SUPPORTING ECONOMIC TRANSFORMATION

Promoting prosperity

Ten opportunities for the new Foreign, Commonwealth & Development Office to support economic development

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LIST OF ACRONYMS

AfCFTA	African Continental Free Trade Area
BER	business environment reform
BPP	business partnership programme
BRI	Belt and Road Initiative
DFID	Department for International Development
EU	European Union
FCDO	Foreign, Commonwealth & Development Office
FCO	Foreign & Commonwealth Office
GPGs	global public goods
HMG	Her Majesty's Government
MICs	middle-income countries
ODI	Overseas Development Institute
PPE	personal protective equipment
UK	United Kingdom
US	United States

EXECUTIVE SUMMARY

The Foreign, Commonwealth & Development Office (FCDO) has emerged out of a merger between the Foreign & Commonwealth Office (FCO) and the Department for International Development (DFID) on 2 September 2020. The creation of the FCDO could not come at a better time for a reset of the UK's engagement with developing countries. This set of essays offers 10 economic development proposals for an imaginative new approach to capitalise on mutual interest and help achieve development goals.

This set of essays presents 10 opportunities the FCDO could work on:

1. publishing a coherent UK–Africa strategy
2. coordinating an effective import policy for national security
3. promoting resilient value chains
4. promoting a greater development impact of the City of London
5. promoting UK outward investment to poor countries
6. making a step change in business partnerships
7. transforming UK development finance
8. supporting job creation and economic transformation for self-reliance
9. using aid to provide global public goods in middle-income countries
10. liaising with China for improved development impact.

Each of these areas presents an opportunity from a trade or investment angle for both the UK and developing counties. Aid is a strong part of efforts to promote prosperity in developing countries, and this can also help the UK. The FCDO needs to develop a vision on how to work on aid, trade and investment together for mutual prosperity – and now is the right time to do this. It could also bring in other areas such as migration, digitalisation and climate change, which have significant economic implications.

However, there is also a risk that economic development and aid for trade will not feature prominently in the new FCDO, whose leadership will have to balance a whole range of themes and geographies while facing a critique on aid spending. This is not a time to abolish and reduce aid commitments or aid spending; it is a time to show that aid can play a full part in Global Britain. When managed well, aid can be effective in improving development and prosperity.

FCDO management will need to ensure the economic development agenda in the above 10 points obtains appropriate attention in the agency's new objectives and actions, starting by arguing for new commitments during the current UK Spending Review, incorporating the areas into the UK's Integrated Security and Defence review due this autumn, and using them to prepare for G7 and climate summits in 2021.

INTRODUCTION AND OVERVIEW

The UK Foreign & Commonwealth Office (FCO) and Department for International Development (DFID) merged into the Foreign, Commonwealth & Development Office (FCDO) on 2 September 2020, following an announcement to this effect in June 2020 by UK Prime Minister Boris Johnson. The government outlined the senior leadership in August 2020 but still needs to work out the precise ways in which the departments will be merged.

There has been much attention to the organisational issues around the merger. However, it is more important to consider the intended benefits of the merger in substance terms – which entail bringing foreign affairs and development interests closer together. One area in which the benefits could be large and visible is economic development, yet so far there has been little attention to the role of the FCDO as an economics ministry. This is perhaps surprising, as DFID is rightly proud of its recent experience in managing economic development programmes.

This set of essays considers areas in which the experience the FCO and DFID have gained can be bundled into economic policy under the FCDO. We consider a range of opportunities around aid, trade, investment and finance, focusing on the prosperity agenda, which includes support to job creation and economic transformation. Some ideas are new opportunities; some are enhancements of previous policies.

Some essays consider **trade and development**. For example, one essay considers import policy from a national security perspective, another resilient value chains. It is also important to address a potential worsening of market access conditions for some poor countries in Africa after the UK leaves the EU.

Other essays focus on the role of **UK business and finance**, for example working with UK business and promoting UK investment abroad, or enhancing the development impact of the City of London.

Attention should be paid to how to use and make the case for increased aid to support prosperity in developing countries, which benefits the UK. Both **aid and economic diplomacy** play an important role in bringing **trade, finance and development** closer together. UK aid, including an enhanced and revitalised **aid for trade** strategy, can be used to support job creation and economic transformation, which can eventually help generate self-reliance. Previous research has commented on the benefits of UK aid for development and the UK. UK aid can also support the provision of global public goods in middle-income countries. And UK-supported development finance can have transformative effects on development.

Some **geographical areas** that should receive priority. The new FCDO offers an opportunity to publish a coherent UK–Africa strategy and step up the UK's relationship with China for development impacts (in addition to working with the EU on development).

Other areas very relevant for economic development, such as **migration, digitalisation and climate change**, will also need to be considered.

There are also risks that economic development will not feature prominently in the new FCDO, becoming diluted among the many themes and geographies that exist. The current Spending Review is an opportune moment to prioritise a new economic development agenda. FCDO management will need to ensure the economic development agenda in the above 10 points lands well in upcoming discussions and concretely in the agency's actions, policies and strategies. This includes using the 10 points for the current Spending Review, the Integrated Security and Defence review due this autumn, and preparations for G7 and climate summits in 2021.

1. A COHERENT UK–AFRICA STRATEGY

Dirk Willem te Velde

The merger between the FCO and DFID may create some uncertainties around aid projects and distractions in terms of organisational structures, but it also offers opportunities to generate more coherent aid, trade and investment relationships between the UK and Africa.

The UK has had an Africa strategy for several years but this has never been published. The House of Lords' International Relations and Defence Committee report *The UK and sub-Saharan Africa: prosperity, peace and development co-operation* says that the UK's new strategic approach to Africa 'falls short' and is 'confused and confusing'. It argues that the UK should take a greater strategic interest in and seek a stronger partnership with Africa to support delivery of the African Union's strategy. The government should publish a clearly articulated list of priorities for its engagement with Africa, and an action plan for meeting them.

The Overseas Development Institute's (ODI's) written and oral contributions argue that the government should consider building on the UK–Africa Investment Summit in January 2020 to lay the foundations for a new medium-term post-Brexit economic partnership, to diversify UK investment in Africa and increase trade by taking advantage of Africa's integration. ODI and the All-Party Parliamentary Group on Trade out of Poverty also suggest setting up a UK–Africa Prosperity Commission to inform these efforts as equal partners, including the African Union and its member states.

The diagnosis on the state of UK–Africa economic relations is stark: a flatlining of the relationship between the UK and African countries between 2008 and 2018 in terms of trade and investment, at a time of growth in the continent and increased integration through the African Continental Free Trade Area (AfCFTA). The aid, trade and investment relationship is in need of an urgent reset. Countries across Africa face not only worse market access conditions when the UK leaves the EU, which is only three months away (e.g. through preference erosion with the move to the new UK most favoured nation tariff – the UK's Global Tariff) but also uncertainty and temporary freezes around aid for trade projects as a result of the merger. The possibility of worse market access conditions in the UK when new trade continuity agreements become operational on 1 January 2021, combined with the possibility of fewer aid for trade projects, would be a significant blow to African exporters and UK–Africa relations.

More investment is also needed for job creation in countries across Africa. To achieve this, we need to see more strategic ambition and detailed follow-ups from the UK after January's successful UK–Africa Investment Summit. ODI has recently helped organise capacity-building events for AfCFTA negotiators on investment and has examined UK–Africa investment relationships. A larger, countercyclical and more transformative CDC would also fit into this.

Alongside these, there is also a range of other common issues, such as migration, security, digitalisation and climate change, on which the UK and African countries could work together. By building on the best parts of DFID's Economic Development Strategy and obtaining structured advice on promoting UK–Africa prosperity from its partners through a joint Prosperity Commission, the UK's FCDO government can chart a way forward and publish a new Africa strategy within a year.

2. AN EFFECTIVE IMPORT POLICY

Dirk Willem te Velde

British interests are served by having access to cheap, reliable, critical and sustainable imports of goods and services, as well as people and ideas. Poorer countries can help provide some of these. The new FCDO should develop an effective import policy that promotes foreign (security, environmental), commercial and development interests.

Commercial pressure groups often lead countries to promote exports; the UK Department for International Trade has developed a UK export strategy. However, imports are also critically important to UK interests, for both consumers and producers, and for national issues related to food security, access to critical medical products and the ability to access scarce raw materials. The UK does not have an import policy, but there are four policy areas that together could see imports and import policy as a national security issue requiring attention from the FCDO.

Trade policy measures. Lower trade barriers will lead to cheaper imports of consumer products and capital goods. The UK has recently announced its Global Tariff.[1] Its rates are slightly lower and simpler than the EU's most-favoured nation status, which may help imports. The UK is also committed to continuing and developing a trade preference scheme, though details still need to be published. The UK will also impose a set of standards, for example for food safety considerations, which hopefully will not become more protectionist and trade distortionary than the EU's, and for climate consideration (but this is not straightforward, see a set of essays edited by Krishnan and Maxwell). This is a new opportunity for the FCDO.

Import facilitation measures. The UK actively facilitates imports, though examples are still limited. Recently, trade ministers have been actively procuring personal protective equipment (PPE) from countries willing and able to supply. This has been to fulfil a critical medical need. Both trade and diplomatic measures will be needed.

Development policy. The UK's aid for trade programmes, such as TradeMark East Africa, have proven to reduce trade costs, which will benefit UK consumers who import from the region. Other planned support programmes include Trade Connect and Gateway to Growth, which will help connect UK and developing country firms through trade and investment. In this way, aid programmes help economic development in target countries as well as making UK imports cheaper and more reliable.

Foreign policy and national security. It will be vital to secure critical raw materials through securing imports of scarce materials (e.g. rare earth metals), sometimes from weakly governed locations or in conflict situations with little regard for human rights, or PPE at the right time.

The FCDO must ensure that these elements are brought together into an import policy in the national interest, combining foreign, commercial and development considerations. Leaving the EU has strengthened the case for an effective UK import policy. The UK cannot have a fully functioning national security strategy without considering imports.

[1] This is the UK's most favoured nation (MFN) status, applying to all World Trade Organization members.

3. RESILIENT VALUE CHAINS

Jodie Keane

Creation of the FCDO through the merger between DFID and the FCO has the potential to boost both the resilience and the robustness of UK trading relationships within the developing world through combing technical trade and development expertise and diplomatic know-how.

Economic vulnerability is heightened by limited export diversification, but increased resilience reduces vulnerability. Pooling knowledge and expertise can boost the resilience of trading networks and relationships through enhancing productive capacity and capabilities, facilitating export diversification. The ability to maintain trading relationships in times of crisis also requires investments in relationships to create robustness or the ability to withstand adverse conditions.

This is where the machinery of diplomacy could be vital. Covid-19 has demonstrated the need for diplomacy as battles have played out between producers and buyers within global value chains severely affected by lockdown measures.

Greater collaboration on the ground in the poorest countries, coupled with efficiency gains by the FCDO and closer alignment of commercial and developmental interests – where it makes development sense to put this in place – is a successful model deployed by others explicitly (e.g. Australia) and some implicitly (e.g. China).

Moreover, encouraging greater collaboration among companies and government agencies, including through the relaxation of UK competition policy and motivating the sharing of combined expertise, has been a major response measure initiated by Covid-19 (e.g. for groceries, health care and maritime crossings). Some reflection of these initiatives within the institutional arrangements that govern our trading relationships with the rest of the world is therefore expected. This will be good as long as the overall development interest is maintained.

But far more detail is needed. What looks good in theory must also deliver outcomes, for both the development of the world's poorest and UK taxpayers, in a transparent way. While in terms of process DFID is accustomed to adhering to high levels of scrutiny and generally rates well in terms of transparency, this has been less the case for the FCO (see various reports by the Independent Commission for Aid Impact).

A more integrated UK international structure must be matched with a clear national strategy of implementation. This includes in relation to the role of trade and investment within the integrated portfolio of foreign policy and development – and, within this, the specific means and mechanisms to support the UK's approach towards poverty reduction and environmental, a part of broader economic, resilience.

Covid-19 confirms just how interconnected we all are and that concentrated trade patterns may increase vulnerabilities. The merger presents an opportunity to leverage the combined knowledge and know-how from the new institutional structures to better support current international commitments (e.g. as enshrined in the 2030 Agenda) and others that remain under negotiation, such as the need to secure more ambitious commitments at COP26, which will affect the future of trade.

And it will be stress-tested quickly, as we move towards the end of 2020 and into 2021 when the UK leaves the EU, the FCDO needs to be up for the job.

4. THE CITY OF LONDON AND DEVELOPMENT

Jodie Keane and Judith Tyson

The UK's City of London offers development benefits – but the FCDO needs to work more effectively to enhance these.

The expertise and depth of the City of London's banks, markets and investors and its high standards of business and regulation make it a premier global financial hub.

Maintaining and building on this is key to the UK's future prosperity. But the City can do more, including with regard to the provision of development benefits.

Developing economies in Asia and Africa are heavily constrained by lack of finance. A close partnership between the City of London and the UK government could work to substantially close the financing gap.

The City has wide ranging financial expertise. This can leverage vast pools of capital from its investors into developing economies.

The FCDO has begun to build up skills and relationships to ensure that such finance also enhances development impact and to help tackle political risk – a key deterrent for private investors.

Further, CDC has the capital and capabilities to co-invest with private investors in challenging environments, leading more private investment into new and poorer geographies (see also Essay 7).

However, the FCDO needs to move beyond diplomatic theatrics and ceremonial niceties and follow up more actively. During the Commonwealth Heads of Government Meeting 2018 and the Commonwealth Enterprise and Investment Council April 2018 meetings, the City, the FCO and DFID visited poorer countries. However, though many hands were shaken, little or no finance was actually delivered and the dynamism was lost.

The FCDO needs to build stronger partnerships – including within its own team. In-country staff need to work in close partnership with each other as well as with CDC, UK finance institutions and UK businesses.

There needs to be more attention to detail. The FCDO needs to develop clear and detailed strategies that identify which countries and sectors should be targeted. And these need to combine UK investment opportunities, development impact and support from national development strategies and the political economy in recipient countries.

There also needs to be pragmatic and targeted investment support. For example, this could include building capabilities in recipient countries for negotiating and assessing deals and managing resulting public and private debt (working with the Bank of England and the UK Treasury).

The FCDO need to be active in helping investors manage political risks, such as of breach of contract, corruption and political and regulatory interference, possibly leveraging innovative ideas emerging from the EU's external investment plan.

Combining the skills of the FCDO and the City in a comprehensive partnership has the potential to deliver a 'win-win' outcome – increasing the prosperity and stability of developing countries and bolstering the UK's prosperity and deepening its 'soft' power. If the FCDO gets focused, this potential can be delivered to the benefit of all.

5. PROMOTING UK OUTWARD INVESTMENT TO POOR COUNTRIES

Max Mendez-Parra

The merger between the FCO and DFID could help improve coordination between the aims of promoting UK investment and achieving the development objectives of poor countries.

The traditional approach to economic development in poor countries has relied on two areas. First, financial support has been allocated to create and improve hard infrastructure and develop productive capabilities through the provision of public goods and technical assistance for some critical institutional reforms. Second, exports from poor countries have been promoted through preferential regimes (e.g. the Generalised System of Preferences) and other specific actions aimed at increasing competitiveness. Both types of measures have been oriented towards improving competitiveness and the business environment (defined in a broad sense) in which firms operate. It has been assumed that these actions will be sufficient to address the bottlenecks to increased investment, production, employment and economic development.

There has been less attention to whether the necessary capabilities exist within local firms – and yet the capacity to develop such expertise is limited, and it takes considerable time to reach the required scale. More targeted support to sectors and firms is necessary to create these capabilities as well as developing additional conditions for investment.

Even when donors pay attention to the development of local private sector capabilities, low domestic savings seriously constrain the volume of private investment required. While foreign savings have helped, the investment received in such countries has been oriented primarily to the traditional sectors (e.g. extractives), with little flowing to sectors that are more supportive of economic transformation. The benefits of increasing investment in poor countries go beyond the increase of the stock of capital. Foreign investment brings technology, modern management techniques and expertise, depending on the sectors and the economic, policy and institutional context. It can improve the competitiveness and development of local suppliers. Moreover, from a political point of view, it tends to counterbalance the typical local protectionist lobby.

Although successful in creating the necessary conditions for investment, the traditional approach has been less effective in developing the factors needed to increase investment. To counter this, the UK has begun to focus more on support programmes aimed at increasing investment in poor countries. The African Investment Summit in early 2020 was an important political precedent, and has been supplemented by an increasing number of programmes and projects aimed at boosting investment in poor countries.

There is a need for targeted support to promote investment in poor countries. This support should aim to improve productive capabilities to attract investment in poor countries or enhance the ‘pull factors’. This includes assisting countries to make the necessary legal and institutional reforms, to eliminate investment barriers in certain sectors, to reform taxation regimes, to develop special economic zones and to carry out other actions aimed at increasing competitiveness and reducing the risk of investments in these environments. This could supplement the development of critical hard and soft infrastructure and the provision of essential public goods.

Support must aim to align the competitive advantages of UK firms with development needs. This may involve supporting ‘push factors’ to incentivise investments in areas such as insurance, financial, business and education services. This will help development and support prosperity in the UK. With populations and incomes rising faster in developing countries than in most of the developed world, it will be in the former that future economic growth will be found.

6. BUSINESS PARTNERSHIPS

Alberto Lemma

The FCDO merger presents an additional opportunity for the UK to promote development impacts by linking its own enterprises to those in developing countries through a new business partnership programme (BPP) leveraging the joint capabilities and synergies that the DFID and FCO merger could unlock.

Countries such as Austria, Germany, Denmark, the Netherlands, Sweden and Norway have long implemented their own BPPs, with the aim of connecting domestic enterprises with those in developing countries to create new commercial opportunities that would lead to economic growth and development.

DFID tried to imitate this approach, envisaging a process that would leverage British expertise and British businesses to drive entrepreneurship in developing countries to create poverty-reducing jobs and promote growth. However, this process did not go ahead at the time.

BPPs link firms to create commercial partnerships and provide technical assistance (i.e. assistance with business regulations, permits, etc.) and grants (often requiring matched funding by developed country companies). These can be used for feasibility studies, pilot tests, training, etc., mitigating some of the initial sunk costs that businesses may have invested resources in.

There are multiple advantages. British businesses access new markets and can diversify their supply chains. Developing country firms engage in export through integration in global value chains by means of technology and knowledge transfer effects – a significant booster to productivity. This in turn leads to higher rates of growth, income and poverty reduction. There would also be (potential) technological and knowledge horizontal spillover effects for other domestic firms within targeted value chains.

The BPP could provide significant support to developing country firms that face growth constraints, such as limited access to investment finance, limited international market access or technological and knowledge shortages. This would help developing countries access new technologies, technical capabilities and market links while creating much-needed jobs. The benefit to the UK would be the creation of more robust supply chains and expansion into new markets.

The role of the BPP would be to mitigate some of the risks that currently hinder UK firms from spontaneously creating such partnerships. It would provide expert knowledge on the target country market (based in part on traditional DFID and FCO networks), such as on its business environment (i.e. relevant laws) and current socio-political risks, and other relevant commercial information. This could also help identify local firms suitable for such partnerships. A well-supported BPP would be linked to local policy-makers to promote effective state–business relationships beneficial to the joint venture. An investor-led BPP could also support improvements to the local business environment aimed at stimulating increased foreign direct investment.

The FCDO merger provides an opportunity for the UK to create its own business partnership programme. The FCO's expertise in promoting the interests of British enterprises abroad could be intrinsically connected with DFID's significant development knowledge to understand in which countries (and sectors) development impacts would be most effective. Using CDC's knowledge of local enterprises more effectively could facilitate the creation of business links, providing a pragmatic understanding of where there are feasible commercial possibilities that could lead to positive development impacts.

7. TRANSFORMATIVE DEVELOPMENT FINANCE

Alberto Lemma

The FCDO merger allows for the implementation of an economically transformative investment strategy for FCDO target countries through the UK's Development Finance Institution – that is, the CDC Group.

Essay 6 discussed the creation of a potential business partnership programme that would connect UK businesses with developing country firms, and touched on the role that the CDC Group could play. There is also new impetus for the opportunity to orient CDC Group investments in developing countries towards potentially transformative sectors that would present synergistic opportunities for developing country firms to integrate in the British supply chain.

The UK government has identified a number of industrial and services sectors that it sees as a priority for future development. These include the automotive, construction, creative industries and energy sectors. Each represents an opportunity for developing country firms to feed into the global supply chain envisaged by the UK government. The role of CDC would be to invest in developing country firms operating in these higher-productivity, higher-value sectors, helping build up in-country capabilities and gearing them up to export towards the UK market.

CDC targets investments mainly towards developing countries in sub-Saharan Africa and South Asia. The FCDO merger has opened a space to strategically orient investments towards transformative sectors within these countries, including through partnership with British firms to identify opportunities to integrate developing firms within these sectors in the global supply chain of British firms.

CDC, in conjunction with interested UK businesses, could identify which sub-sectors exhibit comparative advantages, to make it possible to target investments that have a feasible opportunity to achieve commercial sustainability. Aiming CDC investments towards complex parts of the supply chains within the identified sub-sectors would help developing country firms build the technical expertise and technological capital required to achieve their comparative advantage without requiring expertise or capital that may not be easily available. Providing monetary and technical support to build up in-firm capabilities would also allow developing country firms to gradually move into more complex parts of the supply chain and into the production of other goods that use the same capabilities – both important components of economic transformation.

British businesses are an integral part of this process. Their increased participation would help developing country firms integrate into global supply chains at a faster rate, increasing developing country exports and improving productivity rates. These could be achieved primarily by formalising business partnerships with developing country firms as well as through technology and skill transfers. British businesses would benefit by moving the production of components or services of their supply chain that it is no longer cost-competitive to produce in the UK into countries with lower production costs, particularly through lower labour costs. By targeting production of goods or services in the lower end of the value chain, these goods could also be sold in the developing countries to other firms requiring them, increasing market access for British firms.

The approach is similar to what the CDC Group UK is already doing; however, the FCDO merger presents an opportunity to increase the active participation of British firms in the process, leveraging their networks, skills and capital to further increase the potential development impact of CDC Group investments while expanding the market reach of British firms.

8. SELF-RELIANCE AND PROMOTING JOB CREATION AND ECONOMIC TRANSFORMATION

Dirk Willem te Velde

One priority for the new FCDO will be to fully integrate support for job creation and economic development – crucial for poor countries to exit aid and improve governance. This priority focus on prosperity includes programmes such as aid for trade and support to diversification and industrial policy with attention to political economy.

Economic development has represented a priority in DFID through its 2017 Economic Development Strategy. The FCDO should also give priority to economic development and job creation in productive activities in poorer countries because more employment and income will allow people to pay for their own health and education services, increase domestic fiscal revenues and reduce reliance on aid. More attention to economic development also supports the development of better institutions.

Promoting growth alone is not sufficient. Economic transformation, understood as a process of moving labour and other resources from lower- to higher-productivity activities and increasing general productivity, is necessary to enhance the quality of growth, create jobs and reduce poverty in a sustained way. Issues of concern with recent growth experiences in poor countries include sectoral and social distributions, low growth–poverty elasticity in many countries and the weak capacity of the most dynamic sectors to generate sustained increases in productive employment. Unfortunately, much of the recent growth has been the result of high commodity prices generating higher incomes within an economic structure that retains many features established in colonial times.

Economic transformation supports poverty reduction and self-reliance through stimulating production patterns involving direct and indirect involvement and consumption of the poor, as well as other routes such as government services. A transformed economy generates higher private incomes necessary for individual social spending, such as on health and education, and more tax revenues that can be spent on public goods necessary to support development.

Industrial policy plays a crucial role in economic transformation. Countries need to diversify their economies and promote manufacturing, including through more efficient modern services such as financial and business services. This includes a focus on special economic zones, clusters and exporting.

Donor support programmes need to combine business environment reform (BER) and transformation support to build domestic capabilities. The Economic Policy Incubator in Nepal and TradeMark East Africa are good examples of UK-led aid for trade programmes that help reduce trade costs, attract investment and diversify economies. BER on its own is often not sufficient to generate a supply response, and more targeted coordination efforts in country for a sustained period of time are crucial to make progress, This requires a good understating of local politics.

Economic transformation is a long-term process riddled with political economy challenges. The short-term pay-off may be uncertain, but in the long run it is the only way towards increased living standards and self-reliance. The FCDO could provide new insights into linking political economy and support for economic transformation.

9. AID AND PROVIDING GLOBAL PUBLIC GOODS IN MIDDLE-INCOME COUNTRIES

Dirk Willem te Velde

The UK benefits to a certain extent from the provision of global public goods (GPGs), such as a clean environment, open rules for trade and investment, global knowledge, global risks assessment and preparedness bodies and global health systems. Aid and other forms of financing, as well as better negotiations on global rules, can support GPGs, with an emphasis on middle-income countries (MICs) where the opportunity to provide GPGs is often greatest.

The provision of GPGs is usually inadequate. This is because of special characteristics such as non-rivalry (consumption of a good by one person does not reduce the amount available to others) and non-excludability (once the good has been provided one cannot exclude others from consuming it), which constrain private providers from reaping the full benefits of support for a quality environment or eradication of communicable diseases. The financing of GPGs can best be done where the effects are highest and easiest to attain. Sometimes, this is dispersed across the globe; sometimes, faster progress can be made in specific countries, especially middle-income countries. Finding such opportunities needs further analysis.

One obvious past example is polio eradication, which has a global benefit. In recent decades, efforts have been focused in Nigeria, which still had the disease. Significant environmental benefits can also be achieved by transforming and greening production systems in large MICs such as China and India. It would sometime be more efficient (cheaper per unit of emissions avoided) to reduce carbon dioxide emissions in those countries rather than the UK.

The UK has always broadly favoured an open trading system (with some exceptions). But it takes time and effort to negotiate and maintain open trade and investment rules, at a time when emerging markets are increasing in importance and the US is declining as a hegemon.

The FCDO could play a significant role in supporting the provision of GPGs through finance and maintenance of good diplomatic relationships with Asian, African and Latin American MICs. Potential examples include the following:

- Aid for trade programmes can be used to support the development and use of global trade rules. The Trade and Investment Advocacy Fund helps countries negotiate trade and investment agreements and discussions at the World Trade Organization, whereas TradeMark East Africa helps East African countries take part in regional and global markets.
- The UK's contributions to climate finance programmes can lead to the mitigation of carbon dioxide emissions, and the next climate summit, to be held in the UK in 2021, could lead to progress on global climate rules.
- The UK has provided funds to vaccine development. Globally, the World Health Organization could strengthen global health systems.

Th UK already provides aid and other financing to GPGs, and some of this already occurs in middle-income countries. The FCDO can strengthen this agenda for a more prosperous, greener and healthier planet. There are many opportunities in MICs, which requires increased aid so as not to diminish the importance of promoting prosperity in the poorest countries.

10. LIAISING WITH CHINA TO ENHANCE DEVELOPMENT IMPACT

Linda Calabrese

China is a crucial commercial and political partner for many countries in the world. Despite increasing tensions within UK–China relations, the FCDO should aim to build cooperation with China in selected areas, as this could support development impact.

The FCO and DFID have worked with China in areas such as good governance, clean energy, financial cooperation and development. Meanwhile, HMG has invested in trilateral programmes to support agricultural cooperation and investment in African countries. The merger provides a chance to deepen the collaboration and to provide support on post-Covid recovery. The FCDO can pursue further work on the Belt and Road Initiative (BRI) and on China–Africa relations.

Infrastructure gaps remain one of the main bottlenecks to economic transformation in many developing and emerging countries. The BRI has helped address these. Yet infrastructure projects can be too big, too expensive (such as in early plans for a deep-sea port in Kyaukphyu, Myanmar) and not in line with countries' most pressing development needs (such as with the Kampala–Entebbe expressway in Uganda), or raise environmental and social challenges.

With regard to the BRI, there are two areas where the FCDO could make a difference. The starting point would involve better understanding Chinese priorities. In response to Covid-19, for instance, will the health and digital silk road receive additional attention? Will the Chinese government prioritise food security and agricultural investment? Will it focus on domestic employment and consumption, and how will this affect the post-Covid recovery?

This understanding will feed into the second area: supporting governments in the BRI in thinking about infrastructure more strategically. This entails assessing whether projects are financially viable, in line with environmental and social good practices, but also (and most importantly) whether they are aligned with national development plans. The UK, with its expertise in legal and financial matters, could help governments in negotiations, contracting and financial arrangements. It can be complemented at regional and multilateral level, supporting development finance institutions and contributing to a more joined-up approach to the BRI.

In Africa, the FCDO should look beyond the countries that have traditionally been the main recipients of Chinese investment and lending, such as Angola, Ethiopia and Zambia. These have received a great deal of support on how to deal with Chinese investors. Therefore, the FCDO should focus its efforts on countries such as Malawi, Rwanda and Uganda, which are less prepared on engaging with China but will increasingly have to do this in the near future.

The FCDO should consider building on its experience in trilateral cooperation, focusing on businesses and strategic investment partnerships. A recent synthesis report finds that Chinese firms have been instrumental in supporting new modern sectors in Africa, such as construction and manufacturing. A thriving manufacturing sector needs services, such as financial and insurance services. This offers an opportunity for UK firms, and for the FCDO to support them in providing tailored services to the newly emerging businesses (African, Chinese or foreign).

A second opportunity is to support African governments engaging strategically with Chinese investors. Most beneficial engagement for African firms is through long-term partnerships with Chinese (and other foreign) firms, but these are hard to come by. A handful of African countries that have engaged with China for longer have understood the importance of dedicated investment promotion and aftercare, but others are lagging. The FCDO could support laggard African countries in thinking about strategic investment promotion to build long-term partnership with Chinese and other foreign firms. This could be part of the UK's Africa strategy (Essay 1).