

Sino-Africa Trade Amid & Beyond COVID-19

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“SUSTAINING AFRICA-CHINA COOPERATION POST-COVID-19”

Preamble

- I welcome the opportunity to speak to Sino-Africa trade
- I Thank the **Gusau Institute** and the **Center for Nigerian Studies at Zhejiang Normal University** for asking me to deliver the subject paper at this webinar
- The topic, Sino-Africa Trade Amid and Beyond COVID-19 is very timely
- It comes at a time when the African economy is facing one of its worst economic crisis
- This is therefore a time for sober reflection on both sides



Presentation Outline

- 1 Sino-Africa Trade Patterns Pre-Covid-19
- 2 COVID-19 and its Structural Dimensions
- 3 Underlying Strengths and Weaknesses of Sino-Africa Trade
- 4 The Path to a Stronger Partnership

Sino-Africa Trade Patterns Pre- COVID-19



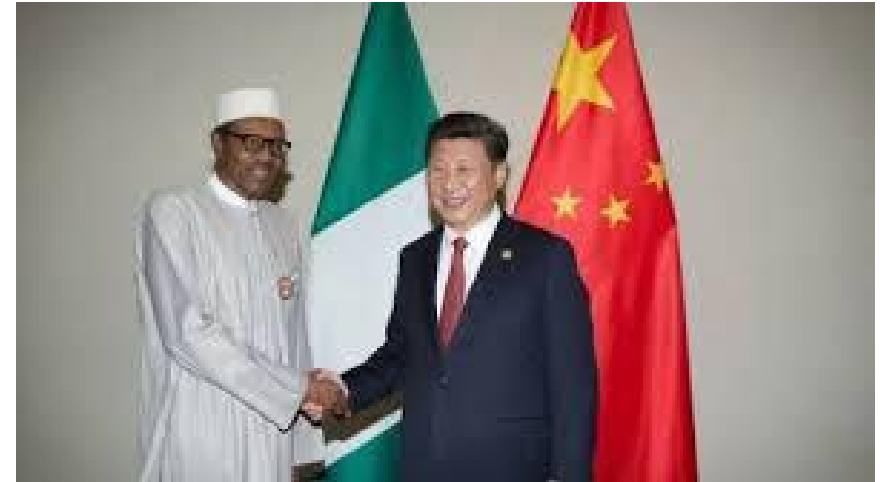
Historically, Sino-African trade had been built along three dominant tracks:

- Government-to-Government
- Economic cooperation (Infrastructure Development)
- Trade in Goods/Services



Government to Government

- The primary locomotive propelling Chinese foreign trade relations is the Exim Bank of China (Eximbank)
- The Bank is a government institution under the direct leadership of the State Council
- It operates both in China and overseas (including African countries)

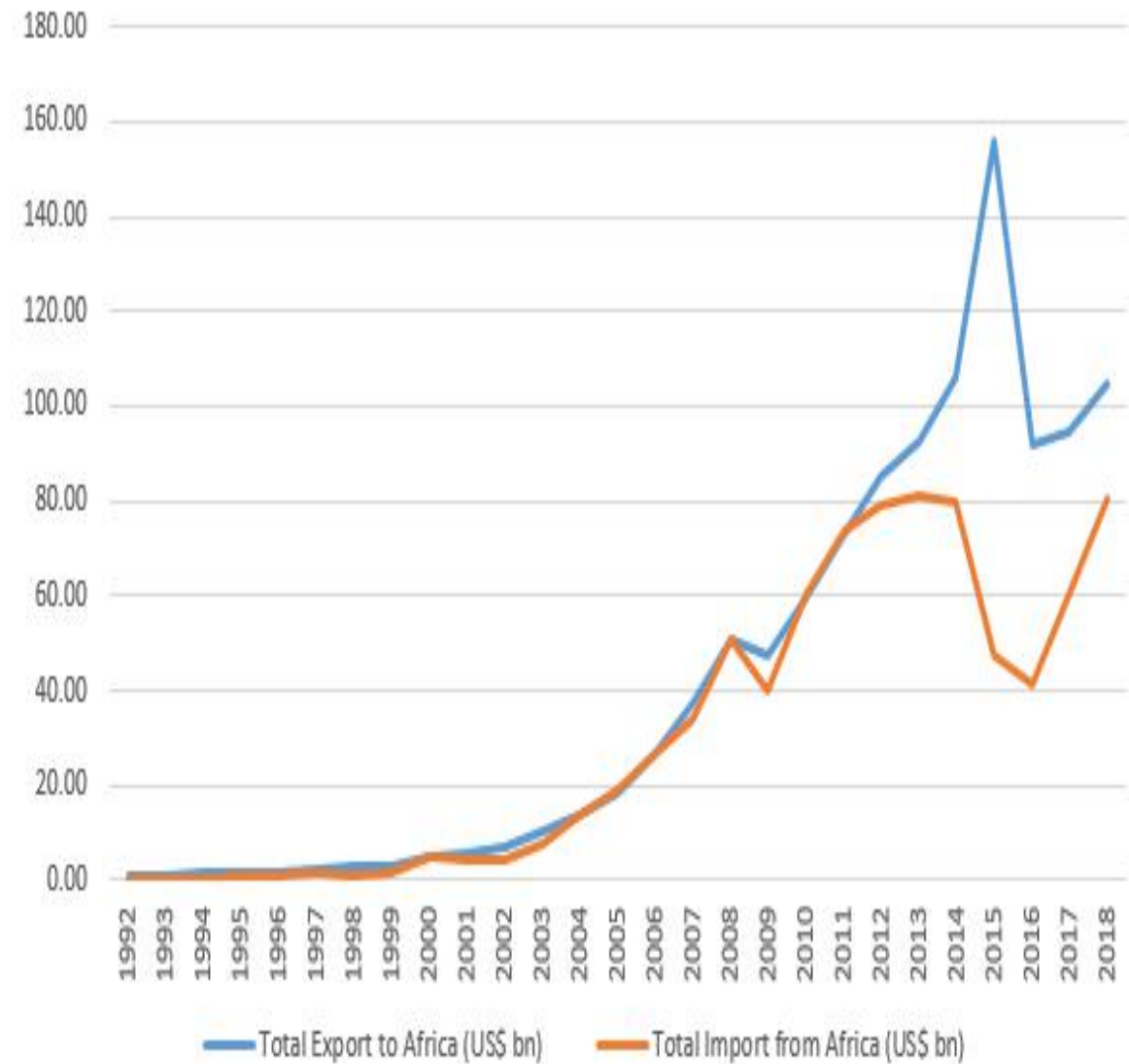


Economic Cooperation (Development of Infrastructure)

- Another channel through which Chinese government links its trade activities with Africa is by supporting economic cooperation projects.
- Areas of economic cooperation where China is most active in Africa include:
 - Infrastructure (railways, roads, seaports, aviation, power, military arms and equipment and telecommunications)
 - Facility construction projects (hospitals, government offices, stadiums, schools)
- In addition, China supports trade activities with Africa in the form of credits:
 - Preferential export credits,
 - Market-rate export buyers' credits, etc

Trade in Goods/Services

- China-Africa trade rose from \$10 Billion dollars in 2000 to \$220 Billion in 2014.
- China has executed bilateral trade agreements with 40 countries in Africa.
- China surpassed the U.S. in 2009 to become the largest trading partner of Africa



Trade in Goods/Services

- However, this trade relationship is characterized by high concentration of resource exports from Africa and non-resource imports from China.
- In 2018, natural resources accounted for more than 70% of Africa's exports to China



COVID-19 and its Structural Dimensions



COVID-19 and its Structural Dimensions

- COVID-19 has created unprecedented challenges to the global community
- No nation has been spared the devastating social and economic consequences
- Beyond severe health crisis, the pandemic has had colossal impact on:

Finance Sector:

- Financial Institutions under stress due to liquidity squeeze and pressure across industries (especially in highly leveraged organizations)
- Thus credit flow to real sector including SMEs has reduced dramatically

COVID-19 and its Structural Dimensions

Manufacturing and service sector:

- On the supply side, there has been a sharp drop in access to imported goods and inputs, shorter business hours, business closures, and worker absenteeism due to illness or quarantines.

Hospitality and Tourism:

- Due to pervasive lockdowns and restricted travels, the global hospitality and tourism industry has taken an unprecedented hit

COVID-19 and its Structural Dimensions

Primary Commodities:

- Oil prices collapsed from \$61.05 in Dec '19 to \$23.20 in March '20 effectively tanking the economies of oil producing countries

Infrastructure:

- Many large infrastructure projects in Africa have been stranded due to travel restrictions, supply chain and funding constraints.

COVID-19 and its Structural Dimensions

Other Fiscal challenges:

- Many African countries' tax revenues have been eroded as domestic industries cut down production due to:
 - ✓ Fall in aggregate demand
 - ✓ Lack of access to imported inputs
 - ✓ Shorter business hours, among others.

COVID-19 and its Structural Dimensions

HOWEVER, WE CAN SEE SOME SILVER LINING:

- African countries have only recorded a small fraction of the COVID-19 infections and deaths seen in Europe, the Americas, and Asia.



Bottom Line!!!

COVID-19 has taken a huge toll on Africa:

- ✓ Increased extreme poverty,
- ✓ Declining fiscal revenues
- ✓ Soaring prices of goods and services
- ✓ Currency depreciation
- ✓ Debt crisis etc



Underlying Strengths and Weaknesses of Sino-Africa Trade



Underlying Strengths and Weaknesses of Sino-Africa Trade

- No doubt - China and Africa have established a robust mutually productive and beneficial long-term relationship
- Like any partnership, it has its high and low points
- The underlying strengths and weaknesses are discussed below in the next set of slides:

Strengths

Development Support:

- China has provided large scale funding, technology, and expertise to roll out vast infrastructure projects so direly needed by Africa.

Supply of Essential Goods:

- China has also supplied Africa with durable goods and consumer products on a vast scale



Strengths

Abundant Resources:

- Africa has contributed substantially to China's large appetite for natural resources especially minerals and hydrocarbon.
- China relies on Africa for 33% of its total oil imports

Population:

- By 2050, Africa's 1.1bn population is slated to double-- with 50% of this growth happening in cities

Burgeoning Economy:

- Africa is well on its way to becoming a \$ 5 trillion economy by 2025 (World Economic Forum, 2020)

Weaknesses

Two Distinct Export Goods:

- China exports to Africa high value added goods while Africa exports to China natural resources with little value addition

Debt-Trap:

- There is a growing concern that Africa is being tied up in a debt-trap diplomacy.



Weaknesses

- Some Examples are pertinent:

- ✓\$4 Billion Addis-ababa- Djibouti railway ended up costing Ethiopia nearly 25% of its 2016 Budget.
- ✓Kenya's Chinese financed railway from Mombasa to Nairobi has gone 4 times over budget, costing the country over 6% of its GDP
- ✓China holds 72% of Kenya's bilateral debt, and 77% of Djibouti's bilateral debt.



Weaknesses

Trade Imbalance:

- African countries with few natural resources frequently experience large trade deficits with China (e.g. Benin, Egypt, Ethiopia, Ghana, Liberia, and Morocco).
- Though, some resource exporters in Africa (e.g. Equatorial Guinea, Republic of Congo, Angola, Libya, and Gabon) enjoyed surpluses in the past.
- However, the crash in commodity prices arising from COVID-19 has further compounded the trade imbalance for the entire region



Weaknesses

Dumping:

- Chinese imports were highlighted as a material threat to a number of South African industries, according to reports by Who Owns Whom.
- However, the Record of Understanding signed with China in 2006 makes it difficult for South African to impose anti-dumping tariffs on Chinese imports



The Path to a Stronger Partnership



The Path to a Stronger Partnership

Support Africa's Health Systems

- The Covid-19 pandemic is a wake up call requiring significant investment in the African health space in partnership with China.
- While Africa has made tangible progress in reducing communicable diseases (malaria, measles, and HIV/AIDS) which have long constituted the most prominent contributors to disease burden in the region,



The Path to a Stronger Partnership

- However, the increasing lack of capacity to manage trauma victims, maternal care and chronic diseases continue to drive mortality especially among children and the aged population.
- This calls for support with regard to investment in e-health technologies, Research & Development and technical assistance to create robust health systems in the region



The Path to a Stronger Partnership

Develop Local/Regional Markets

- The trade-related impacts of the pandemic present African countries the opportunity to domesticate production rather than dependence on imported goods
- Thus, full implementation of the African Continental Free Trade Area (AfCFTA) would create regional supply chains
- It is important to note that a regional supply chain cannot be built on on poor or non-existing infrastructure/logistics
- China has a large role to play in closing this gap



The Path to a Stronger Partnership

Reduce Bureaucracy in accessing Chinese Markets

- Observations have shown that African firms often struggle with laws and regulations in China.
- In a recent global business survey, 31% of firms cited bureaucracy as their number one concern in doing business with China.
- Most common complaints revolve around obtaining the required licenses/permits and accessing funds from Chinese financial institutions.



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- Consequently, many Chinese sponsored projects suffer long delays in implementation with concomitant cost overruns.
- Thus, strenuous efforts should be made to streamline the aforementioned red tapes to facilitate seamless transactions in a timely manner



The Path to a Stronger Partnership

Diversify exports while increasing value addition to export products

- Diversifying exports and increased value addition could help in reducing:
 - Exposure to global commodity price volatilities
 - The staggering trade imbalance between the two partners



The Path to a Stronger Partnership

Reduce Trade Deficit between China and Africa

- It is obvious that the trade relationship between China and its African partners is largely lopsided - the dice is loaded against Africa.
- The trade deficit is staggering as African traders do not have the same economic power and access to the market that Chinese migrants have on the continent.
- Thus, there is need for a shift towards economic relationship that is more beneficial to the parties.
- China needs to review her trade barriers against foreign goods



The Path to a Stronger Partnership

- **Keep Sino-Africa supply chains for essential goods**
- Measures instituted to curtail the spread of the pandemic have continued to affect a variety of trade processes
- At the time of the Covid-19 outbreak, large numbers of shipping containers were languishing in Chinese ports
- Restrictions on their movement have led to shortage of essential goods and finished products from China

The Path to a Stronger Partnership

Therefore, there is need for co-ordinated action amongst Sino-Africa governments and the private sector to find solutions to the logistical constraints affecting the ability to get essential goods



The Path to a Stronger Partnership

Adherence to Best Practice

- Our Chinese partners should endeavour to raise the quality of their EPC contracts and manufactured goods to world-class standards



The Path to a Stronger Partnership

More International Trade Agreements needed

- Finally, Africa needs more trade agreements to support its growing but still fragile export sectors

- This implies that African countries would not only need the existing treaties (African Growth and Opportunity Act (AGOA)) and Everything But Arms (EBA), but also should pursue more of such treaties with major trading partners like China



Thank you for listening



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