THEME: CHINA-AFRICA: UNIFIED ENGAGEMENT TOWARDS DURABLE PEACE AND COMMON PROSPERITY

ORGANISER: THE GUSAU INSTITUTE AND THE CENTRE FOR NIGERIAN STUDIES, ZHEJIANG NORMAL UNIVERSITY

TOPIC: CLOSING THE TRADE DEFICIT GAP: COMPLEMENTARY ADVANTAGES IN INDUSTRY PARTNERING AND INDUSTRIAL CAPACITY

BY: MOHAMMED HAYATU-DEEN
Chairman, Alpine Investment Group, Nigeria

October 13, 2022

Outline

1. **Conceptual Discourse**
2. How has trade between Africa and China evolved over the past two decades?
3. Industrial Capacity in Africa and China Compared
4. Complementary Advantages in Industry Partnering and Industrial Capacity between Africa and China
5. Strategies for an Effective Industry Partnering for a more Balanced Trade
6. Conclusion

Conceptual Discourse

Trade Deficit

- A trade deficit occurs when the value of a country’s imports of goods and services exceeds the value of its exports

Industrial Partnership

- The concept of Industrial partnership is similar in nature to a joint venture
- It allows for collaborative efforts among producers/firms within and across different industrial sectors (e.g. ICT and banking) and countries (Africa and China)
- It is characterized by one firm providing the expertise, while the other firm provides the necessary resources (capital, land, or raw materials)
- Industrial partnering aims at improving productivity of countries or enterprises, building their capacity to innovate, and strengthening their competitiveness

Industrial Capacity

- Industrial capacity relates to the manufacturing and production capabilities of a nation or an enterprise
- It is determined by the amount of resources (finance, equipment, workforce, etc) available for the production of goods and services

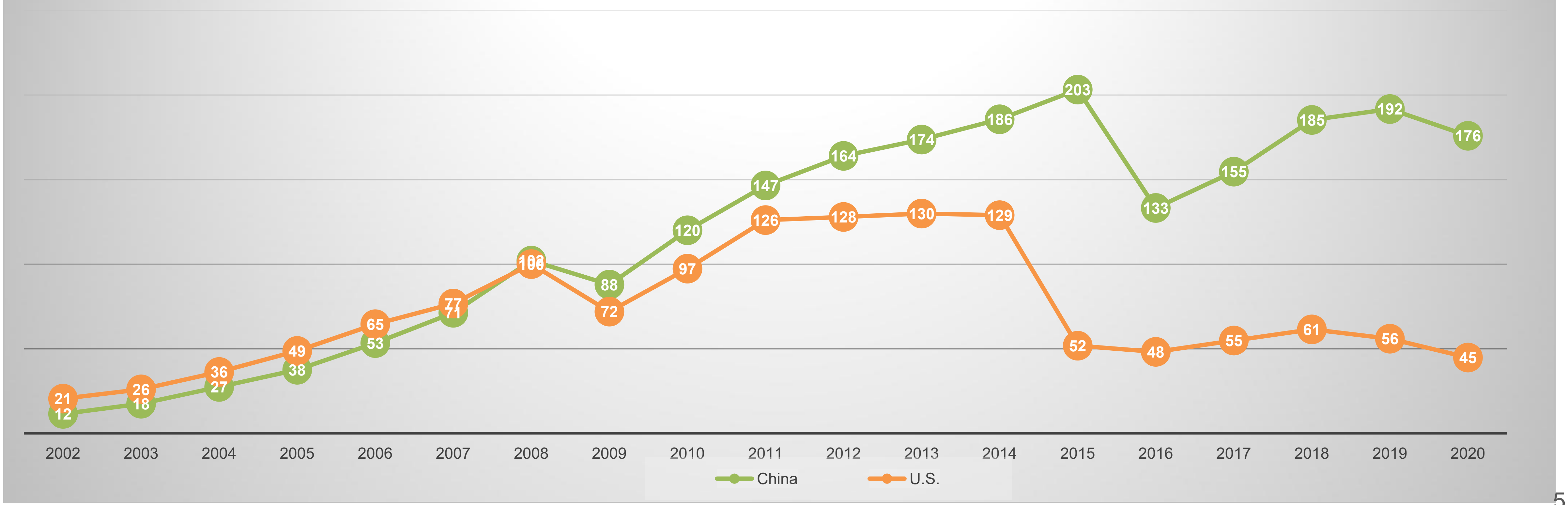
Outline

1. Conceptual Discourse
2. **How has trade between Africa and China evolved over the past two decades?**
3. Industrial Capacity in Africa and China Compared
4. Complementary Advantages in Industry Partnering and Industrial Capacity between Africa and China
5. Strategies for an Effective Industry Partnering for a more Balanced Trade
6. Conclusion

How has trade between Africa and China evolved over the past two decades? - 1/2

- China has become a major trade partner of Africa in the last two (2) decades
- Goods and services traded between Africa and China has grown substantially, surpassing US and EU countries
- Between 2002 and 2020, the value of Chinese exports to African countries rose from $12 billion to $176 billion
- Africa's low industrial capacity amid rising consumer markets has continued to worsen the region's trade balance

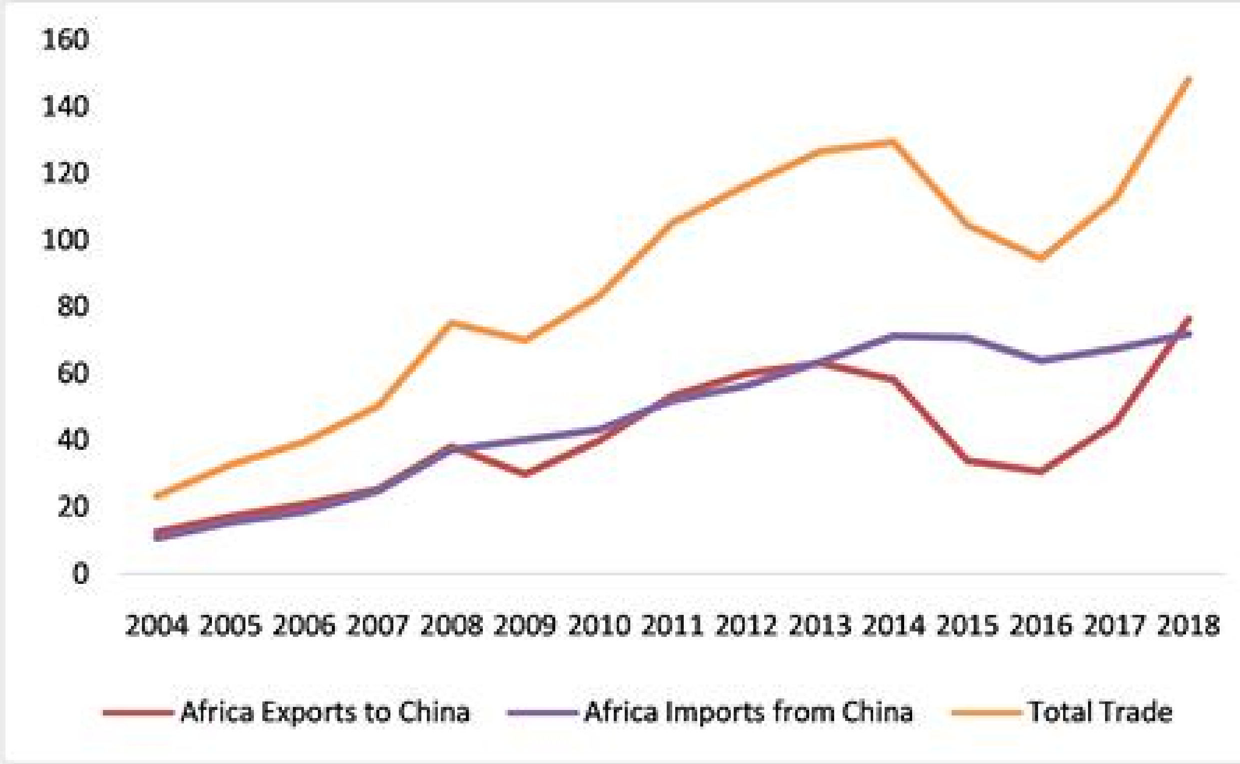
Figure 1: U.S.-Africa trade vs. China-Africa Trade (USD bn)



Source: IMF (2020), World Bank (2021)

How has trade between Africa and China evolved over the past two decades? - 2/2

- Despite the increase in trade, China's exports to Africa continue to exceed Africa's exports to the Asian country.
- As shown in the figure, trade balance between Africa and China was sensibly neutral from 2004 to 2013
- From the year 2014, Africa encountered a large deficit due to decline in commodity prices on international markets
- While the region's imports from China are diversified, its exports to China are largely based on primary products



- Since most African countries depend on primary products, there is little that they are interested in importing from each other
- Thus, the region's economic arrangements are characterised by low levels of domestic production and inter-country trade
- For African countries to be able to capture more trade opportunities, they need to diversify their products

Outline

1. Conceptual Discourse
2. How has trade between Africa and China evolved over the past two decades?
3. **Industrial Capacity in Africa and China Compared**
4. Complementary Advantages in Industry Partnering and Industrial Capacity between Africa and China
5. Strategies for an Effective Industry Partnering for a more Balanced Trade
6. Conclusion

Industrial Capacity in Africa and China Compared - 1/2

- Many Asian countries (including China) have experienced dramatic growth over the last 5 decades
- The growth is driven by increased manufacturing exports to the rest of the world
- Conversely, Africa has largely stagnated. Other than South Africa, manufacturing exports are notably absent on the continent
- Before the adoption of Structural Adjustment Programme (SAP), many African governments sought to industrialize their economies through policies of import substitution
- During this period, African governments used trade measures such as charging high tariffs on imports of goods produced domestically to encourage the local production of these products
- In 1980, there were only 14 countries (out of 54) in sub-Saharan Africa with manufacturing value added per capita comparable to Indonesia
- However, within the last four (4) decades, the manufacturing value added per capita has deteriorated sharply - as most of the African industries are now moribund
- Compared to the 27.44% recorded by China in 2021, the share of manufacturing sector to total GDP averaged 12.52% in Africa as of December 2021

Industrial Capacity in Africa and China Compared - 2/2

- Economic activities have been largely carried out at subsistence level
- Employment in the manufacturing sector in the region has continued to fall
- What is more disturbing is that Africa's potential to manufacture and export non-primary products has been hindered by:
  - ✓ huge infrastructure deficit,
  - ✓ low domestic investment,
  - ✓ stiff external competition,
  - ✓ shortage of manpower, etc
- All these have contributed to the widening trade deficit in the region, underlining the need for industrial partnering between Africa and its major trade partner (China)

Outline

1. Conceptual Discourse
2. How has trade between Africa and China evolved over the past two decades?
3. Industrial Capacity in Africa and China Compared
4. **Complementary Advantages in Industry Partnering and Capacity between Africa and China**
5. Strategies for an Effective Industry Partnering for a more Balanced Trade
6. Conclusion

Complementary Advantages in Industry Partnering between Africa and China - 1/2

- Given the scenarios of low industrial capacity painted above , a new paradigm is long overdue to close the trade deficit between Africa and its major trader partner (China)
- Industry partnering between China and Africa is a way to go
- As such, Africa and China have been working together to leverage China's competitive industries with their high-quality industrial capacity with a view to enhancing Africa's industrialization and economic diversification
- This is evidenced in the China-Africa Industrial Capacity Cooperation Fund initiated by Beijing's China Foreign Exchange Reserves in association with the Export-Import Bank of China initiated
- The formation of this fund was announced at the 2015 FOCAC (Forum on China-Africa Cooperation) in Johannesburg, South Africa.
- The China-Africa industrial capacity cooperation mechanism is an attempt by both parties to assist African countries in the areas of economic diversification, achievement of technical expertise, mutual development, and foreign exchanges.

Complementary Advantages in Industry Partnering between Africa and China - 2/2

- An industrial partnership between Africa and China will offer mutual benefits for both parties, helping them achieve a win-win cooperation for mutual development
- This strategy has the propensity of reducing trade deficit as local producitivity will be enhanced
- Industry partnering between Africa and China will also bridge the gap in expertise and knowledge facing African countries
- It will also lead to a more balanced, prosperous and stable economic growth as the region economic mainstay will be diversified
- Furthermore, industrial partnership between Africa and China will provide a vital opportunity for the African continent to address the challenges of foreign exchange scarcity and volatility
- Other advantages include:
  - ✓ access to new technologies
  - ✓ Access to larger markets
  - ✓ increase employment

Outline

1. Conceptual Discourse
2. How has trade between Africa and China evolved over the past two decades?
3. Industrial Capacity in Africa and China Compared
4. Complementary Advantages in Industry Partnering and Capacity between Africa and China
5. **Strategies for an Effective Industry Partnering for a more Balanced Trade**
6. Conclusion

Strategies for effective Industry Partnering for a more balanced trade - 1/6

- Some key strategies for imprving industry partnering for a more balanced trade between Africa and China include:

Develop partnership Agreement:

- China and African countries should have a partnership agreement in place
- The partnership agreement will identify the nature of the partnership, the role that each party plays, the duties and obligations among the parties, the rights of each party, the percentage of ownership, and the distribution of profits and losses between the parties.

Pursue and implement integrated infrastructure policies:

- Poor infrastructure is one of the major causes of Africa's low competitiveness
- African policymakers need to pursue and implement productivity-enhancing policies on road, rail, electricity, digital, and other connectivity infrastructure in order to give African enterprises the opportunity to access export markets including China’s

Strategies for effective Industry Partnering for a more balanced trade - 2/6

Give Preferential Market Access:

- Chinese policymakers need to relax strict trade barriers with preferential market access agreements for African businesses seeking to export to the Asian country

Encourage private sector:

- As African countries pursue more trade opportunities, they will also require a dynamic private sector to play a role

Undertake Structural Reforms:

- To enhance Sino-African trade, African countries also need to undertake bold domestic structural reforms such as reforming legal, regulatory and institutional frameworks (e.g. tariffs, lightening of regulatory burden through setting up of sector-specific regulatory bodies), contract enforcement and property rights protection, competitive exchange rates, low inflation, etc)
- This will help in scaling up the supply capacity of the region

Strategies for effective Industry Partnering for a more balanced trade - 3/6

Embark on Economic Reforms:

- African governments should identify competitve and priority subsectors and develop strategic initatives to stimulate their growth, focusing on export and output diversification
- The goal should be for policy makers to change the economic structure from mono to a more diviersified product, and from primary product to intermediate & finished products
- Promoting ease of doing business and addressing issues of multiple taxation are also critical

Encourage Regional Collaboration

- African governments need to boost intra-African trade partnership
- They also need to up-scale value chain development by allowing regional partners to collaborate on the manufacturing of high-end goods with the ultimate goal of reaching external markets rather than operating in silos

Strategies for effective Industry Partnering for a more balanced trade - 4/6

Embark on Social Reforms:

- Ensuring that all citizens receive quality education and healthcare service should be a key strategic focus for social reforms in Africa
- This initiative is necessitated by the significant impact education and health have on other aspects of human development
- It is a fact that the extent to which a nation develops is determined by the quality of its human capital
- Consequently, unleashing bold social reforms aimed at improving the quality of the work force will yield economic and non-economic benefits (relating to generation of ideas and decisions), which have a significant positive impact on investment, innovation and other growth opportunities

Promote Good Governance based on Openness and Transparency:

- The goal of any government is to provide quality and a better life for the citizenry, and this has remained a major challenge in Africa
- The work of government institutions in most African countries has been carried out with little participation of the citizens and other critical stakeholders
- Access to government data and other documentation are limited
- To promote good governance and ensure transparency/accountability in government operations, African governments should support initiatives on oppenness and facilitate administrative/institutional reforms as well as political engineering (opening up the democratic space)

Strategies for effective Industry Partnering for a more balanced trade - 5/6

Build broad public support for AfCFTA:

- Africa's success in international trade is also dependent on regional integration
- Deepening regional integration will help to build regional value chains, strengthen the complementarities of production/exports, and scale up supply capacity on the continent
- The establishment of the Africa Continental Free Trade Agreement (AfCFTA) is critical to achieving all these
- While the AfCFTA Agreement has began on 1st January 2021, no trade has taken place under the AfCFTA regime
- Concequently, African governments should seek to build broad public support for AfCFTA and help businesses benefit from its provisions.

Review other Trade Policies:

- African governments should review existing trade agreements/provisions (e.g. Chinese Duty Free Quota, Free market access program for LDCs) and utilize them as a spingboard to promote their comparative advantage

Promote Entrepreneurship Development:

- With entrepreneurial education, African governments can stimulate domestic production of goods and services
- It is also one sure way of reducing the high rate of unemployment and other socioeconomic issues facing African countries

Reduce Producton Cost:

- Building of roads and generating adequate power will benefit manufacturing sector as the operators will be able to sell their products in target markets where they can get remunerative prices
- With improved transportation, production inputs (e.g. fertilizers, equipments, etc) can be delivered at relatively cheaper prices
- Also, by embarking on mega infrastructure projects such as road, power, and ICT, African governments will boost exchanges of goods and services between urban and rural areas, fostering inclusive economic growth

Outline

1. Conceptual Discourse
2. How has trade between Africa and China evolved over the past two decades?
3. Industrial Capacity in Africa and China Compared
4. Complementary Advantages in Industry Partnering and Capacity between Africa and China
5. Strategies for an Effective Industry Partnering for a more Balanced Trade
6. **Conclusion**

Conclusion

- It is the objective of every nation to achieve a positive trade balance as it creates employment, and influences the value of its currency in the global markets
- However, low industrial capacity, huge infrastructure deficit, low domestic investment, inadequate funding, shortage of manpower among others have reduced supply capacity, creating huge trade deficit for African countries
- This underlines the need for industry partnering between Africa and its major trade partners
- The strategy of industrial partnering will not only enhance Africa's industrialization and economic diversification, but will also promote mutual benefits for both parties
- We believe a faithful adherence to the strategies proposed in this paper will ensure effective industry partnering between China and Africa for a more balanced trade