the integrity of their economies and populations in the face of possible future global shortages. In other words, uncertainties and the possibility of crisis and shortages are sufficient to generate responses.

In the case of food, rising prices and uncertainties about future supply appear to have increased interest in transnational land investments. As described by Cotula *et al.* (2009), there have been significant investments in land in sub-Saharan Africa by sovereign wealth funds, state-owned enterprises and private sector actors. Similarly, increased investments in the oil industries of sub-Saharan Africa by not only China and India, but also the United States, Japan and Europe, indicate the increased salience of energy security issues.

The likelihood of increasing scarcity of resources cannot be established conclusively. Even the idea of "Peak Oil" is fiercely debated. Nevertheless, given that this is a possibility, it is worth considering what the consequences would be. Were global resources to become scarcer, there would be multiple consequences for developing countries and for the EU's goals of poverty reduction and development based on European values (particularly democracy, human rights and good governance):

- If the predictions of resource constraints turn out to be true, then poor people in poor countries are likely to suffer because they lack the financial resources and political influence to gain access to these scarce resources.
- Rising global resource prices will enable some developing countries to benefit from increased incomes, but the problems of managing resource rents are well-known.
- If the predictions of resource constraints turn out to be true, then the potential for competition over scarce resources to create instability and possibly lead to conflict will increase. Disputes over water resources already exist in water basins around the world. Food and energy shortages could lead to conflict, or to an increasing fragmentation and regionalisation of the world economy as major global actors try to tie up particular resources in order to secure energy and food security. This issue interacts with the status of the new actors as new entrants to global governance because they are less likely to have tied up energy and food resources through political and economic arrangements, and their rapidly growing economies are particularly demanding of increased resource inputs.
- In a world in which energy resources and other natural resources appear to be disproportionately located in regions characterised by conflict and instability – in part because the value of those resources may incentivise conflicts and bad governance – development cooperation policies interact with other European strategic priorities: security, energy, foreign policy, etc., raising issues of competing objectives and policy coherence. As part of this EDC2020 research programme, Youngs (2009) has already discussed in detail the challenges of policy coherence in the area of energy, where there are potential conflicts of interest between energy security and development cooperation.
- If resource scarcities do emerge, and if the great powers compete for these resources, then competition in the field of development cooperation could also intensify. The 20 years after the collapse of communism would end up being seen as an interlude between two periods of global rivalry: the first one based on ideology and military rivalry, and the second placed on competition for material resources.
- To the extent that an orderly response to these global challenges will require global cooperation, then the EU will need to develop effective collaborative relationships with the emerging powers so that competition does not lead to conflict.

At the same time, development cooperation will also have to plan in the context of uncertainty and possible catastrophic impact on developing countries. The

consequences for poverty and poor countries have already been stated clearly by the EDC2020 work on climate change:

"Recent modelling projections indicate that climate change could result in large negative impacts for many developing countries (IPCC 2007). These include problems such as declines in agricultural productivity in many areas due to increasingly severe droughts and floods and increased conflict over natural resources. Some of these impacts are already being observed, and their severity is expected to increase over the next century. Even in the relatively short period to 2020, projections indicate that up to 250 million more people in Africa could face increased water stress and agricultural yields could decline dramatically" (Peskett *et al.* 2009: 5).

The EU's policies on development cooperation, security, energy and climate change over the next 10 years will need to respond to these challenges in the context of the increasing role of new powers in global governance and in development cooperation.

## **6 How should the EU respond to the new challenges?**

This paper has emphasised how the world in 2010 is very different from the world in the early 1990s. Two decades ago, the United States was the uncontested superpower, growth was strong and global integration meant that the global economy was benefiting from the introduction of new sources of cheap labour and efficient manufacturing. Now, growth rates are low across most of the OECD countries, and the locomotive for future growth of the global economy might well be Asia. On the political front, China looks set to become a rival superpower at some point in the not-too-distant future and a range of other emerging powers are becoming more assertive in multiple arenas of global governance. At the same time, the challenges emerging in the fields of food, water, energy and climate change are stretching the capacities of global governance institutions to address them.

In this context, the challenges for EU development cooperation in the coming decade are considerable, but by no means new. This concluding section considers two issues:

- The policy coherence issue, which relates to both the EU's policy-making processes and the linkages between development policy and other policy areas.
- How the EU should address issues of global governance and relationships with the emerging powers.

### **6.1 Policy coherence in the turbulent world**

There are no easy solutions to the challenges of policy coherence in EU policy-making. The fact that the EU itself devotes considerable resources to the question of policy coherence, together with the inevitable presence of recommendations for greater policy coherence in many discussions of EU policies in the area of development cooperation, energy, security and climate change clearly indicate the scale and difficulty of the challenge. The clearest indicator that it is difficult to solve is the constant recognition of the problem. The

challenge arises from two sources. The first is the nature of the EU itself, with its division of competences between the Commission and the Member States and the differing roles of the Commission, the Council of Ministers and the European Parliament. Recent EU reforms have attempted to address these problems. The second source is the complexity of the interactions between different policy domains on development cooperation.<sup>22</sup>

The fragmentation of responsibilities and influence within the EU and continuing competition between the European Commission and Member States (as well as among member states) in areas relevant to development cooperation, such as aid and foreign policy, mean that the EU is still not realising its potential level of influence in the international context. As Okano-Heijmans and van der Puten argue (2009: 3), the EU's capacity to engage with China (and also India) is very unbalanced. EU competence is strong in the trade and economic area, but very weak in foreign policy and fragmented between the Commission and the member states on development cooperation. This problem is well recognised by the Commission and member states: the new EU treaty is partly designed to address this issue. It has also been discussed by many European specialists in the area of development cooperation (see, for example The European Think Tanks Group 2010a).

In what ways do the trends outlined above affect the nature of the policy coherence problem? Clearly, the EU's development cooperation agenda has become increasingly interlinked with foreign policy and strategic objectives, as suggested by Harris *et al*:

"The means which the governments of rich countries use to approach the 'traditional' development problem of mass poverty in poor countries will become increasingly intertwined with the instruments they employ to deal with a range of other concerns over how, in an increasingly globalised world, problems left untreated in poor countries and regions can impact adversely on the richer world, through global warming, illicit migration, narcotics production, terrorism, piracy, epidemic disease etc. In other words, aid and development policy will become increasingly integrated with 'foreign policy' more generally, while 'foreign policy' in turn becomes increasingly broad and encompassing" (Harris *et al.* 2009: 25).

This means that different agendas and priorities compete for the same policy space. The analysis of EU energy policy in sub-Saharan Africa by Youngs (2009), developed as part of the EDC2020 programme, shows the issues very clearly:

- Energy policy is not a Commission competence, but in recent years there has been increasing concern about energy security in the European Commission and in member states.
- Partly as a result of energy security not being a Commission competence, energy has not been a high priority issue for the EU's relationships with Africa. To the extent that energy policy has been taken up in sub-Saharan Africa, the focus has been on a key development issue - energy access for the poor. In this respect, the EU

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<sup>22</sup> This theme has emerged repeatedly across the different areas of the EDC2020 research programme. In addition to Youngs, see also Peskett *et al.* (2009), Akdeniz (2009) and earlier work by Grimm (2008).

- has approached the energy question from a development perspective, prioritising energy access, particularly in rural areas.
- Equally, energy security concerns have prevented the EU from pursuing its democracy and good governance agenda in countries that are considered important suppliers of energy to the EU. Youngs states, "The EU has declined to use sanctions against any major energy producer in Africa.... The paucity of European governance policies can be seen across Africa's main energy producers, in particular, in Angola, Equatorial Guinea, Sudan and Chad. But it is in Nigeria where the supposedly key dimension of energy security has most strikingly struggled to gain traction" (2009: 15-16). In the case of Nigeria, where doubts were voiced about the latest election and governance in general, Youngs refers to a British diplomat as arguing that fears over oil supplies prevented a push for reforms.
  - The energy security issue is more evident in Central Asia. Here, it has been argued that the EU and member states have very much played down concerns about human rights in order to compete for energy resources and to diversify sources of supply (Crawford 2008).
  - Youngs further notes that the ambiguities in policy leave both those concerned with energy security and those concerning the development dissatisfied.

In the long term, these tensions may be ameliorated by the development of new types of energy, particularly renewables, and new locations for the generation of these new energy sources. But, in the next few years, the result of the analysis above is that the EU is likely to continue to adopt different approaches to the interlinked challenges of development and energy security in different parts of the world. While Crawford is dismayed that the EU weakens its commitment to human rights when dealing with energy producers in Central Asia, it would be equally possible to recognise the (imperfect) way in which the EU has pursued energy access by the poor as its priority in Africa even though there are increasing concerns with respect to EU energy supplies and other countries (notably, the United States, China and India) are prioritising access to Africa's fast-developing energy resources.

But, this does leave the EU in a weak position when engaging with China about best practice in development policy. If a policy is right for Africa, why should it not be pursued in Central Asia? Alternatively, if EU policy in Central Asia (and the European "neighbourhood" more generally) that is based on a broad conception of EU interests, why should sub-Saharan Africa be treated differently? Or, if in practice the EU's commitment to energy access for the poor in sub-Saharan Africa is difficult to maintain - "new energy projects are, despite all the pro-development rhetoric, geared more to export markets than local access" (Youngs 2009: 11) - then would it be better to admit these contradictions rather than preach one thing and do another?

This is an updated version of the question posed by Brautigam (2009), who argues convincingly that many of the policies pursued by China in Africa are modelled on the policies adopted by developed countries in China in the 1980s, including promotion of trade based on the exchange of manufactures for natural resources and FDI. China's lesson from this experience was that it was able to benefit from the development of broad economic relationships that benefited its trade partners, and in particular Japan, as much as China itself. In other words,

the challenge to the development cooperation policies of China and Africa has to be more sophisticated than a reference to an ideal which the EU itself finds difficult to implement.

## 6.2 Global governance

The global response to the financial crisis, as highlighted by the G20 process, recognised that the G8 group of countries, which had been meeting regularly to address global problems, was not adequate to address these new problems. The emergence of any new actors will create new challenges for global governance. Established actors will tend to resist the dilution of their power and influence, and this is particularly true for hegemonic powers. There is a substantial literature on the dangers of power transitions in the global economy.<sup>23</sup> At the same time, the simple addition of new voices into global negotiations creates new complexity. Mechanisms that might have been adequate to deal with previous negotiations break down as new actors and interests are introduced. The importance of the new actors – including Brazil and South Africa as well as China and India – was evident long before the G20 process. In the Doha trade negotiations, for example, a wider range of countries were involved in attempts to save the negotiations from collapse than had been the case in previous trade rounds.<sup>24</sup> In the case of the climate change negotiations, the new actors played increasingly active roles in the long run-up to the COP15 meeting in Copenhagen in December 2009. China and India were, possibly reluctantly, at the centre of one of the key discussions in the Copenhagen process, which was the extent to which fast growing, emerging economies should make binding commitments on containing carbon emissions.

This new context creates a challenge for the EU. The EU has an overall objective of sustaining a rules-based system of global governance ("effective multilateralism" in the words of the 2003 EU Security Strategy). In other words, maintaining an operative system of global governance is a goal in itself. Possible impacts of crisis, turbulence and increasing competition for scarce resources include open conflict and increased regionalisation. In addition to sustaining effective multilateralism, the EU also wishes to promote human rights through the global governance system.

How can these objectives best be pursued in a context where, firstly, the emergence of multiple new powers will inevitably diminish the influence of the established powers, including the EU and its member states, and secondly, where the economic crisis and its aftermath will weaken the capacity of the EU to project its influence and possibly distract the attention of European policymakers because of the need to resolve European problems rather than global ones?

Evans *et al.* reflect on just this question of how strategies for engaging in global governance should be adjusted in the light of the new global challenges, considering this question for the case of the United States (2010: 34-41). Building on their perspective, the following recommendations can be made:

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<sup>23</sup> See Bender (2003) and Brzezinski (2004).

<sup>24</sup> Brazil and India were among the six countries that met to take the Doha negotiations forward in July 2006 following the G8 St Petersburg summit, and they also met with the EU and US in Potsdam in June 2007. Finally, Brazil, China and India met with the US, the EU, Japan and Australia in July 2007 in the final unsuccessful attempt to sustain the trade negotiations.

1. Thicken the linkages between global actors. In other words, create more opportunities for interchange and the development of ideas. They refer to this as "increasing bandwidth". There are three reasons for doing this. The first is that increased contact reduces the risks of misunderstandings. The second is that the new powers have little to gain from global instability and volatility. As has already been seen, China has contributed positively to the WTO and to UN peacekeeping. Third, strengthening bilateral contacts in multiple fora and at multiple levels establishes transnational informal networks. Helleiner and Porter highlight the importance of such networks for informal cooperation and information sharing in the area of financial management, arguing that "the resort to networks...provides a way of reconciling the enduring commitment to national sovereignty in the regulatory arena with the need for some kind of international cooperation and accountability" (Helleiner and Porter 2009: 15).
2. Build consensus around the importance of new global challenges and frame this in terms of risk and uncertainty. Evans *et al.* suggest that more bodies like the Inter-governmental Panel on Climate Change (IPCC) should be created to provide authoritative knowledge that can form the basis for establishing consensus. Even a scientific consensus that remains contested and politically sensitive is still better than no agreed science. However, the other global challenges, such as food security, energy supplies and migration, will be less amenable to the creation of scientific consensus.
3. Strengthening the institutions involved in global decision-making. Evans *et al.* make a number of suggestions. One is to strengthen the G20. The G20 cannot substitute for other fora, but to the extent that it is a forum for interaction between global leaders, its organisation and support mechanisms should be strengthened, with more preparation, more consistent chairing of meetings and possibly a permanent secretariat. The authors also recommend the more effective aggregation of country groupings and positions through the consolidation of units of decision-making. They expressed dissatisfaction with a situation where each country has its own position because it is impossible for hundreds of different positions to be consolidated. Equally, however, they are dissatisfied with large polarised blocs of nations.
4. One implication of this argument is that the EU should be more committed to developing single positions and presenting them as a single entity rather than allowing Member States to maintain representation alongside the EU. At the very least, this means more effective policy coordination between member states, and it might imply more foreign policy making by the Commission or by the High Representative of the Union for Foreign and Security Policy. EU competence is strong in the trade and economic area, but very weak in foreign policy and fragmented between the Commission and the member states on development cooperation. One implication of this is that the increasing interlinkage of issues makes the EU increasingly ineffective as a negotiator because there are multiple voices involving different parts of the three pillars of EU cooperation and also the member states that impinge on the same issue. It remains to be seen whether the new global challenges push member states towards allowing greater EU competence in this area.
5. The most interesting proposal put forward by Evans *et al.* is that countries that are well represented at international fora, which include the EU, should cede space. This position is not based on the argument that a



rebalancing of representation is necessary on the grounds of fairness. The argument is a utilitarian one. In a more complex world, the exercise of power is more circumscribed. The challenge is to create networks, and in order to create networks it is necessary to cede space and allow others to enter. The implication of this point and the previous one, of course, is that it is in the interests of the EU to cede space in international organisations such as the UN Security Council, the World Bank and the IMF in order to make these more effective instruments for the pursuit of EU goals. In ceding this space, the EU does not necessarily lose influence. It could mean a gain in influence in two ways. First, the EU and its member states gain in authority and capacity, even if fewer in numbers. Second, it increases the effectiveness of these organisations by incorporating new members (or merely reducing their size and unwieldiness in some cases).

## **7 Conclusions**

The shifting balance of global economic and political power and the emergence of China and India as new actors in development cooperation and more generally, raise questions for EU strategy and policy, but also for the framing of development cooperation and its relationship to other policy areas. The dominance of the OECD countries in the 1990s has shifted rapidly to the prospect of non-OECD countries acting as the locomotive for growth in the next decade. The scale and speed of this change has come as a surprise. Until approximately 2005, these new actors would probably not have been regarded as having sufficient influence to be relevant for the framing of EU development cooperation policies. For example, the comprehensive assessment of the Commission's development policy by ECDPM, ICEI and ODI, published in 2005 and based on a "broad range of structured interviews with development actors in Europe, including Member States officials, Parliamentarians, and civil society organisations in Brussels", made no reference to the new actors as a changing aspect of the international context (ECDPM *et al.* 2005).

This paper has argued that framing the challenge of the new actors and development in terms of how to incorporate new actors into existing mechanisms for managing development cooperation is not helpful. First, it underestimates the significance of the new actors. China and India (and to a lesser extent, other emerging powers) are not merely another group of countries that happen to be increasing their development cooperation programmes. They are new powers in the world economy, with regional and even global geopolitical and geostrategic interests. Second, the creation of the DAC consensus in the 1990s has to be located in the specific circumstances of the time. The circumstances have changed radically. Not only has the overall political and economic weight of the DAC members in the world declined, but the relatively benign global environment has also changed. This puts new pressures on relations between developed and developing countries and puts into question the relationship of development cooperation to broader strategic interests. In this context, it will be necessary to revise the development cooperation narrative because it is increasingly difficult to sustain a de-linking of development from broader economic and political interests. At the same time, recognition of the emergence of new powers of the global economy together with new global challenges means that the EU must work more effectively as a policy actor in global fora. Member states will need to cede space in multiple arenas of global governance so that these work more effectively and the EU has a more effective and coherent voice within them.

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Over the next decade, Europe's development policies will have to act on a combination of old and new domestic issues and substantial changes in the global landscape. Change in Europe's internal architecture – with implications for development policy – takes place in times of wide-ranging global shifts, and at a time when questions of European identity loom large in national debates. A key questions is: How will the EU, how will “Brussels” and the member states be working together on common problems? Global challenges include three issues increasingly facing EU's development policy agenda:

- The emergence of new substantial actors in international development,
- The linkage between energy security, democracy and development and
- The impact of climate change on development.



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Humanities theme

Public and policy-making debates need to be informed about future options and their likely effects; and decisions need to be based on good research and sound evidence. EDC2020 seeks “to improve EU policy-makers’ and other societal actors’ shared understanding of the above named emerging challenges facing EU development policy and external action.” EDC2020 will contribute to this shared understanding by promoting interaction across research and policy-making, aiming at establishing links to share perspectives across different arenas, and mutual learning. To this aim, EDC2020 will provide policy-oriented publications, a shared project website and high-level European policy forums.

The three-year consortium project EDC2020 is funded by the 7th Framework Programme of the European Union. More information about our the EDC2020 project can be found at [www.edc2020.eu](http://www.edc2020.eu)



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