

Southern Africa - China Economic Relations: Trends and Outcomes - Trade and Industry.

Prospects for SADC Regional Integration through Industrialization and the Role of China
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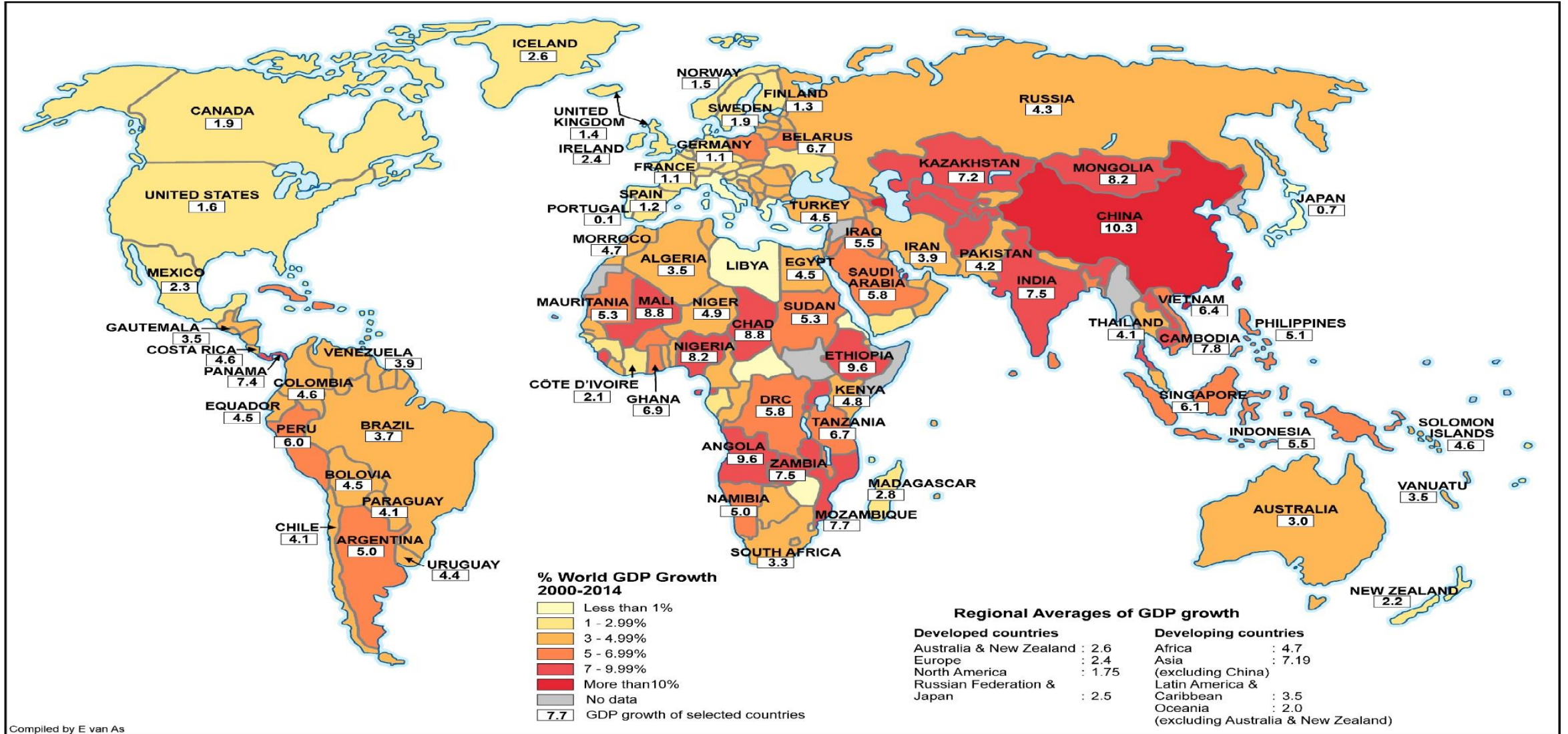
Outline

- Introduction: positive trends in Africa & changes in global economy
- China in Africa – a three dimensional perspective
- SADC trade and industry patterns with SADC/China
- Impediments to growth, trade and industrialisation in Africa
- How competitive are we?
- How current frameworks address these impediments
- Institutional Constraints
- Conclusion and Recommendations

Recent positive trends in Africa

- The only continent that has registered a steady 4.7% growth 2000 – 2014, mainly at the back of bullish commodity prices driven by increased demand from China and India.
- Significant macroeconomic, political & regulatory reforms in some countries
- Increased regional responsibility and commitment to stability, slight departure from the initial policy of *non-interference*, e.g. *APRM*, other regional mechanisms to intervene in conflict.
- ***Africa has emerged as a strategic partner in global growth post cold-war***

Changes in Africa



Social science that makes a difference

Source: WDI, World Bank



Changes in global economic order

- Increasing role of China, BRICS – New development Bank, AIIB – Asian Infrastructure Investment Bank.
 - A shift in the global balance of economic power and growth from west to east, due to slow recovery from the GFC
- Different approach from the Washington consensus; diversity of perspectives to development, recognition of country-specific development pathways,
- Place no demands on accountability, transparency, institutional quality, environmental standards and civil liberties – *a challenge for institutional quality in Africa, beginning to deteriorate on the continent.*
- ***China's spectacular economic growth offers new opportunities for Africa but also challenges***

Changes in geopolitical order

- China has been growing at 10% per annum for a number of decades. Now strategically scaled down due to their “new normal policy” – move towards environmentally responsible and sustainable quality growth
- China has emerged as the highest consumer of mineral resources, only second to US in oil consumption,
- Policy aimed at sustaining steady growth over time, acquiring mineral and other natural resources globally as part of their “going out” (zou chuqu) policy
- The majority of Chinese mining projects in Africa are in the SADC region.
- Focus: iron ore, tin, coal, steel, copper, zinc, gold, aluminium, nickel, lead and other minerals

Natural resource endowments of selected SADC Countries

| Country | Type of extractive natural resource |
|--------------|---|
| Angola | Oil, diamonds |
| Botswana | Coal, copper, diamonds, gold, nickel, platinum |
| Mozambique | Forestry. Chromium, cotton. |
| Namibia | Silver, gemstones, copper, gold, diamonds, zinc |
| South Africa | Coal, chromium, diamonds, gemstones, gold, iron, manganese, phosphate, platinum, uranium, zinc. |
| Swaziland | Coal, diamonds, gold |
| Tanzania | Coal, Gold, diamonds, gemstones, phosphate |
| Zambia | Cobalt, copper, gemstones, zinc |
| Zimbabwe | Over 60 minerals and precious stones |

Social science that makes a difference

Source: Authors construction using data from Geoscience Magazine <http://miningreview.com/mineralmap.php>

China in SADC/Africa

Viewed from 3 main perspectives; China as a

- development partner – alternative trade and funding source for African countries, improving the bargaining and leveraging power of African governments when dealing with other potential investors
- competitor – huge influx of Chinese goods, competition with local production capacity of receiving countries, short term resource grab, no concern of local needs, uneven playing field.
- potential coloniser – aims to ultimately achieve political control over the continent in the long term, displacing western influence, trade patterns sometimes mimics colonial trade relations.
- ***Will use this framework to analyse trade and industry trends and outcomes between China and the SADC***

As a development partner to SADC countries



- Infrastructure development – road, rail, ports, health, schools, energy etc.
- Special Economic Zones, in Zambia, DRC, Angola, South Africa
- Industrial parks
- Demand for Africa's natural resources, creates competition for traditional “western buyers”, fuelling growth in resource endowed countries
- Zero tariff treatment for 454 commodities from 30 LDCs in Africa, hoping that access to Chinese markets will boost production in source countries and create jobs.
- FDI of various sorts



- New Infrastructure is built by China **and paid for** by China, little sustainable local job creation, or transfer of skills and technology to receiving country.
- New infrastructure meant to facilitate easy access by China and expatriation of natural resources to China.
- Chinese investments are mostly in exchange for natural resources in their raw state – locks resource endowed African countries into producers and exporters of primary commodities – a “box” we are striving to get out of since independence .
- This “box” is likely to delay our industrialisation drive and mimics colonial trade relations.
- Environmental concerns raised in China's strategic investments especially in the area of mining.

As competitor to SADC countries



- Access to Chinese manufactured exports – giving households, firms and governments access to a wide variety of goods and services for consumption
- Cheaper prices of Chinese manufactures – savings, although quality is sometimes not assured.



- Poses a major threat to domestic production and output, and consequently employment
- Due to capacity constraints we don't export equal volumes to China. Widening trade deficit between SADC/Africa countries and China.
- An unequal exchange by virtue of sheer size, technological sophistication, diversity of economic production and sheer creativity – African countries at a huge disadvantage.
- This disadvantage is further compounded by lack of regional value chains in Africa's sub-regions and continent as a whole to leverage synergies in productive capacity and technological progress.
- Each country is basically outsized, while China benefits from the economies of scale of our combined populations

As a potential coloniser of Africa or SADC countries



- China takes a “non-interference posture” in its relationship with its trade partners, staying clear of internal affairs.
- Does not require its trading partner to vote alongside China on international resolutions.
- Soft power – influence by relationship than by dominance
- To mitigate the trade imbalance and enhance market access, China has implemented zero tariff treatment for 454 commodities from 30 LDC in Africa.
- Zero tariff commodities include manufactured and processed products such as plastics, chemicals, industrial tools, vehicles, machinery, and spare parts



- When one partner benefits more than the other in a trade relation, trade could become an instrument of national power
- The fear is that China will use the dependence of Africa to exercise political control over African countries
- As a new and positive alternative to Africa’s usual western partners, China now has significant influence over the continent.
- China’s growing political and economic influence over the continent is likely to be further strengthened by the slow recover in Europe and the Trump presidency in the U.S. which is more inward looking than outward looking, pro America and yet to show any significant interest in Africa. Could Africa be vulnerable to over dependence on China?

Trade patterns – SADC and China

What does China want?

- Angola: petroleum and diamonds
- DRC: oil, vast range of mineral resources
- Mozambique: Wood products, vegetables, fisheries, chromium, precious stone and cotton
- South Africa: vast range of mineral resources, chemicals, pulp and paper, textiles, clothing, live animals, agricultural products etc.

In exchange for – SADC?

- Angola: infrastructure projects: housing, road, energy, water, health, offshore oil production platforms, telecommunication and agro processing, vast range of machinery and manufactured goods
- DRC: infrastructure development: road, rail, health, energy etc. (some co-funded by DRC government) plus manufactured goods.
- Mozambique: telecommunication, transport and energy infrastructure etc. plus manufactured goods
- South Africa: machinery, electrical equipment, footwear, textile and other manufactured goods.

Trade patterns – SADC and China

What does China want?

- Zambia: copper, currently in most sectors of the Zambian economy
- Zimbabwe: Over 60 minerals and precious stones

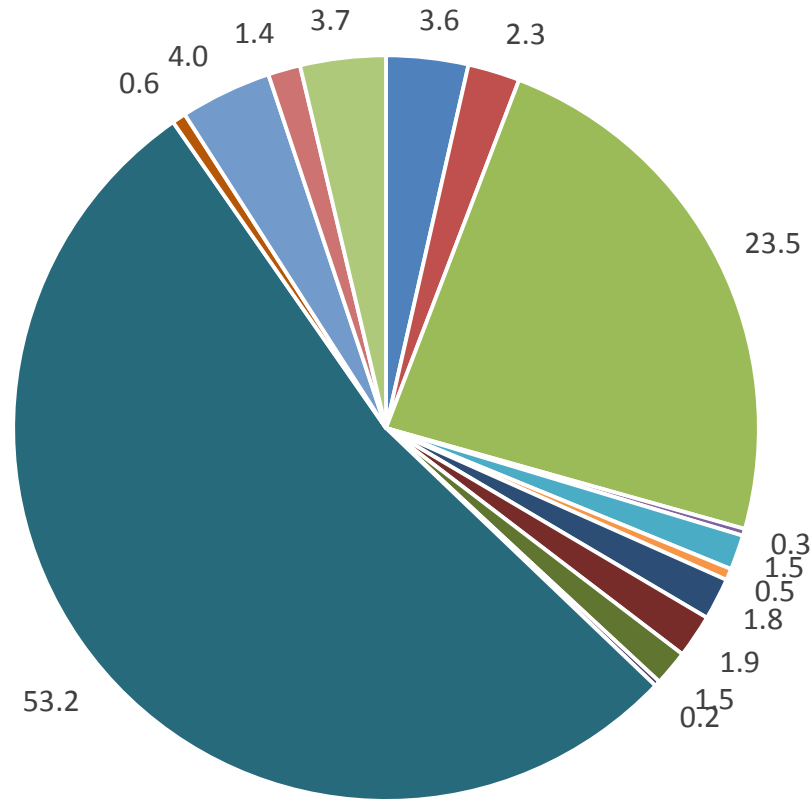
In exchange for - SADC?

- Zambia: investments into manufacturing capacity, construction, mining, retail trade and tourism.
- Zimbabwe: infrastructure development, funding, and a vast range of manufactured goods

Trade patterns – South Africa and China

- South Africa's relationship with China is more advanced beyond a “*minerals exchange*” compared to the rest of SADC and Africa as a whole
 - Political: FOCAC, UN, BRICS, G-20
 - Economics: trade and investment relations
 - Social: people to people exchanges, cultural diplomacy
- South Africa is the only African country with investments in China, especially in mining and textiles, and with the largest access to Chinese markets in Africa.
- However like most other African countries South Africa, singularly, is outsized by China, huge influx of Chinese manufactures, trade and investment posture not creating jobs locally, low level of skills and technology transfer from China

Share of member states to regional SADC GDP in 2000

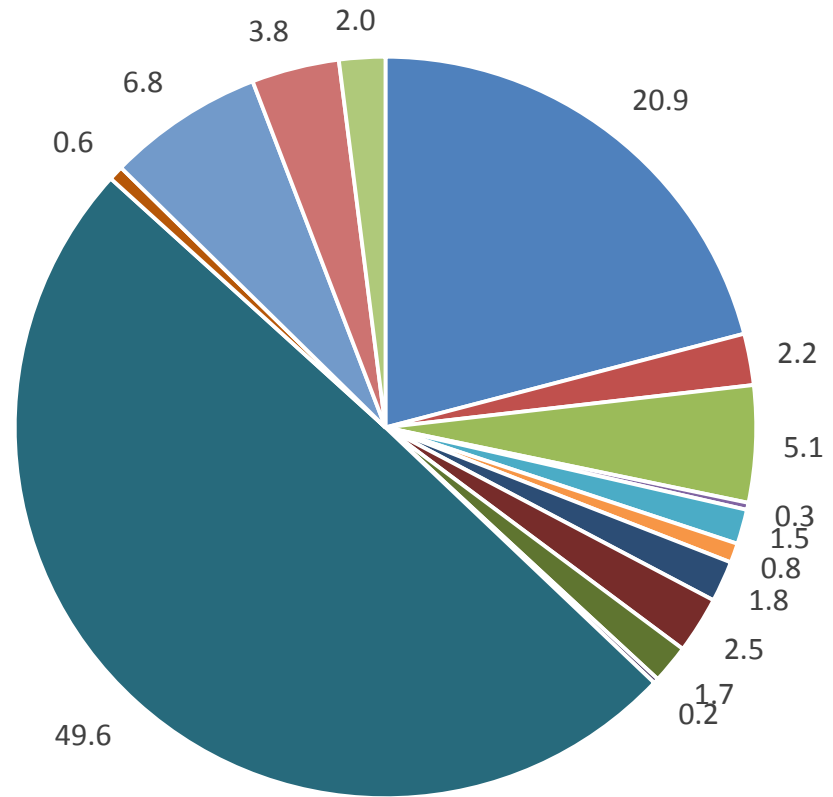


■ Angola
■ Lesotho
■ Mauritius
■ Seychelles
■ United Republic of Tanzania

■ Botswana
■ Madagascar
■ Mozambique
■ South Africa
■ Zambia

■ Democratic Republic of Congo (DRC)
■ Malawi
■ Namibia
■ Swaziland
■ Zimbabwe

Share of member States to regional GDP in 2014

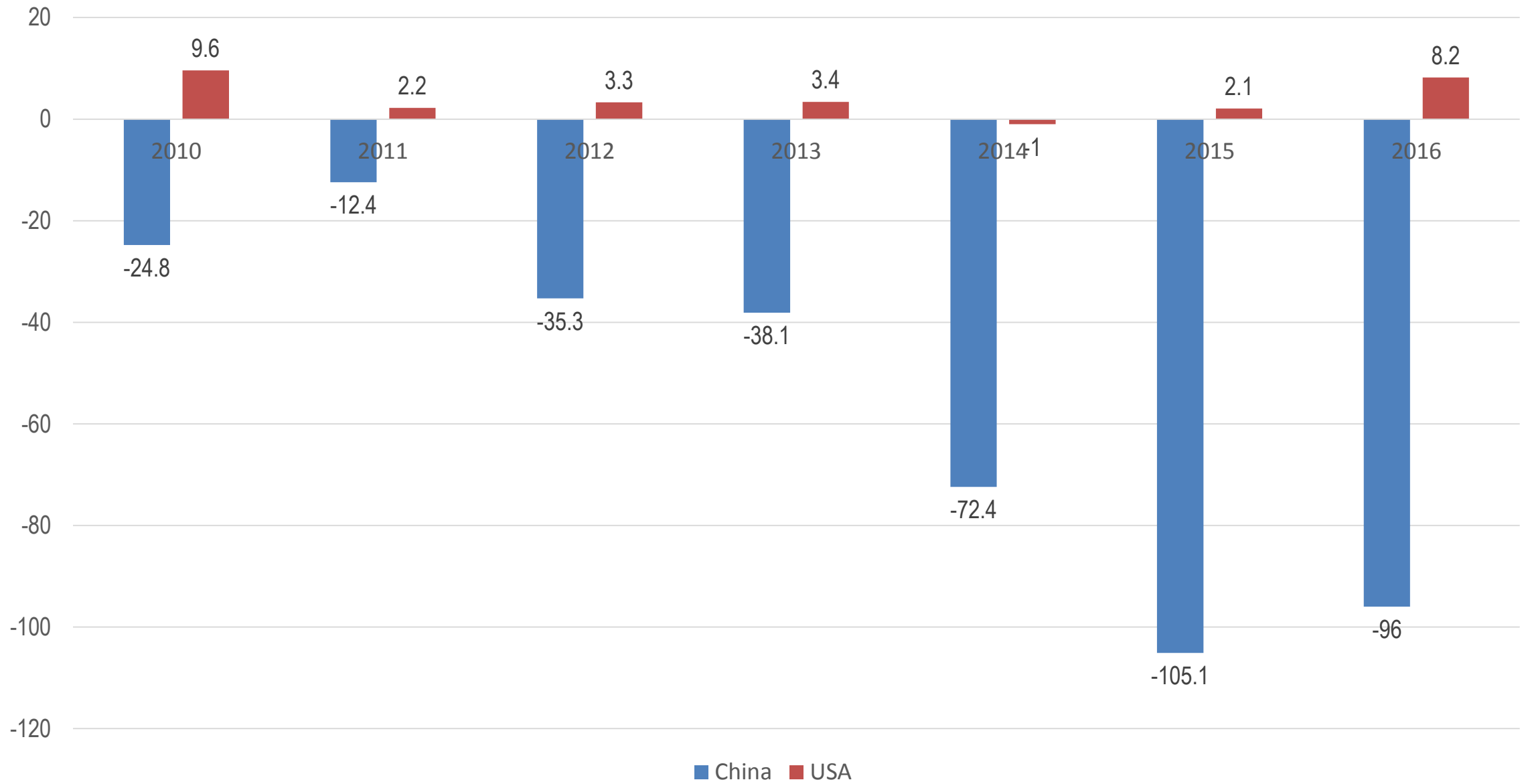


■ Angola
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■ Mauritius
■ Seychelles
■ United Republic of Tanzania

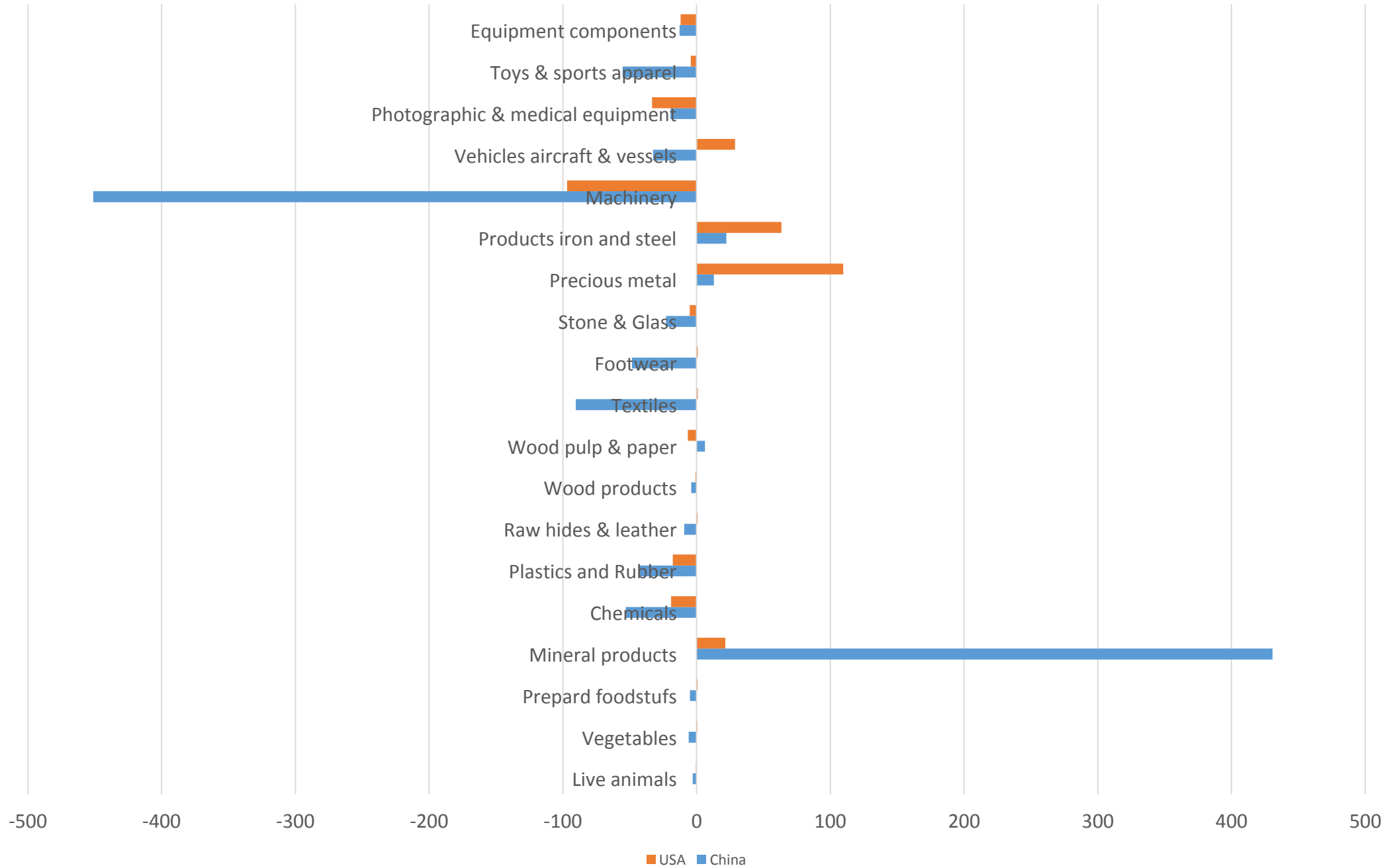
■ Botswana
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■ Mozambique
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■ Zimbabwe

SA trade balance from 2010 to 2016 with China and USA



Trade balance per product type (2010 - 2016)

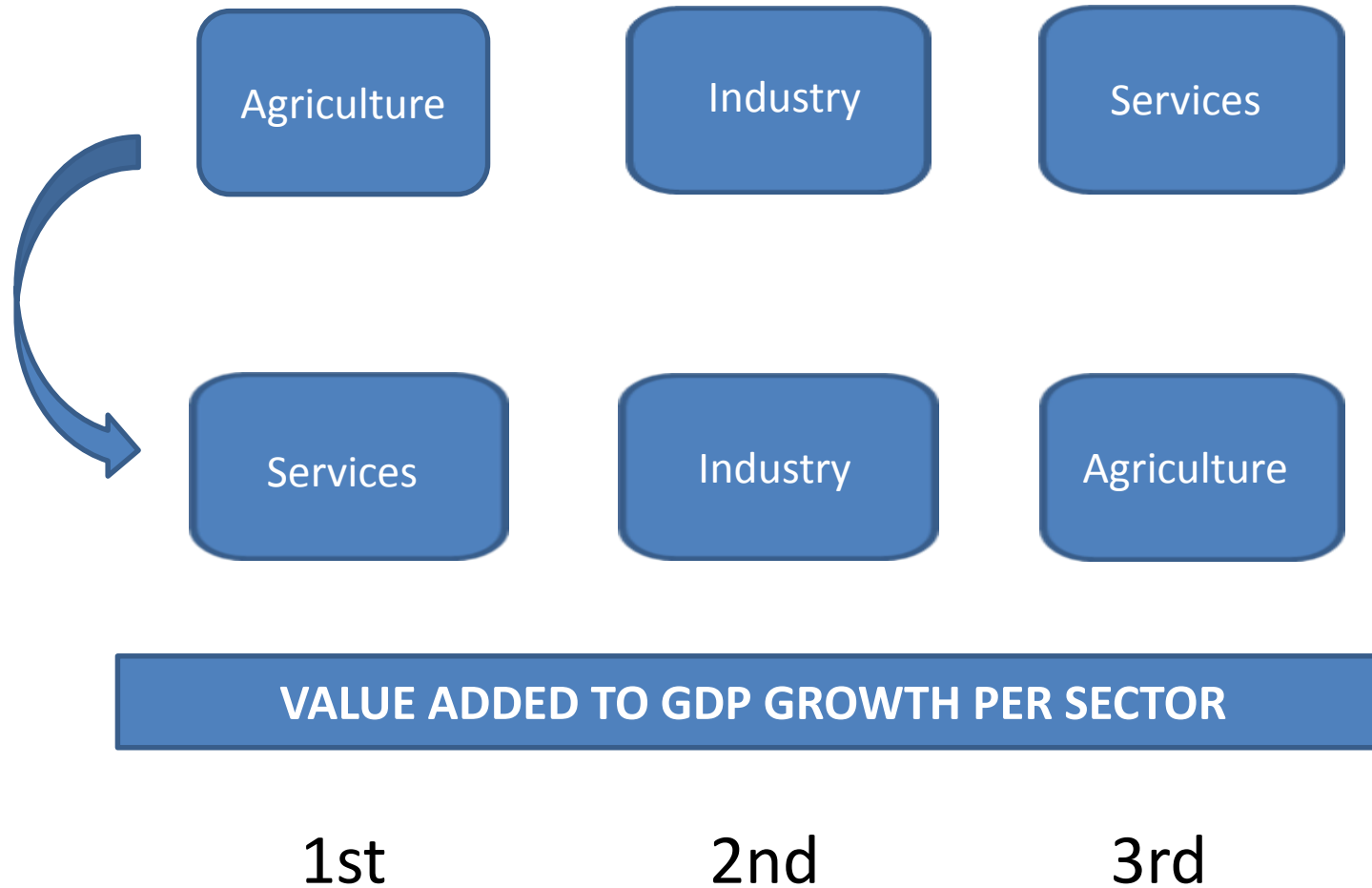


Trade balance per product type (2010 – 2016)

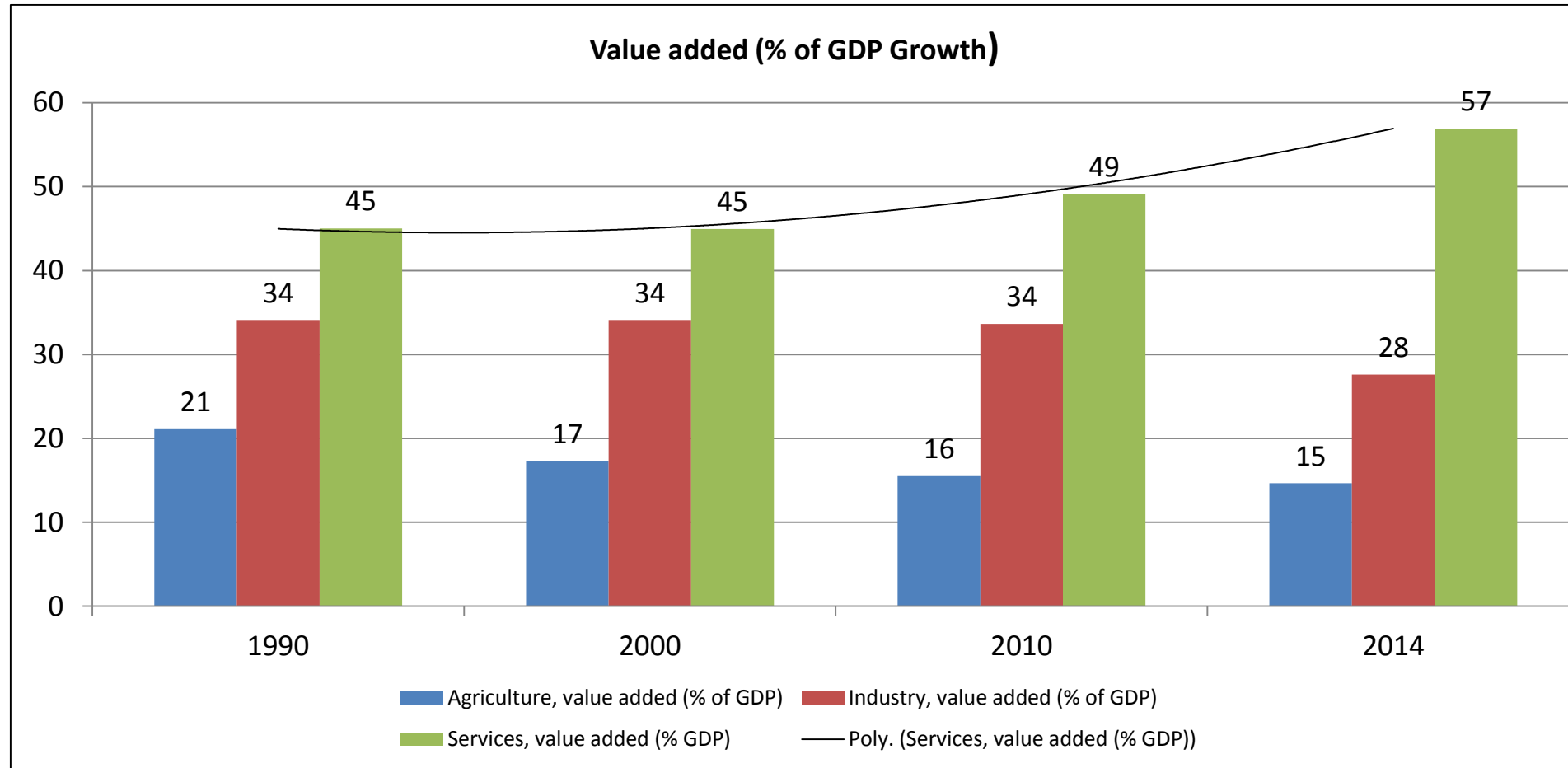
- SA's trade surpluses with both China and the USA are in mineral exports, precious metals and iron and steel products, very huge exports to China. In every other case SA has a trade deficit. With the zero tariff treatment from China are there still non-tariff barriers?
- Slow recovery from GFC by western countries to blame? Minerals China's only interest from South Africa/SADC countries? Are we stuck in the primary commodity exports "box"?
- SA has a trade surplus of R846.6 million rands in vegetable exports to the USA over the period but a deficit of R6 billion rands with China. Zero tariff treatment from China, are we incapable of boosting Agriculture to producing and exporting more to the Chinese market?
- Similar trend for processed food. Surplus with the USA, huge deficit with China – opportunity for agro-processing? Are there "non-tariff" barriers?

Impediments to growth, trade and industrialisation in Africa

SSA's changing economic structure

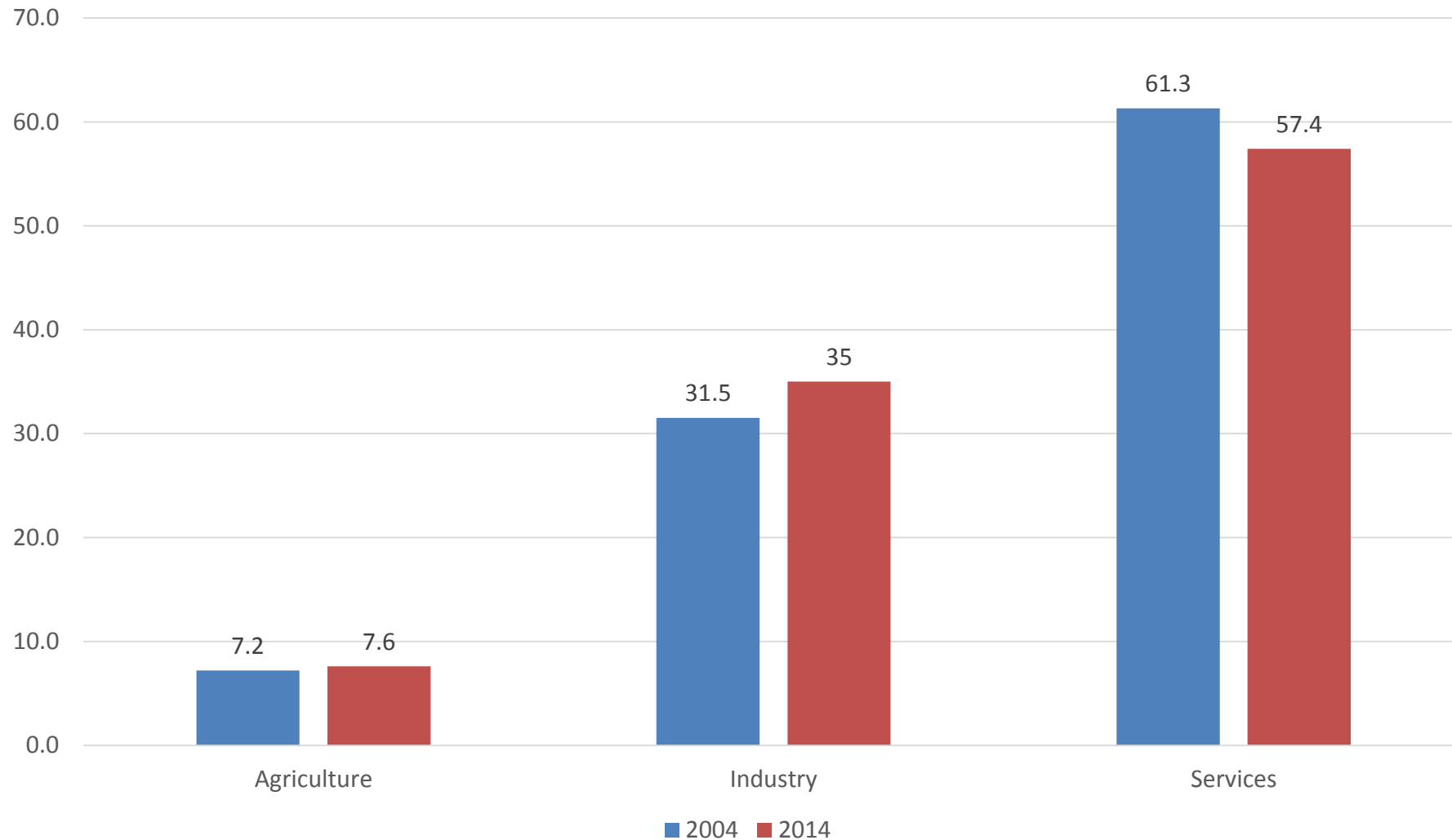


SSA's changing economic structure



Source: World Development Indicators of the World bank

% share of GDP per economic activity in SADC (2004-2014)

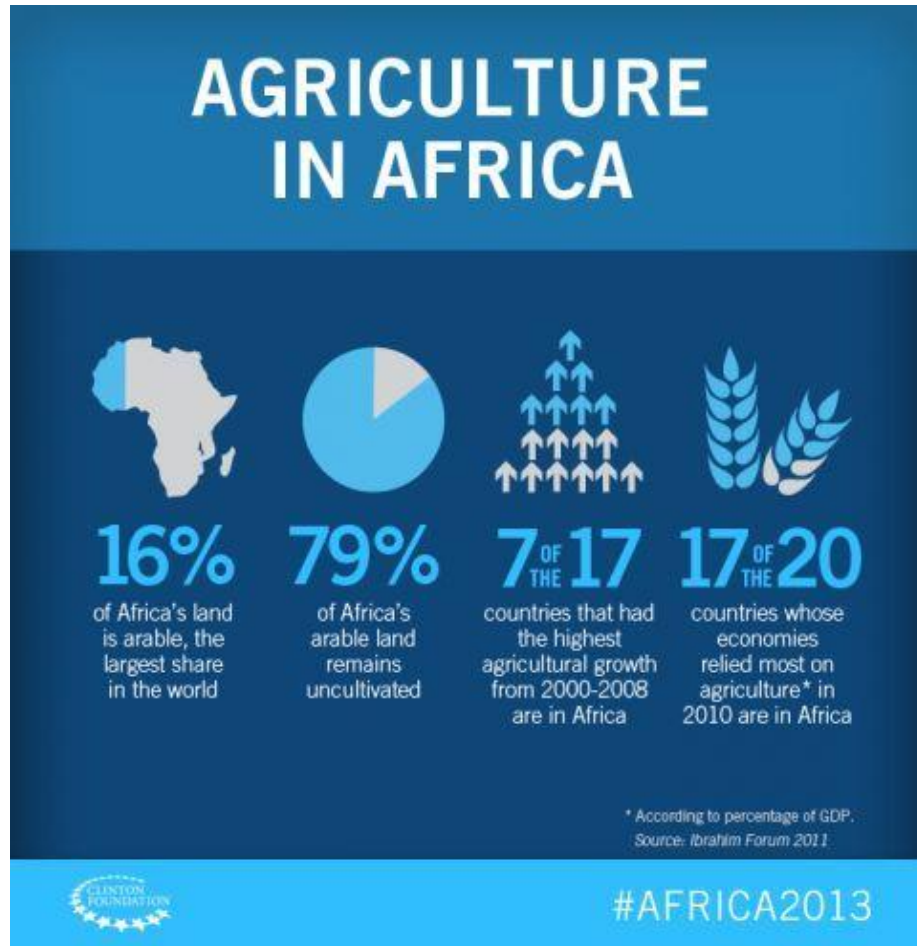


Social science that makes a difference

Source: SADC Statistics. <http://www.sadc.int/information-services/sadc-statistics#Indicators>



SSA's changing economic structure



- Rain dependent, no modern irrigation - vulnerable to the vagaries of climate change – low productivity, only 3% of crop is irrigated
- 30% post harvest losses due to poor storage/processing infrastructure – \$4 billion dollar per year
- \$25 billion worth of staple food imports annually
- Financial exclusion due to lack of collateral, land registries, insecure land tenure, under developed insurance products
- Decline in expenditure allocation from 4.5% of total expenditure in 2001 to 2.5% in 2012, despite a pledge of 10% at the 2003 A.U. Maputo Declaration

SSA's changing economic structure

Agriculture:

- Value added has declined steadily over the last 4 decades, due to poor productivity and low value addition. Agriculture, employs 50 – 65% of labour force, 47% are women

CELEBRATING INTERNATIONAL WOMEN'S DAY
WOMEN ARE FARMING FOR AFRICA'S FUTURE

YET, IN SUB-SAHARAN AFRICA:

WOMEN FARMERS OWN JUST 15% OF AGRICULTURAL LAND

WOMEN RECEIVE JUST 7% OF TRAINING AND EXTENSION SERVICE SUPPORT AND HAVE RESTRICTED ACCESS TO SEED AND TOOLS

WOMEN RECEIVE LESS THAN 10% OF CREDIT

THIS LACK OF EQUALITY MEANS WOMEN FARMERS can be up to 25% less PRODUCTIVE THAN THEIR MALE COUNTERPARTS

WITH EQUAL ACCESS TO RESOURCES WOMEN HAVE THE POTENTIAL TO LIFT 150 MILLION PEOPLE OUT OF HUNGER WORLDWIDE

SELF HELP AFRICA WORKS WITH SMALLHOLDER FARMERS, TACKLING HUNGER & POVERTY THROUGH FOOD PRODUCTION & RURAL ENTERPRISE.

Self Help Africa
selfhelpafrica.org
(source - FAO, World Bank, Farming First)

- 80% are small-holder farmers producing low yield staple food crops, largely subsistence farming
- Decline in young population - youth are leaving agriculture for other opportunities in urban areas
- 450 million people to join the labour force in Africa by 2025 – demographic dividend

SSA's changing economic structure



Industry:

- The value added of industry stalled over the last 3 decades followed by a decline of 6% in the immediate past decade
- Unstable energy production, stalled manufacturing sector, although construction hasn't done too badly, 4th industrial revolution?
- Lack of the requisite skillset of individual country labour force
- Low participation in GVC and RVC especially in manufacturing
- More forward integrated than backward integrated which is more beneficial to productivity growth and job creation



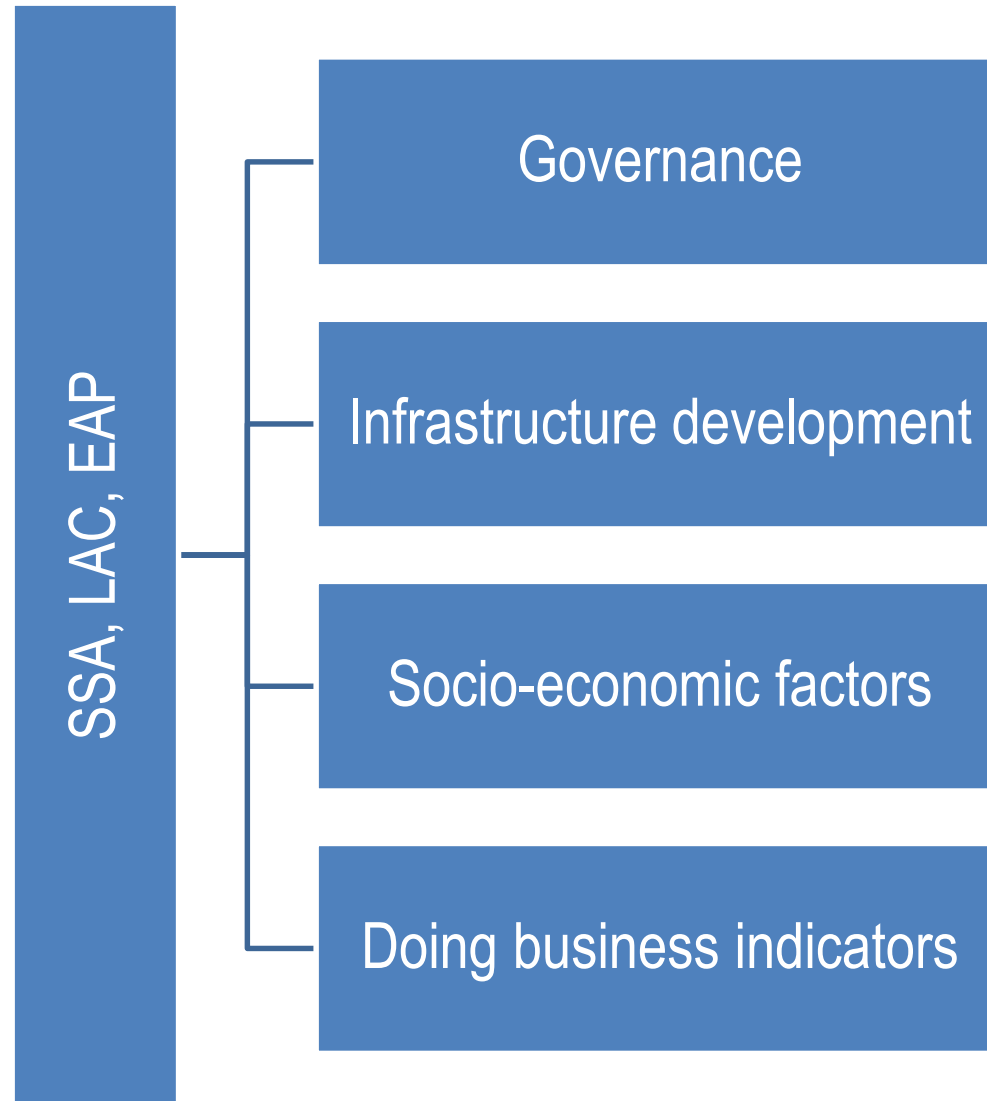
SSA's changing economic structure

Services:

- Currently contributes over 50% to GDP growth in SSA
- Overtaken industry and agriculture, largely driven by trade services
- Services have made up for the loss in value added by agriculture
- Services such as: ICT and other professional services, banking and financial services, hotels and restaurant,
- **Cannot be a reliable pathway to a sustainable industrialisation in Africa.**
- **We need to take one step back and fix the underlying challenges with the structure of our economies as we talk about industrialization, 4th industrial revolution etc.**

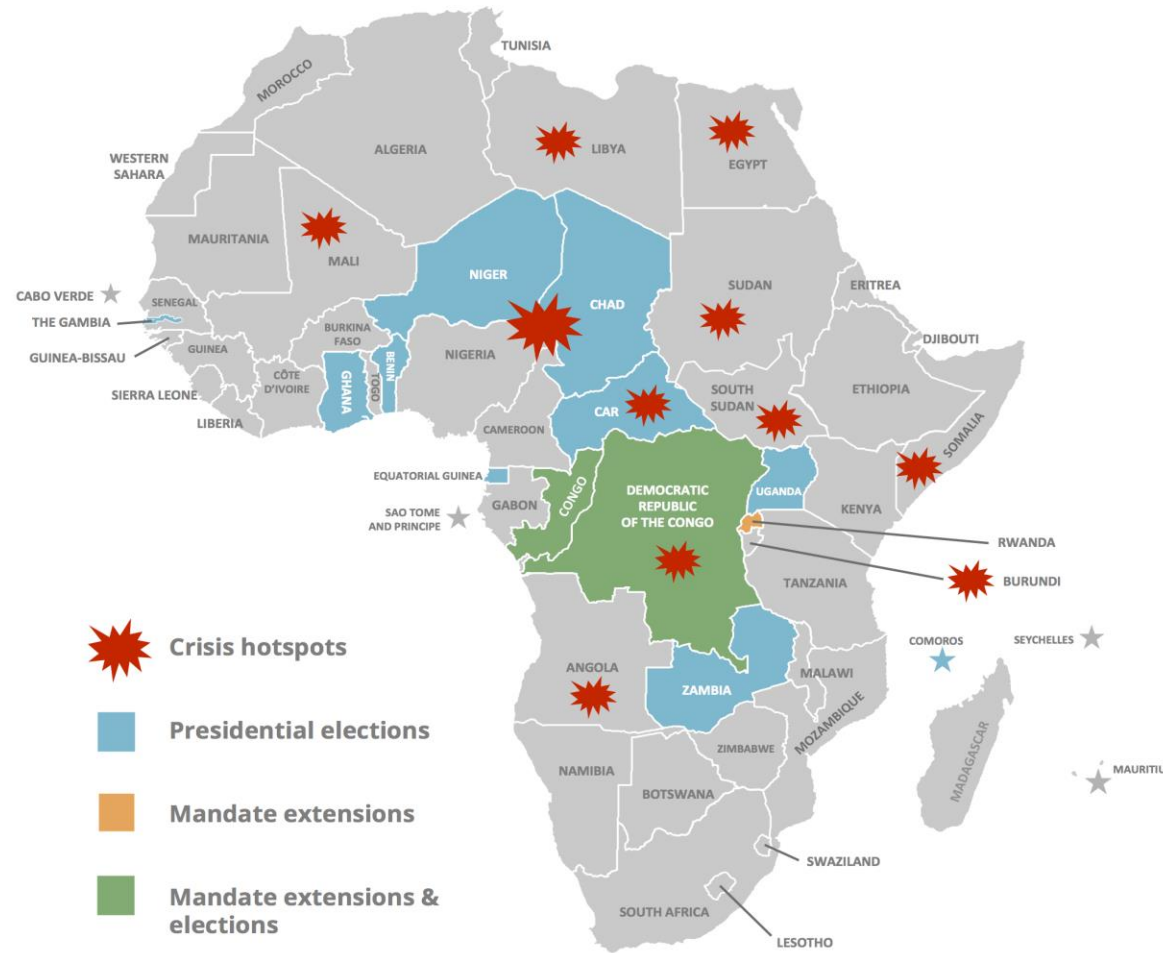
How competitive is Africa?

SSA's CV: comparative international competitiveness



SSA: instability

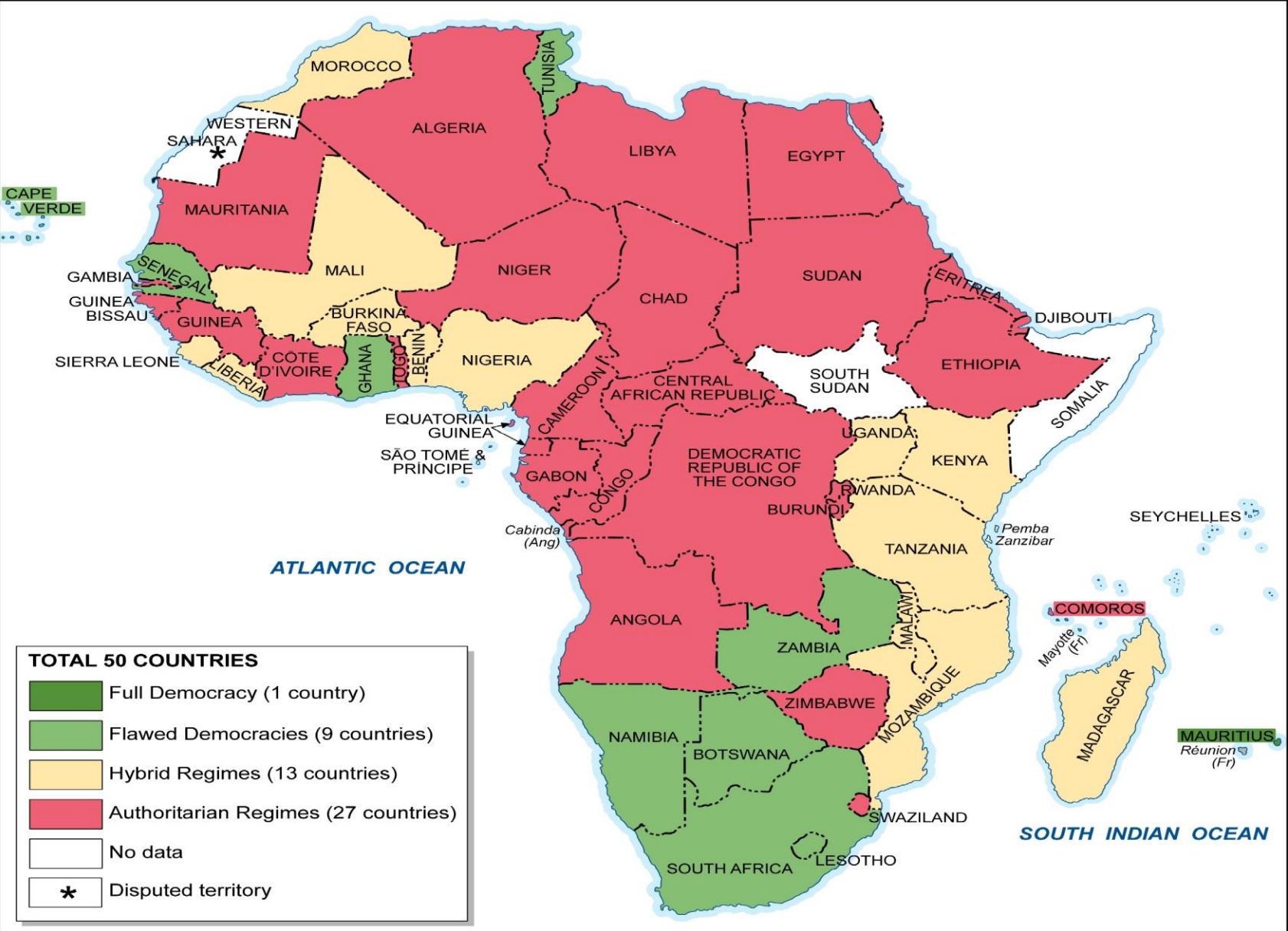
Africa in 2016



Crisis hotspots

| | |
|---------------------------------|---|
| Angola | Growing political instability |
| Burundi | Instability due to political violence |
| Cameroon, Chad, Nigeria & Niger | Islamist insurgency |
| CAR | First elections after civil war & transition period |
| DRC | Potential term-limit extension & contentious election |
| Egypt | Developing insurgency |
| Libya | Civil war |
| Mali | Islamist insurgency |
| Niger | Attempted coup |
| Somalia | Ongoing civil war |
| South Sudan | Civil war |
| Sudan | War in Darfur |

SSA's governance snap shot



State of infrastructure development

| Infrastructure | Type | SSA Africa | Other regions |
|-------------------|-------------------------|--|---|
| Telecommunication | Internet access | 17% access | 47% EAP; 41% LAC |
| | Mobile Technology | 66% | 96% EAP; 115% LAC |
| | Fixed line technology | 3% in SSA | 19% Latin America, 16% Middle East and North Africa |
| Transportation | Road access | 204 km per 1000km ² of land area in SSA | 944 km per 1000 km ² of land area (World average) |
| | | 3.6 km of road per 1000 persons for the region | 7 km per 1000 persons (world average) |
| | Railway network density | 30 to 50 per million people | 200 to 1000 in developed countries (Europe) |
| | Ports | < 20 container moves per hour | 25 to 30 container moves in modern terminals around the world |
| Energy | Electricity | 32% of the population have access to electricity | 95% LAC; 96% EAP as at 2010 |
| Water | Water | 65% access to clean water | 87% in East Asia and pacific; 91% Latin America and Caribbean |

Source: African Union (2014) and African Development Bank (2010).

State of socio-economic development

| Socioeconomic | SSA | LAC | EAP |
|--|--------------------------------------|--------------------------------------|---------------------------------------|
| GDPC annual (%) growth (1990-2013) | 2.5% | 1.8% | 7.7% |
| Poverty (%) living below \$1.25 a day 2009 - 2012 | 47% | 4% | 12% |
| Use of improved sanitation facilities (%) 2012 | 29% total; 41% urban 23% rural | 82% total; 87% urban 63% rural | 68% total; 77% urban; 58% rural |
| Infant mortality (under 5 years per 1000 live births, 1990 -2013) | 179 - 92 | 54 - 18 | 58 - 19 |
| Life expectancy (2013) | 57 | 75 | 74 |
| Survival rate to last primary grade (%) (2009 - 2012) | 58% | 77% | 92% |
| Population growth (%) (1990 – 2013) | 2.7% | 1.4% | 1.0% |

Source: UNICEF, WHO, United Nations Population Division, World Bank.

How we fared in the MDGs

| MDGs | SSA | LAC | SEA |
|---|--|---|---|
| Extreme poverty/Hunger Eradication (% change between 1990 & 2015) | 28 % | 66 % | 84 % |
| Free/Compulsory universal basic education (Adjusted net enrolment rate in primary education in 2015) | 80 % [2015] 60 % [2000] 52% [1990] | 94% [2015] 94% [2000] 87% [1990] | 97 % [2015] 96% [2000] 97% [1990] |
| Gender equality and women empowerment Share of women in wage employment in the non-agricultural in 2015 | 34 % [2015] 28% [2000] 24% [1990] | 45 % [2015] 43% [2000] 43% [1990] | 39 % [2015] 37% [2000] 35% [1990] |
| Child mortality (under 5 years per 1000 live births) (% change between 1990 & 2015) | 52 % | 69 % | 62 % |
| Improving maternal health (% change between 1990 and 2013) | 49 % | 38 % | 57 % |
| HIV/AIDS. Malaria and other diseases Estimated number of new HIV infections in 2013 (thousands) | 1464 | 106 | 120 |

Doing business indicators

| Infrastructure | SSA | LAC | EAP |
|---|--|---|---|
| Cost of starting a business (%) of income per capita | 200% (2005); 103.7 % (2010) 53.4% (2015) | 60.6% (2005); 39.4% (2010) 31% (2015) | 50.1% (2005); 28.5% (2010) 23% (2015) |
| Procedures required to start a business (number) | 11.2 (2005) 9.2 (2010); 8 (2015) | 10.2 (2005) 9.2 (2010) 8.3 (2015) | 8 (2005) 7.9 (2010) 7 (2015) |
| Time required to start a business (days) | 63.2 (2005) 45.6 (2010) 26.8 (2015) | 75.4 (2005) 57.2 (2010) 29.4 (2015) | 46 (2005) 39.3 (2005) 26 (2015) |
| Total tax rate (% of profit) | 72.5 (2005) 69.9 (2010) 46.5 (2015) | 49.8 (2005) 47.3 (2010) 47.7 (2015) | 37.3 (2005) 33.1 (2010) 33.5 (2015) |
| Cost to enforce a contract (% of claim) | 50.3 (2005) 50.4 (2010) 44.9 (2015) | 31.9 (2005) 31.4 (2010) 30.8 (2015) | 46.3 (2005) 46.2 (2010) 48.8 (2015) |

How existing frameworks address these impediments

(Refer to Table)

How existing frameworks address these impediments

Existing frameworks

- FOCAC: Forum on China-Africa Cooperation
 - RISDP : Regional Indicative Strategic Development Plan
 - SADC Industrialisation strategy and Roadmap
-
- How they align with
 - Agenda 2063, the Africa we want
 - Sustainable Development Goals (SDGs)

Additional Institutional Constraints

Institutional constraints

| Constraint | Description |
|-------------------------------------|---|
| 1. Weak policy implementation | <ul style="list-style-type: none">- Historically weak capacity to breakdown strategic vision into implementable programmes- Leads to poor implementation |
| 3. Policy uncertainty | <ul style="list-style-type: none">- A weak strategic vision and poor policy development leads to an uncertain policy environment- Poor regulation,- lack of transparency and standardisation in procurement processes, permit complications, complicated tax policy regimes |
| 3. Poor Institutions and red tape | <ul style="list-style-type: none">- Corruption, lack of transparency- Poor government capacity |
| 4. Diversity of risk in SADC/Africa | <ul style="list-style-type: none">- Heterogeneity, Political risk, labour market risk, regulatory risk, macroeconomic risk |

Conclusion

- China has a clear strategy for Africa, but it is not clear if Africa has one.
- The structure of our trade relations with China locks us into a “box” of primary commodity production and exporting countries – something we are seeking to diversify our economies from through industrialisation and enhanced trade.
- African countries including the SADC needs to direct international assistance towards our barriers to industrialisation and improved trade
- Implementation capacity is woefully lacking, despite excellently planned, designed and documented strategies for sustainable and inclusive growth and development
- Regional Institutional standardisation, regional value chains well linked to global value chains would be very useful for Africa’s progress in trade.
- There is the need to leverage our collective skills and draw synergies from our diversity and complement our short comings to enhance our global competitiveness.

What should Africa do?

- Improvements in Institutional quality
- Structural transformation, diversify from primary commodities and natural resources, industrialise, develop regional value chains, linked to global value chains
- Economic transformation to address poverty, inequality, unemployment
- Political will to achieve agreed targets plus improved implementation capacity
- Discipline and commitment to ensure change

How do we forge forward from here? Lets discuss



Thank You

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