

Leveraging the BRI for African Manufacturing and Industrialization

Opportunities for the AfCFTA

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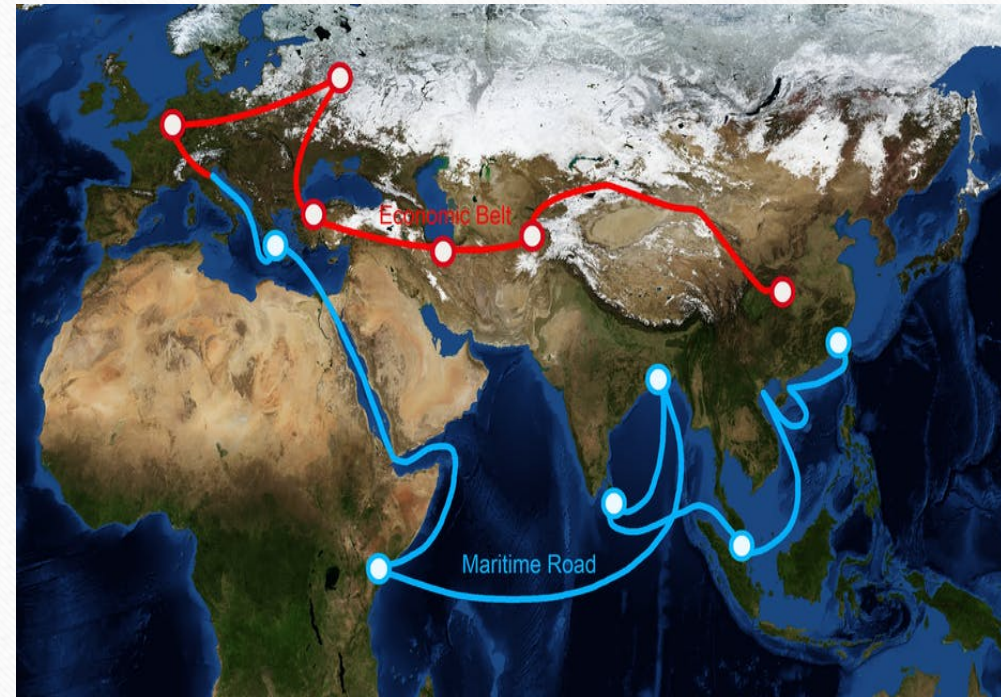
Outline

- The BRI, African Industrialisation and AfCFTA Nexus
- Africa's Industrialisation Challenge
- **Leveraging the BRI for Industrialisation and Increased Intra-Africa Trade**
 - Access to Finance
 - Infrastructure Development
 - Productive Capacity and FDI
- Conclusion

The BRI, African Industrialisation and AfCFTA Nexus

The Belt and Road Initiative (BRI)

- One Belt, One Road unveiled by President Xi Jinping in 2013
- Made up of Economic “Belt” that passes overland, and Maritime “Road” linking several ports
- OBOR now commonly known as the “Belt and Road Initiative” (BRI)
- BRI added to Chinese constitution in 2017



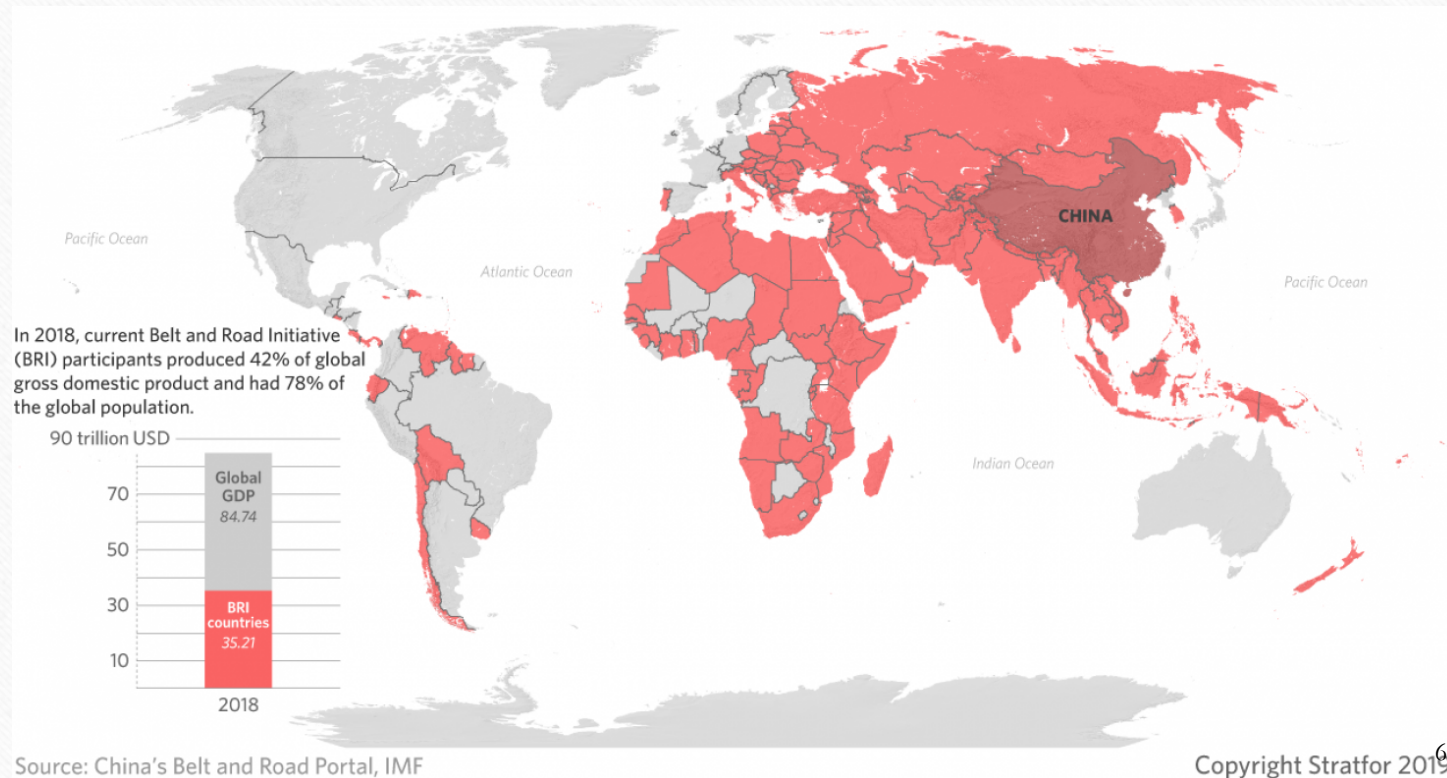
African Continental Free Trade Area (AfCFTA)

- Flagship project of the AU's Agenda 2063: The Africa We Want
- Africa resolved to establish AfCFTA in 2012
- Core objectives:
 - Deepen economic integration
 - Create unified market for goods & services



BRI Meets AfCFTA

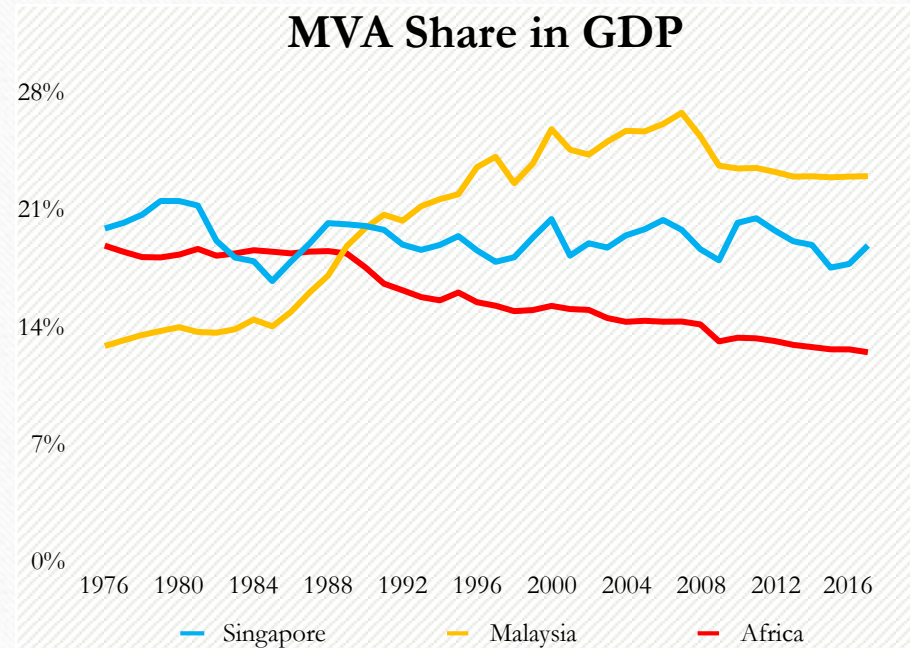
- 130 countries participating as of April 2019
- 37 African countries signed up, including Zambia
- BRI to aid expansion of intra-Africa trade and industrialisation



Africa's Industrialisation Challenge

Africa's Industrialisation Challenge

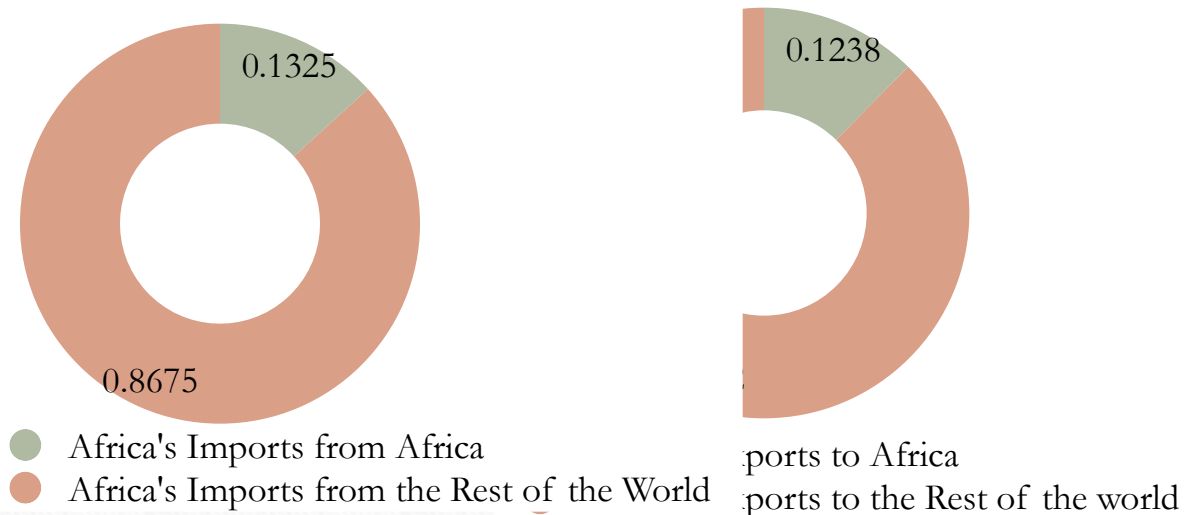
- Africa's growth path has been unconventional
- Developed economies moved from agriculture, to manufacturing, to services
- African economies moved straight to increased services without capitalising on manufacturing
- Also did not significantly reduce share of low productivity employment



Africa's Industrialisation Challenge

- AfCFTA presents a means of countering growth challenges
 - Africa alone presents large market demand for African economies
 - Eliminating tariff and non-tariff barriers in Africa creates new potential market
- Gains are not automatic
 - supply-side constraints cannot be addressed with free trade alone
 - Africa can leverage the BRI to, in part, address some challenges

Average Intra-Africa Trade, 1995-2017



Leveraging the BRI for Industrialisation and Increased Intra- Africa Trade

Access to Finance
Infrastructure Development
Productive Capacity and FDI

Access to Finance

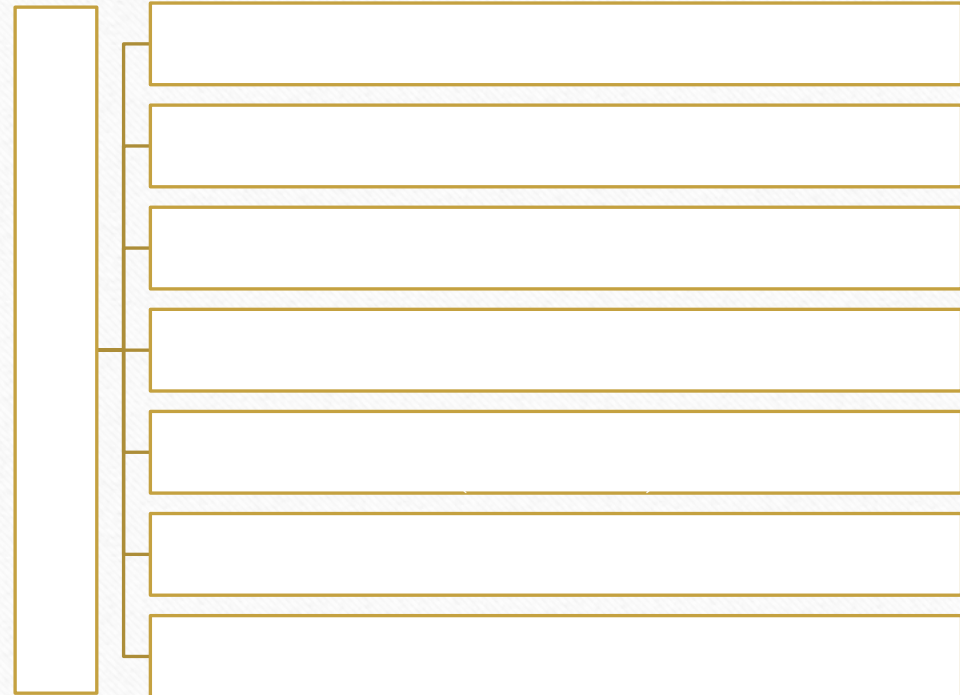
The Challenges

- African industries constrained by limited access to financial resources
- Challenges with financing stem from underdeveloped capital markets and inadequate financing mechanisms/limited financial products
- AfDB estimated that, in 2014, there was a trade financing gap of \$91 billion
- Limited finance affects competitiveness of African businesses
- Sub-Saharan Africa ranks low on competitiveness and getting credit parameters

Access to Finance

Solutions from the BRI

- Broader sources of financing required to bridge financing gap
- BRI provides alternative option for access to finance for Africa
- Most BRI financing comes from seven main Chinese entities
- BRI will leverage on FOCAC which also provides various funding streams



Infrastructure Development

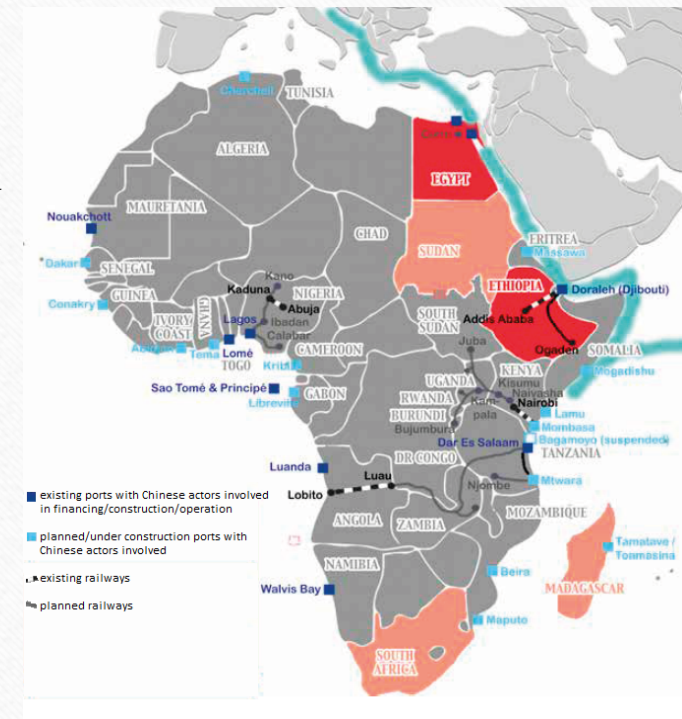
The Challenges

- Infrastructure development remains a significant hurdle
- Africa's poor connectivity estimated to increase cost of intra-Africa trade and FDI by 30-40%
- The Trans-African Highway first conceptualised in 1971 by UNECA
- AfDB estimates Africa's infrastructure needs at \$130-170 billion a year
 - Currently a financing gap of approx. \$68-108 billion
 - Programme for Infrastructure Development in Africa (PIDA) launched in 2018
 - Additional funding sources required



Infrastructure Development Solutions from the BRI

- BRI aims to improve global connectivity by facilitating establishment of trade corridors
- In Africa, three key nodes on the BRI Maritime Silk Road already identified and established
 - Doraleh (Djibouti), Walvis Bay (Namibia) & Lomé (Togo)
- China has also financed key railway projects
 - Standard Gauge Railway (Nairobi – Mombasa)
 - First electrified railway in Africa (Addis Ababa – Djibouti)
- UNECA funded study found that potential impact of BRI on trade could increase East Africa's exports by US\$192 million annually



Infrastructure Development

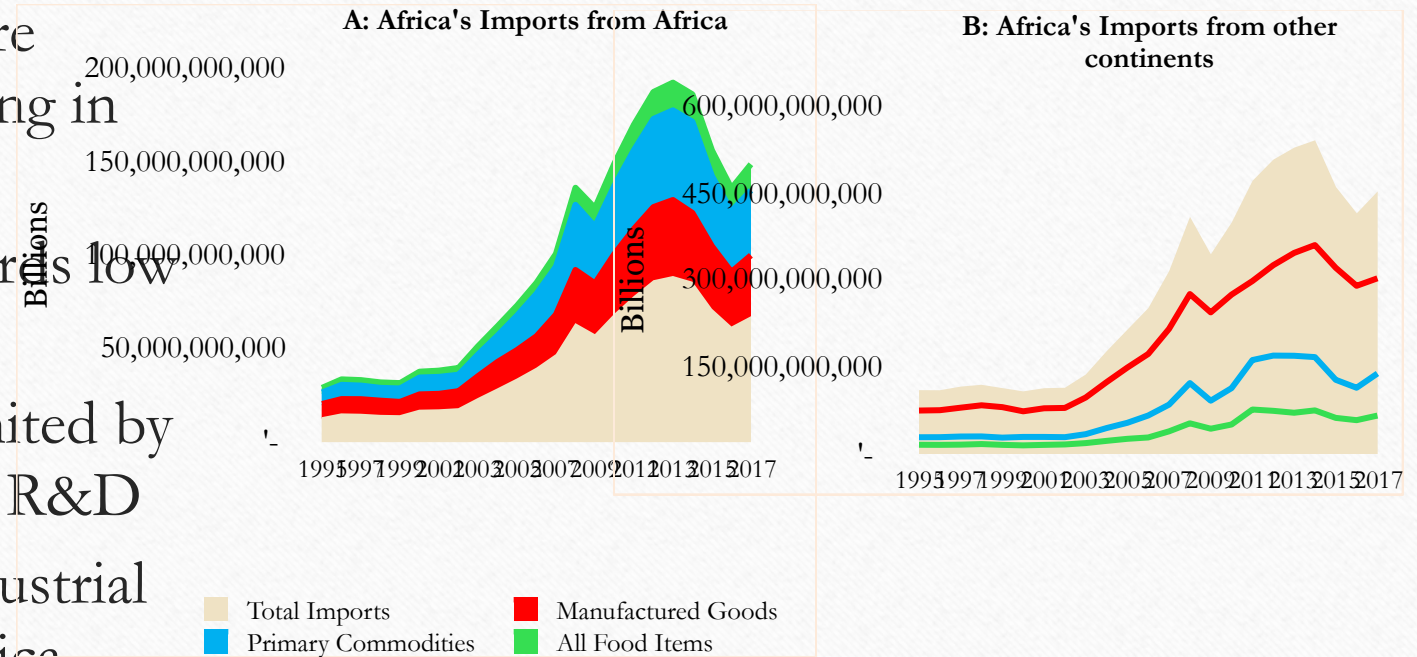
Things to Consider

- BRI makes infrastructure financing and support more readily available than from traditional donors and multilateral organisations
 - Recipient countries need to critically evaluate their economies' debt sustainability
- BRI funding mechanisms can be opaque and questions have been raised regarding sustainability of some infrastructure projects
 - Recipient countries need to ensure that they understand the deals they are getting
- At 2019 Belt and Road Forum, President Xi Jinping worked to dispel negative sentiment surrounding BRI in his keynote address

Productive Capacity and FDI

The Challenges

- Weak productive capacities are characteristic of manufacturing in Africa
- Africa's exports skewed towards low value-added products
- Productive capacities also limited by quality of human capital and R&D
- FDI can be used to build industrial productive capabilities in Africa



Productive Capacity and FDI

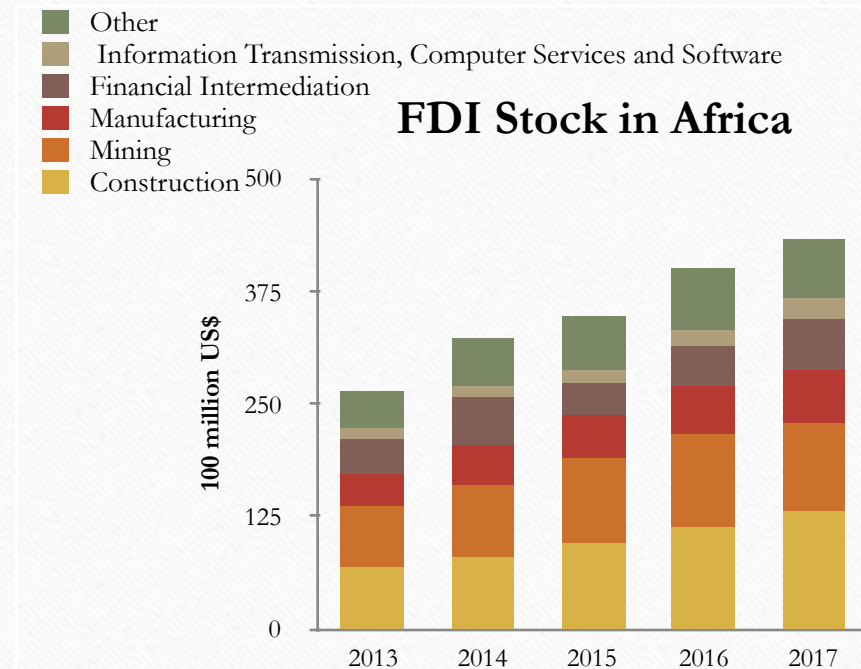
Solutions from the BRI

- Africa can leverage the BRI for FDI and investment in R&D
- 2018 FOCAC Summit pledge included \$10 billion in support of FDI
 - Encouragement for Chinese private sector to come into Africa independent of more traditional government-to-government deals
 - Alongside BRI, two frameworks present opportunities for job creation, income growth, and increasing manufacturing capacity in Africa
- People-to-people exchange under BRI provides an avenue for building human capital
 - For example, China providing scholarships to African students

Productive Capacity and FDI

Things to Consider

- China's FDI in Africa has increased from estimated US\$26.2 billion in 2013 to US\$43.3 billion in 2017 (CARI, 2019)
 - However, composition FDI concentrated in construction and mining
 - There is need for increased FDI in manufacturing and ICT
- Risks associated with lack of compliance with ESG criteria



Conclusion

- BRI and AfCFTA are two unique opportunities with synergies that can catapult Africa's industrialisation and intra-Africa trade
- Africa needs to leverage the BRI to address the challenges it faces
- However, African governments should also take a strategic approach to engaging the BRI
 - Where possible, lessons learned should be shared from one country to another
 - Negotiating as a block where relevant also provides greater leverage (e.g. AU)
 - BRI can complement the AU's Agenda 2063 to accelerate regional integration and develop sustainable economies

Thank You

谢谢