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Leveraging the BRI for Africa's Industrialisation and Intra-Trade (Opportunities for the AfCFTA)

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Executive Summary

Two initiatives have recently gained prominence, one on the global stage and the other in Africa: China's Belt and Road Initiative (BRI) and the African Continental Free Trade Area (AfCFTA). The former initiative's primary aim is to build economic infrastructure in the transport, energy and telecommunications sectors in the countries through which the BRI will pass, which has come to include several African countries. Concurrently, the objective of the AfCFTA is to deepen economic integration amongst African states by creating a unified market for goods and services and in the process, propel Africa's industrialisation and structural transformation. Although seemingly independent, these initiatives converge and present two economic diplomacy instruments that can be leveraged to address Africa's industrialisation challenge and the bottlenecks to intra-African trade for inclusive and sustainable development. On the back of secondary data sources, this paper explores how the BRI can be leveraged to advance the objectives of the AfCFTA by addressing the financing, infrastructure and productive capacity challenges constraining Africa's industrialisation and intra-trade.

From the outset, the strategic focus of the BRI on infrastructure development easily complements Africa's infrastructure and trade facilitation efforts aimed at improving connectivity amongst African nations and boosting intra-African trade in line with the objectives of the AfCFTA and the Action Plan for Boosting Intra-African Trade (BIAT). Africa's infrastructure challenge remains one of the oldest but still significant hurdles to industrialisation and intra-African trade. From physical infrastructure gaps such as roads, railways, ports and border posts, to other production-related infrastructure gaps such as information and communications technology (ICT), electricity, water and sewerage; approximately US$68 – US$108 billion is required to meet Africa's infrastructure financing needs. The BRI provides a window of opportunity for infrastructure development financing that would enhance connectivity across Africa and boost intra-African trade.

But the BRI has expanded to include other levers of economic cooperation which present additional opportunities for industrial development, skills and technology upgrading, as well as financing and trade. This expanded scope lends further support to the AfCFTA and Africa's impetus to industrialise. Arguably, Africa needs to industrialise if the continent is to realise sustainable and inclusive economic growth. Manufacturing value added (MVA) as a share of GDP – a common measure of industrialisation – started declining in Africa before reaching the peaks of 20-30% that were historically attained by developed countries such Britain, Germany, the US and more recently, Asian countries like Malaysia, Singapore and China. Manufacturing in Africa is characterised by weak productive capacities which has significantly skewed Africa's exports towards low-value added products, consequently limiting trade amongst African countries and the continent's effective participation in global trade.

FDI presents a means of building industrial productive capabilities in Africa, and China is one source country for FDI in Africa and Zambia. One of the priority areas of the BRI is cooperation in building production capacity and equipment manufacturing, and fostering mutually beneficial trade and investment in Belt and Road countries. To build production capabilities in Africa, the BRI can be leveraged for Chinese FDI in manufacturing that facilitates investments in R&D and the transfer of skills and Chinese technological standards.

Above and beyond this, the BRI provides a means of bridging the trade-finance, and more broadly, the overall financing gap in Africa. The fourth pillar of the BRI on financial integration advocates cross-border financial cooperation amongst countries along the Belt and Road, as well as with international financial institutions. African industries are constrained by limited access to financial resources which inhibits their acquisition of factors of production required to produce competitive manufactured products, upgrade existing products or expand into new products and regional markets. The limited availability of trade finance, a powerful tool for expanding intra-African trade, is thus a major constraint

for African traders. The BRI provides one alternative financing option for trade, investment, production capacity and industrial development for Africa.

But not all that glitters is gold. Despite the obvious benefits of infrastructure and industrial development provided by the BRI, a significant proportion of this Initiative is debt-financed. This has important ramifications for Africa in terms of debt sustainability. While Chinese financing might be easier to access, there are potential risks and pitfalls of taking on infrastructure projects that do not generate sufficient revenues and the economic growth required to service and liquidate the loans. Moreover, in addition to the challenges of the opaqueness in its funding mechanisms, the BRI has also been plagued by other negative sentiments fuelling the debt sustainability concern – i.e. the debt-trap diplomacy narrative.

The challenge for African governments therefore is how to carefully and strategically leverage the BRI to stimulate the right structural transformation process. Where possible, it would be prudent for African governments to share lessons learned on how to negotiate with China given that the balance of power will often be tilted in China's favour. China should also be encouraged to adopt principles that guide creditors such as the Paris Club and multilateral institutions that promote lending transparency, procurement standards, concessionality and guide debt relief. More importantly, African countries should employ strict feasibility standards for debt-financed projects to ensure that the projects can pay themselves off and are within the countries' debt sustainability thresholds. Another option for greater leverage in negotiations would be to negotiate as a block where relevant, for example under the umbrella of the African Union (AU). In this way, the BRI will complement the AU's Agenda 2063 to accelerate regional integration and develop sustainable economies.

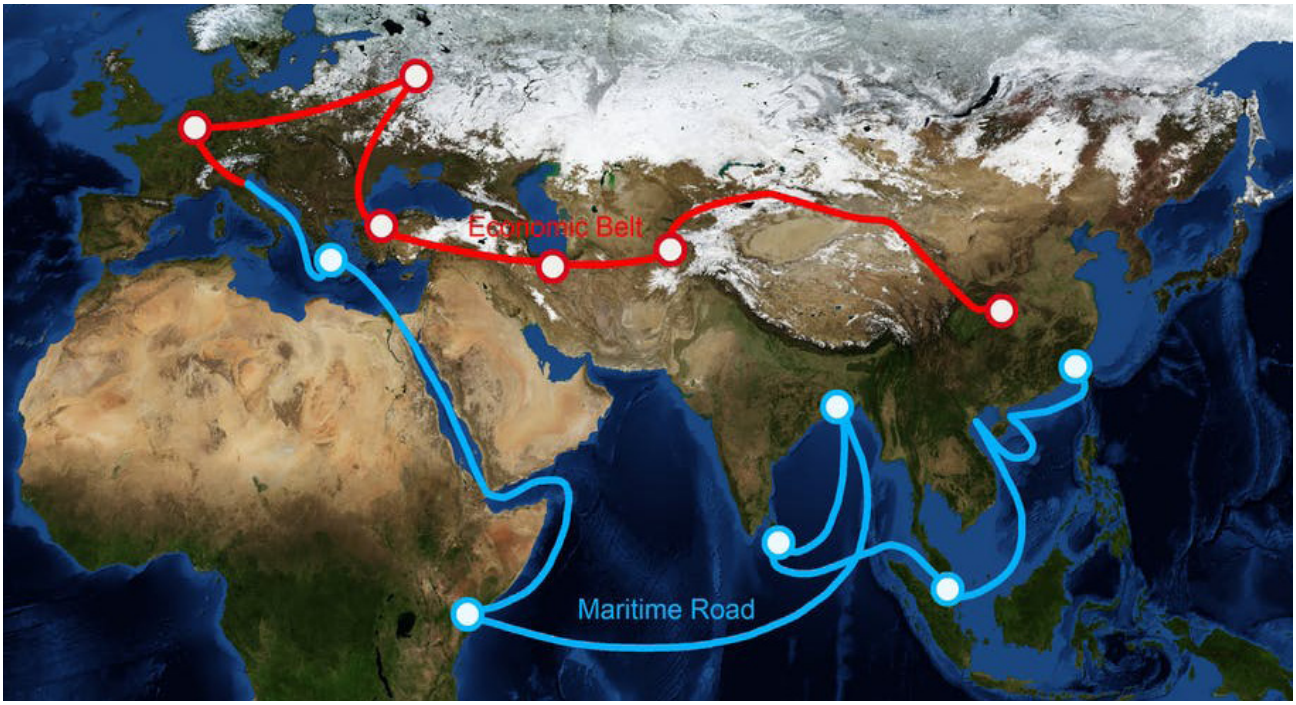
Key words: African Continental Free Trade Area, Belt and Road Initiative, Industrialisation and Intra-African Trade

1 The BRI, African Industrialisation and AfCFTA Nexus

Two initiatives have recently gained prominence, one on the global stage and the other in Africa: China's Belt and Road Initiative and the African Continental Free Trade Area (AfCFTA). In 2013, the One Belt, One Road was unveiled – an initiative for China to underwrite billions of dollars of infrastructure investment along the historic Silk Road. The One Belt, One Road was to be made up of an Economic "Belt" that would pass overland, connecting China to Europe through Asia; and a Maritime "Road" that will link many ports along the southern coast of Asia, touching Africa, and up to Europe (Figure 1). Over time, this has become more commonly known as the Belt and Road Initiative (BRI) and in 2017, China added the BRI into its Constitution. With this addition to the Constitution, the Initiative is enshrined as an enduring legal provision for Chinese global development cooperation aimed at achieving shared growth.

Initially, the primary aim of the BRI was to build transport and energy infrastructure in the countries through which the route passes, including ports, roads, railways, and power plants. This strategic focus on infrastructure development easily complements Africa's infrastructure and trade facilitation efforts aimed at improving connectivity amongst African nations and boosting intra-African trade in line with the objectives of the AfCFTA.

Figure 1: China's proposed route for the One Belt, One Road



Source:https://theconversation.com/where-africa-fits-into-chinas-massive-belt-and-road-initiative-78016

The AfCFTA, a flagship project of the African Union's long-term vision – Agenda 2063: The Africa We Want – was borne out of the 18th Ordinary Session of the Assembly of Heads of State and Governments of the African Union held in January 2012 in Addis Ababa, Ethiopia. Its core objective is to deepen economic integration amongst 55 African states by creating a unified market for goods and services estimated at 1.2 billion people with a collective gross domestic product (GDP) of more than US$2.5 trillion (Figure 2). The AfCFTA also aims to facilitate the free movement of business persons and investments. However, the AfCFTA serves a much greater purpose. It has come to be seen

as a catalyst for improving agricultural productivity and production; unlocking Africa's manufacturing potential; increasing value addition and stimulating a structural transformation process that creates broad-based employment and reduces poverty. Despite Africa's poor experience with industrial development, industrialisation remains widely recognised as a stepping stone for transforming Africa's economies through diversification and the development of agriculture, manufacturing and regional value chains. Industrial development therefore remains Africa's key development agenda for securing sustainable and inclusive economic growth espoused explicitly in the Continent's development plan.

Figure 2: African Continental Free Trade Area Potential

Source: https://siro360.com/afcfta-economic-africa/, modified

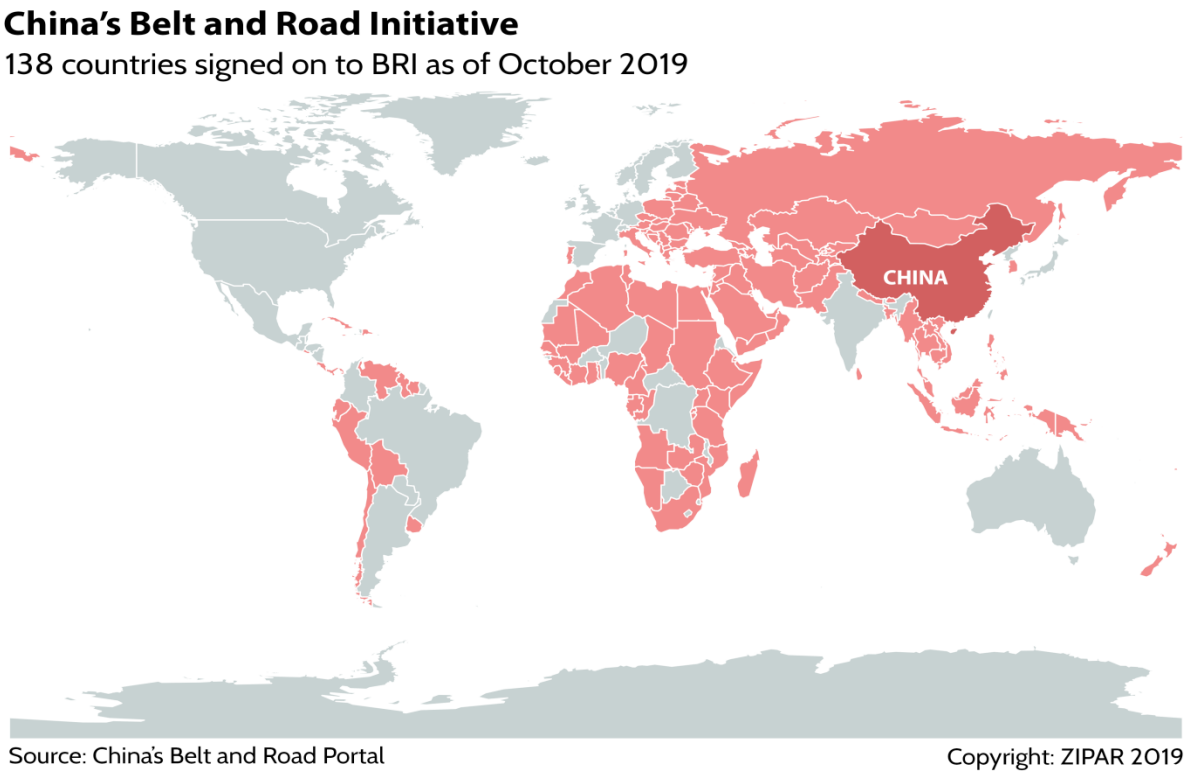
Notwithstanding the potential of the AfCFTA to trigger a transformational process in Africa vis-à-vis an export-led industrialisation strategy, the AfCFTA is only as good as the factors that enable the production of competitive goods and their easy trade across borders. Estimates by the United Nations Economic Commission for Africa (UNECA) suggest that elimination of import duties alone has potential to boost intra-African trade by 52.3%. With a reduction in non-tariff barriers, this trade is doubled. However, trade will remain a blunt economic tool for achieving rapid economic growth and development in Africa without other fundamentals. These include adequate financing, competitive trade routes, adequate border infrastructure, efficient border procedures, private sector investments and investments in other fundamentals such as skills, education, training, institutions required to build competitive productive capacities.

Hence the Action Plan for Boosting Intra-African Trade (BIAT) was developed as the principal measure to accompany the AfCFTA. The Action Plan for BIAT isolates trade policy, trade facilitation, productive capacity, trade related infrastructure and trade finance as some of the areas that need to be addressed in order to expand intra-African trade. The AfCFTA also emphasises other accompanying measures aimed at addressing the supply-side constraints to industrial development in order to successfully harness its full benefits. Herein lies the synergy between the BRI and Africa's industrialisation and continental integration aspirations.

Notably, China's BRI has evolved and offers far much more than just infrastructure development that can aid the expansion of intra-African trade. It now encompasses policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bond – the five pillars of the BRI. Driven by the need to foster stronger economic cooperation amongst nations in the wake of slow and inequitable

global economic growth, rising trade tensions and unilateralism, and inadequate infrastructure and financing mechanisms particularly in developing countries, China sees the BRI as an avenue for solving these world challenges (Office of the Leading Group for the Belt and Road Initiative, 2017). The BRI is premised on the principle of win-win cooperation and thus purposefully aims to integrate the development strategies of the countries along the Belt and Road (National Development and Reform Commission et al, 2015). For Africa, this presents an opportunity to align its objectives of achieving inclusive and sustainable development.

Figure 3: Countries with some level of BRI participation as of April 2019



Currently, a total of 138 countries from across Africa, Asia, Latin America, the Caribbean and the South Pacific have signed up to the Initiative (Figure 3). In Africa, at least 38 African countries, including Zambia, have signed BRI Memorandums of Understanding, with 28 of these having signed up during the 2018 Forum on China-Africa Cooperation (FOCAC) (Link, 2019). However, there is a dearth of information on the details of these MOUs resulting in a knowledge gap that even this paper, fails to close. This is largely as a result of non-transparent and unsystematic specific information about BRI earmarked projects in Africa. Notwithstanding, as a precursor to understanding and appreciating the complementarities between the BRI and the AfCFTA, this paper provides a more nuanced assessment of how these two economic cooperation initiatives can be leveraged to address Africa's industrialisation challenge and the bottlenecks to intra-African trade for inclusive growth and sustainable development. On the back of secondary data sources and descriptive analyses, this paper explores how the AfCFTA and BRI converge and can be used as economic diplomacy instruments to specifically address scale, financing, infrastructure and productive capacity constraints limiting Africa's industrial development and intra-trade.

This paper contributes to the extensive literature on China-Africa relations, but presents the first analysis of the synergies between the AfCFTA and BRI. To the best of our knowledge, this is the first paper that looks at how the BRI intersects Africa's continental integration and industrialisation aspirations. The rest of the paper proceeds as follows. Section 2 examines Africa's industrialisation challenge and the potential of the AfCFTA to boost industrialisation and intra-African trade through economies of scale and better resource allocation. In considering the opportunities presented by the BRI to complement

the AfCFTA, Section 3 identifies three challenges – finance, infrastructure development, and productive capacity. Along each of the three challenges, the Section explores some of the opportunities that can be leveraged from the BRI to address these challenges. This is followed by Section 4, which discusses some issues to consider in exploring these opportunities to ensure mutually beneficial economic cooperation. Section 5 concludes.

2 Africa's Industrialisation Challenge

Africa's growth path has been unconventional. The traditional path to development that characterised what are now developed countries advocates an economic transformation process from low income activities mainly in agriculture, to higher income, higher productivity, and higher value-added activities in manufacturing and subsequently, the service sector (Rodrik, 2013; McMillan, Rodrik and Sepúlveda, 2016). In contrast, African economies have experienced a different growth trajectory that has been characterised by an increasing share of services in overall output without having first maximised the growth potential of manufacturing or significantly reduced the share of low productivity employment (see case study in Box 1).

As a share of GDP, Africa's overall manufacturing value added (MVA) started declining before reaching the peaks of 20-30% that were historically attained by developed countries such Britain, Germany, the US – and more recently, Asian countries like Malaysia, Singapore and China (Figure 5). More specifically, MVA as a share of GDP declined from 16.7% in the early 1980s to 10.3% in 2018, signifying slow or stalled industrialisation in some sub-Saharan African countries and in others, premature deindustrialisation. Arguably, Africa needs to industrialise if the continent is to realise sustainable and inclusive economic growth. Thus far, much of the economic growth witnessed in Africa has been based on the production and export of primary commodities such as minerals and oil which are highly susceptible to commodity price shocks and are not labour-intensive. While reliance on primary commodities provides windfall gains vis-à-vis high economic growth rates, and improved terms of trade and balance of payments during commodity price booms, these gains are often temporary on account of the cyclical nature of commodity prices. Thus, the growth is not only unsustainable but also non-inclusive in terms of providing wide-spread productive employment opportunities that can significantly reduce poverty.

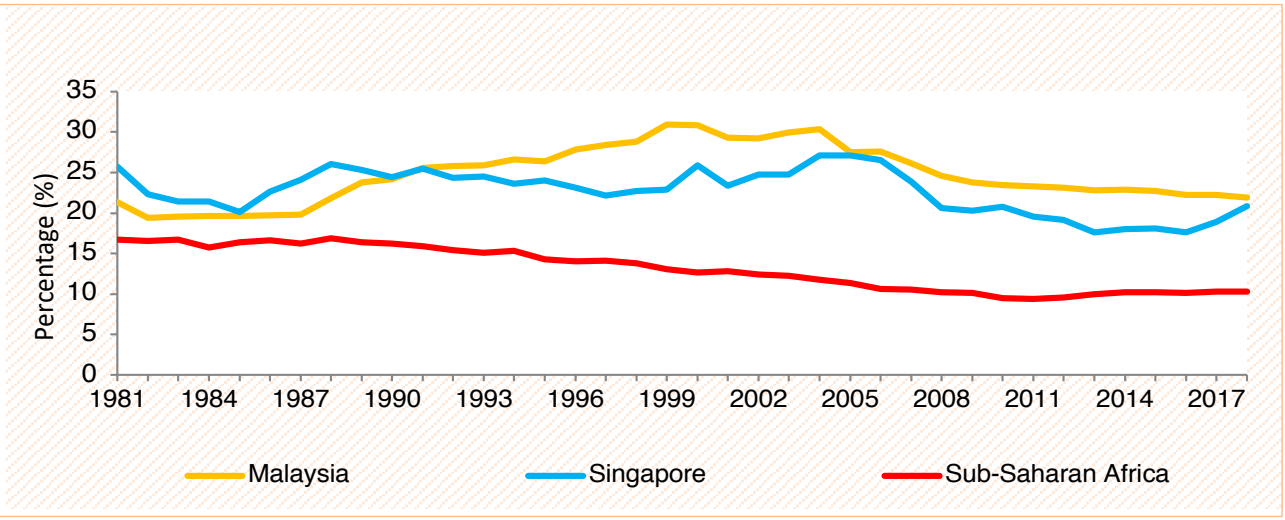
Box 1: Share of Low Productivity Employment Remains High – Case of Zambia

From 1999 to 2018, the share of workers in agriculture in Zambia reduced from 70% in 1999 to 54% in 2018. Of these, more workers were absorbed in services (from 23% in 1999 to 35% in 2018) while fewer workers moved to industry (from 7% in 1999 to 11% in 2018).

Figure 4: Composition of Employment 1999-2018

Source: Plot based on WDI data, modelled ILO estimate

Figure 5: MVA Share in GDP



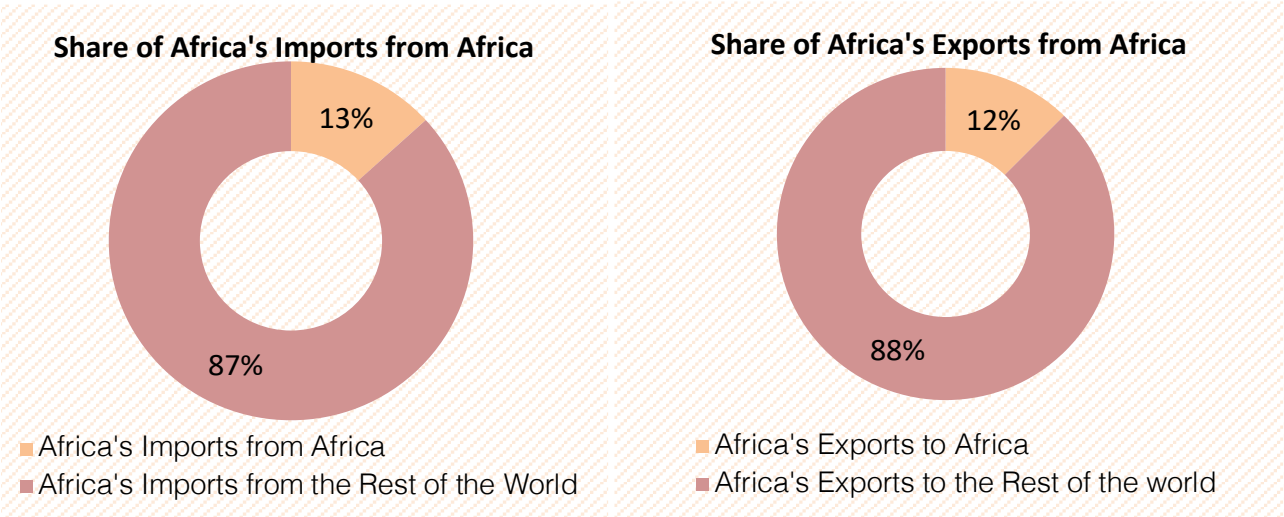
Source: World Bank WDI data

Note: Computed for sub-Saharan Africa only owing to data constraints

The AfCFTA presents a means of countering some of the aforementioned challenges. Increased trade between African countries can fuel increased light industrial production and enhance productivity particularly in agriculture that employs many Africans. In turn, this can lead to a rise in incomes, reduction in poverty levels and an overall improvement in the standard of living. Africa in itself presents a large market demand for African economies that is presently being served by other continents (Figure 6). According to the African Trade Policy Centre, trade within Africa is encumbered by higher tariffs on exports (estimated at 6.1% on average) compared to tariffs on exports destined for other continents. Consequently, in contrast to intra-regional trade within Asia and Europe estimated at 59% and 69% respectively for exports, Africa's intra-trade is far much lower (Sow, 2018). For instance between 1995 and 2017, intra-African imports (similarly to intra-African exports) averaged 13% of Africa's total imports

(US$ 44 billion) while imports from outside the continent averaged a staggering 87% (US$ 284 billion). Through import substitution, Africa can increase its industrial production and trade of such imported overseas goods.

Figure 6: Average Intra-African Trade, 1995-2017



Source: Plot based on UNCTAD STAT data

Simulations by UNECA (2018) project an increase of 1% and 3% in Africa's GDP and exports respectively; and an increase in intra-African trade of about 40% to over 50% with the implementation of the AfCFTA trade in goods. Of this increase in intra-African trade, 25% to 30% would be from intra-African trade in industrial products; 20% to 30% from agriculture and food products; and 5% to 11% from traded energy and mining products. Moreover, small least developed countries such as Zambia are projected to gain greatly from liberalisation vis-à-vis exports to Africa and intra-African trade of industrial products.

Needless to say, eliminating tariff and non-tariff barriers in Africa immediately creates new potential market demand for goods and services produced within Africa. By tapping into such a large market, the scale challenge faced by small African countries can be addressed thereby increasing the continent's competitiveness for large-scale labour absorbing manufacturing such as textiles and garments. Moreover, free market access allows for more efficient resource allocation in Africa and access to cheaper inputs for production for domestic firms. In addition, such a huge market can also stimulate complementary foreign investments in higher value-added activities and the production of more sophisticated exports.

These gains however are not automatic. Manufacturing growth in Africa is inhibited by supply-side factors that cannot be addressed with free trade alone (Krugman and Obstfeld 2003). Limited access to finance; inadequate trade related and other infrastructure; cumbersome and inefficient border procedures; administrative and technical barriers; limited production capacity; limited research & development; high input costs; poor human capital; and limited trade information are all but some of the major challenges constraining industrial development and increased intra-African trade (African Union, no date). By developing common policies and strategies, African states can leverage the BRI to, at least in part, address some of these challenges.

3 Leveraging the BRI for Accelerated Industrial Development and Intra-African Trade

In the ensuing section, we discuss some of the structural and fundamental factors inhibiting Africa's industrial development and increased intra-African trade, and how the BRI can be leveraged to complement the AfCFTA in addressing these challenges.

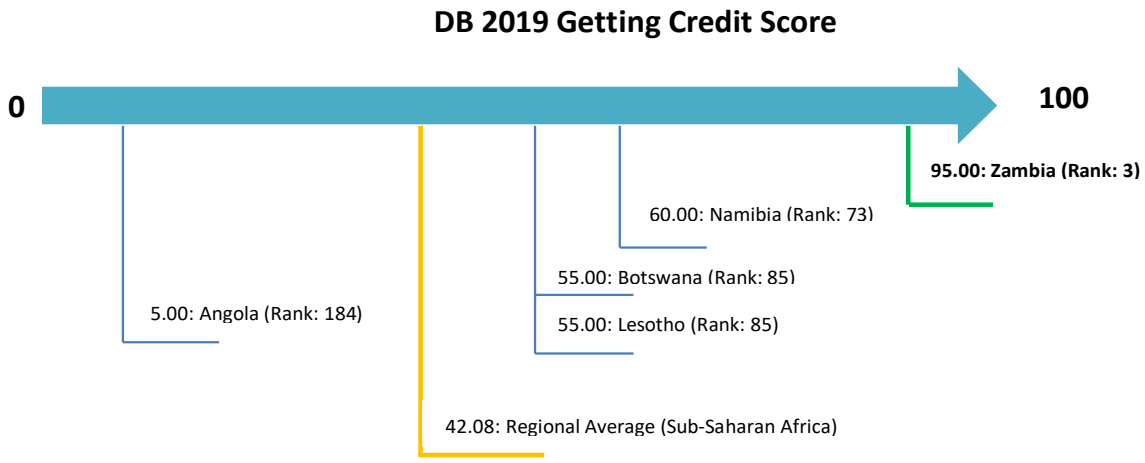
3.1 Access to Finance

3.1.1 The challenges

From the outset, African industries are constrained by limited access to financial resources which inhibits their acquisition of factors of production (i.e. labour, land, capital equipment and technologies) required to produce competitive manufactured products, upgrade existing products or expand into new products and regional markets. Challenges with financing mainly stem from underdeveloped capital markets and inadequate financing mechanisms underpinned by limited financial products, particularly for intra-African trade (African Union, no date).

Consequently, limited finance affects the competitiveness of African businesses and their effective participation in both regional and global trade. Sub-Saharan Africa ranks low on competitiveness compared to other regions scoring an average of 46.2 out of 100 on the World Economic Forum's (WEF's) 2018 Global Competitiveness scorecard. The region's score on financial systems which measures the strength of the banking sector, although slightly higher was still below the score of other regions at 50.4 out of 100. Similarly, sub-Saharan Africa scored a regional average of 42.08 out of 100 on the World Bank's Doing Business Getting Credit parameter (Figure 7 below).

Figure 7: Ease of Getting Credit



Note: "The ranking of economies on the ease of getting credit is determined by sorting their scores for getting credit. These scores are the sum of the scores for the strength of legal rights index and the depth of credit information index" World Bank, 2019.

Source: Reproduced from the World Bank Doing Business 2019 Zambia Country Profile Report

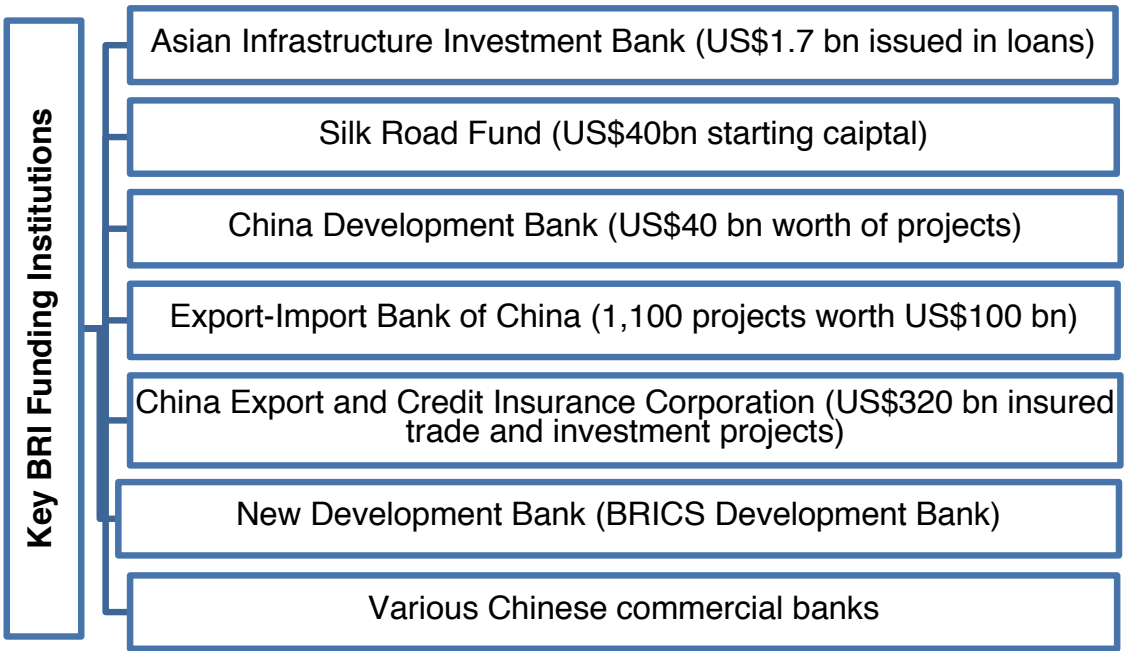
The limited availability of trade finance, a powerful tool for expanding intra-African trade, is thus a major constraint for African traders. Research by the African Development Bank (AfDB) (2017) reveals that although banks support about one third of total trade in Africa, the share of bank-intermediated trade finance devoted to intra-African trade in 2014 for instance, was only one fifth of all bank-intermediated trade finance. As a result, a trade financing gap of US$91 billion was estimated for the year 2014. The study further found that trade finance is skewed towards large companies and relationship lending, further limiting the financing options for SMEs.

3.1.2 Potential Solutions from the BRI

Bridging the trade-finance, and more broadly the overall financing gap in Africa, requires broader sources of financing. The BRI provides one alternative financing option for trade, investment, production capacity and industrial development for Africa. The fourth pillar of the BRI on financial integration advocates cross-border financial cooperation amongst countries along the Belt and Road and with international financial institutions (The Belt and Road Progress Research Team, 2016). Although not exhaustive, the vast majority of BRI financing comes from seven main Chinese entities (Figure 8).

According to the Office of the Leading Group for the Belt and Road Initiative (2017), the strategic focus of the Asian Infrastructure Investment Bank (AIIB) is regional connectivity and industrial development. By the end of 2016, AIIB had disbursed US$1.7 billion out of its initial capital of US$100 billion to energy, transport, and urban development projects in Indonesia, Tajikistan, Pakistan, and Bangladesh. Correspondingly, US$40 billion had been injected in the Silk Road Fund as starting capital out of which, 15 projects covering infrastructure, energy utilization, production capacity and finance cooperation in Russia, Mongolia and Central, South and Southeast Asia valued at US$6 billion had been signed as at end of 2016. An additional US$2 billion was allocated for the China-Kazakhstan Production Capacity Cooperation Fund.

Figure 8: Key Institutions Providing BRI Funding as of end 2016



Source: Author's construction

Under the China Development Bank, over 100 projects in excess of US$40 billion (75% of which are loans) had been issued in Belt and Road countries. Likewise, the Export-Import Bank of China reportedly signed 1,100 projects valued at US$100 billion in Belt and Road countries of which, 80% are in form of loans. By the same token, the China Export and Credit Insurance Corporation provided insurance for export and investment projects exceeding US$320 billion whilst various Chinese-funded banks have been established in Belt and Road countries. With the continued expansion of the Initiative in terms of scope and financing sources, African countries may do well to establish new and strengthen existing forms of financial cooperation with China.

As part of the cooperation mechanisms for advancing the BRI, existing bilateral and multilateral cooperation mechanisms will be leveraged. For Africa, this implies drawing on FOCAC and other bilateral arrangements that China has already established with Africa. Coupled with other cooperation mechanisms, the BRI therefore offers broader and easier access to funding for African countries than the more typical options such as traditional western donors and multilateral organisations. Arguably, concessional lending is greatly desired given Africa's rising debt burden and lower level of development. To harness these resources, African governments need to identify optimal development projects and seek financing partnerships under the direct BRI financing mechanisms or indirectly using other forms of financial cooperation such as FOCAC

3.2 Infrastructure Development

3.2.1 The challenges

Africa's infrastructure challenge remains one of the oldest but still significant hurdles to industrialisation and intra-African trade. From physical infrastructure gaps such as roads, railways, ports and border posts, to other production-related infrastructure gaps such as information and communications technology (ICT), electricity, water and sewerage; Africa faces a multitude of infrastructure challenges encumbering industrial production, efficiency, competitiveness and intra-trade. According to the World Economic Forum, sub-Saharan Africa scored poorly on the 2018 Global Competitiveness pillar on infrastructure (46.3 out of 100) and ICT Adoption (29.6 out of 100), far from the aggregate ideal frontier across these two factors of competitiveness and also the lowest score among all regions (see Figure 9 below). Undoubtedly, infrastructure development and financing are areas in which Africa can leverage the BRI to support its industrialisation and intra-trade agenda.

The quality and extension of transport and utility infrastructure remains a restraint on competitiveness and intra-African trade, particularly in trade corridors. Africa's unpaved road network and poor port facilities for instance are estimated to increase intra-African trading costs by 30-40% (UN Office of the Special Advisor on Africa, 2015). Poor road, rail and other trade connectivity networks increase production and transaction costs vis-à-vis increased cost and time of sourcing inputs and of getting final goods to end markets. For instance, importing and exporting takes much longer in Africa compared to other advanced countries thereby making African firms less competitive (World Bank, 2019). For landlocked countries that are solely dependent on transit infrastructure in neighbouring countries for the transportation of exports and imports, their trade costs are even higher making them high cost producers, less competitive and less integrated in regional and global trading networks.

Figure 9: Regional Performance, by World Economic Forum Global Competitiveness, Average Score (0-100)

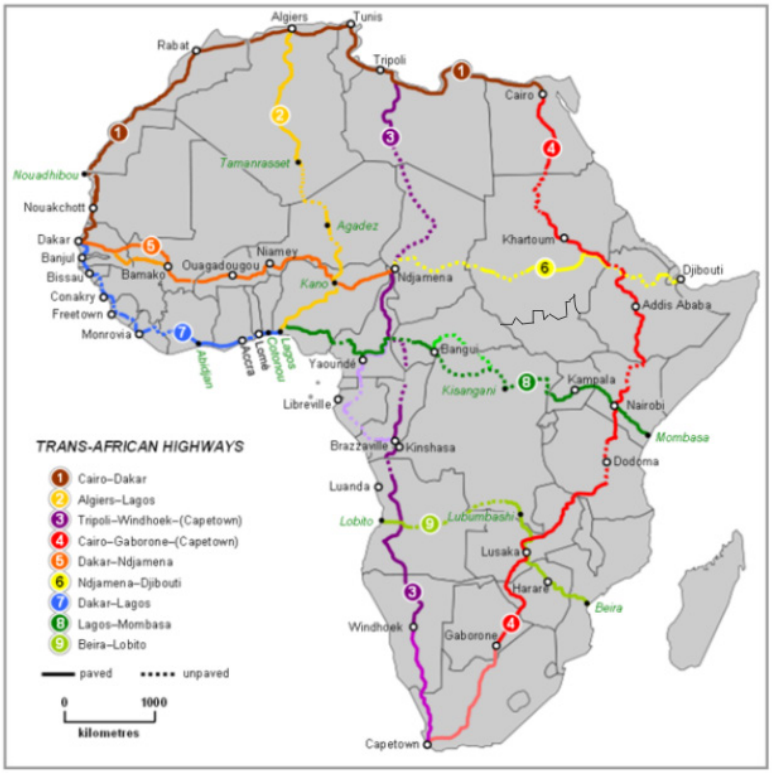
	Enabling environment				Human capital		Markets				Innovation ecosystem	
Region	Institutions	Infrastructure	ICT adoption	Macroeconomic stability	Health	Skills	Product market	Labour market	Financial system	Market size	Business dynamism	Innovation capacity
East Asia and the Pacific	61.6	74.3	67.3	88.9	84.3	66.9	62.2	65.9	72.8	67.2	65.7	52.9
Eurasia	53.0	66.3	57.1	71.7	73.4	65.6	57.1	61.6	50.8	49.8	60.1	34.8
Europe & North America	64.5	78.7	68.0	91.8	90.7	74.2	62.0	66.2	69.5	59.6	68.3	58.1
Latin America & the Caribbean	47.8	61.1	46.4	74	82.7	57.5	53.9	55.3	59.5	52.5	52.4	33.8
Middle East & North Africa	54.3	69.0	54.1	79.6	80.0	61.4	54.7	52.3	61.8	60.3	56.7	39.9
South Asia	50.1	59.6	33.0	74.1	68.4	49.7	47.3	51.7	59.0	66.9	56.5	36.4
Sub-Saharan Africa	47.5	46.3	29.6	66.9	48.0	43.4	50.4	53.8	50.4	38.8	51.1	28.4

Note: Darker shades indicate better performance

Source: Recreated from the World Economic Forum Global Competitiveness Report 2018, emphasis added

It is for these reasons that connecting African countries by road and rail networks has always been desired. The Trans-African Highway (TAH), an initiative to create a network of 9 highways spanning 60,000 km of road across the continent, was conceptualised in 1971 by the United Nations Economic Commission for Africa (UNECA) with the sole purpose of connecting African countries from: Cairo, Egypt to Dakar, Senegal (8,636km); Tripoli, Libya to Windhoek, Namibia (9,610km); Cairo to Gaborone, Zimbabwe to Cape Town, South Africa (8,860km); Lagos, Nigeria to Mombasa, Kenya (6,260km); Dakar to Lagos (4,760km); Algiers, Algeria to Lagos (4,504km); Dakar to N'Djamena, Chad (4,500km); N'Djamena to Djibouti, Djibouti (4,220km); and Beira, Mozambique to Lobito, Angola (3,520km). Of these highways, the Dakar-Ndjamena was completed with support from China (UNECA, 2018) (see Figure 10 below).

Figure 10: Trans-African Highway



Source: Rexparry Sydney - https://commons.wikimedia.org/w/index.php?curid=76434942

In a similar manner, inadequate electricity, telecommunications and water supply escalate overall production costs and reduce the output of tradable goods. Improving Africa's efficiency, competitiveness and intra-trade requires both investments in infrastructure development that will improve access to regional and continental markets, as well as investments in services required for efficient production. Naturally, this comes at a cost. The financial resources required to plug the infrastructure gap are huge. The African Development Bank estimates that Africa needs between US$130-170 billion a year, to meet its infrastructure needs. Of this amount, a financing gap of approximately US$68-108 billion currently exists (AfDB, 2018). The Programme for Infrastructure Development in Africa (PIDA), an investment platform aimed at addressing this infrastructure funding gap also needs additional funding sources to fill the infrastructure financing gap.

This is where the BRI can come in. There is latitude for China to finance the construction of the outstanding highways under the TAH, the maintenance and upgrading of existing highways, the construction of new ports, road and rail network that have been added to the TAH, as well as other infrastructure projects in electricity, water and ICT.

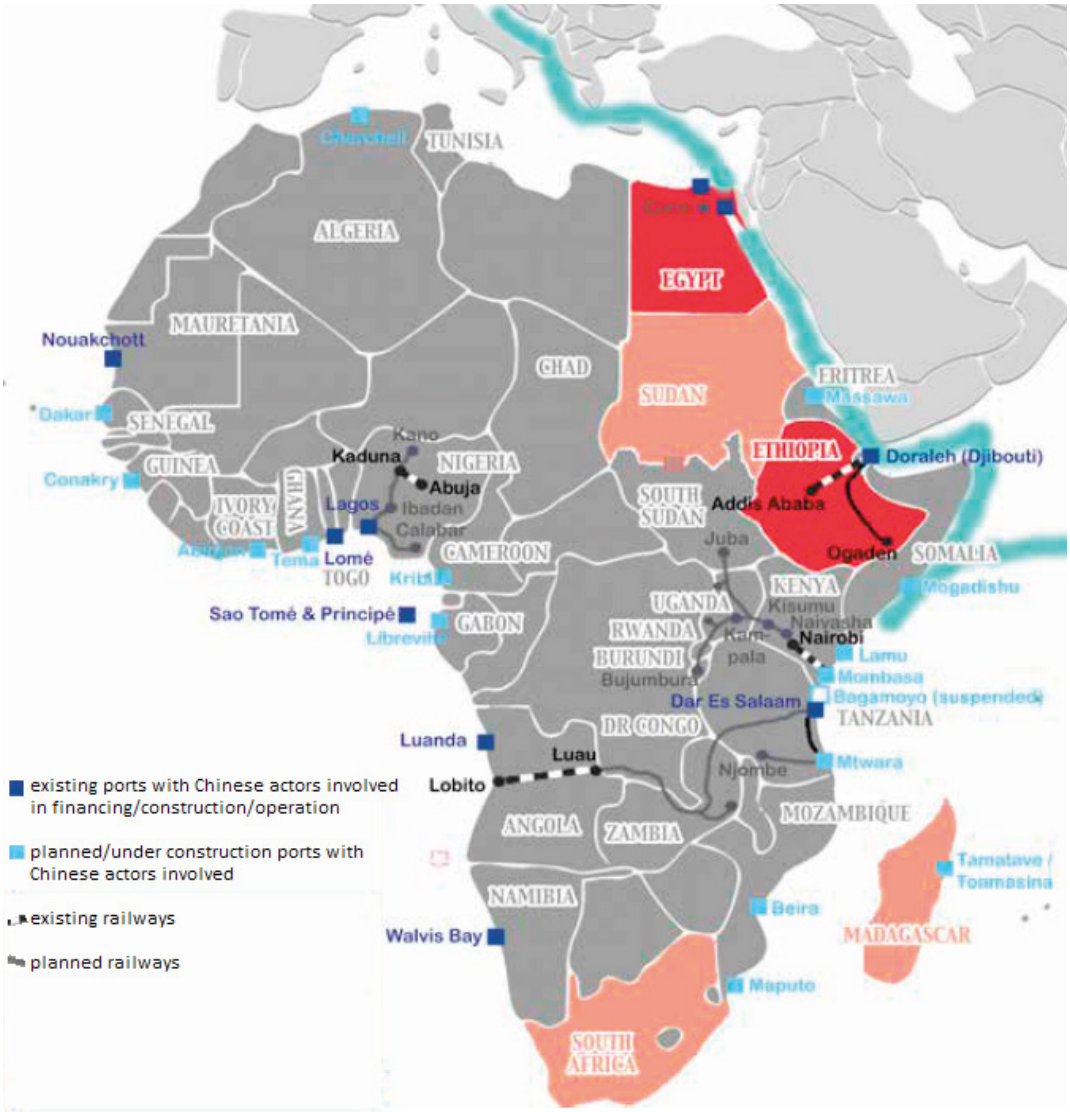
3.2.2 Potential Solutions from the BRI

As alluded to in the preceding sub-section, regional trade in sub-Saharan Africa remains limited due to insufficient transport infrastructure. And where most traditional lending countries and international financial institutions are reluctant to invest in infrastructure because of various considerations, China is more willing to step in. Fundamentally, the BRI provides a window of opportunity for infrastructure development that would enhance connectivity across Africa and boost intra-African trade. One of the core aims of the BRI is to improve global connectivity by helping facilitate the establishment of trade corridors. This includes ports along the Maritime Silk Road, state-of-the-art railways, improved road networks, energy infrastructure, and telecommunications facilities in Belt and Road countries. In Africa, China is widely involved in infrastructure project financing and construction ranging from ports on both the eastern and western coasts of the continent, railway links across southern and east Africa, and even hydropower schemes.

There are three ports in Africa that could be considered key nodes on the BRI Maritime Silk Road: Doraleh (Djibouti), Walvis Bay (Namibia) and Lomé (Togo). The port in Djibouti connects the Maritime Silk Road to planned and completed Chinese port clusters on the western coast of Africa including Sudan, Mauritania, Guinea, and Namibia (see Figure 11 below). Another route links Djibouti to countries in Asia including Sri Lanka, Myanmar and Hong Kong. A third and final arc connects Walvis Bay in Namibia to Chinese port clusters in Mozambique, Tanzania, and Kenya before also connecting to Gwadar. And while these trade routes help China diversify its supply chains and create a China-Indian Ocean-Africa-Mediterranean Sea Blue Economic Passage, they also open up Africa to the rest of the world and most importantly, provide easier access to inputs required for manufacturing (Nantulya, 2019).

Under rail networks, key railway projects have also been completed or are under construction to connect key markets in the interior of Africa to the coast, as well as to each other. In East Africa alone, two major railway projects have been completed under the BRI. First is the Standard Gauge Railway in Kenya that connects Nairobi to Mombasa, completed at the cost of US$3.2 billion and running parallel to the century old, defunct narrow-gauge Uganda Railway. Second is the Addis Ababa-Djibouti Railway, the first transnational electrified railway of its kind in Africa connecting Addis Ababa to Djibouti constructed at a cost of US$4 billion. The electric railway gives landlocked Ethiopia ready access to the Indian Ocean. Both these new railway lines also run much faster and are capable of carrying millions of tons of cargo per year, which will improve regional trade and reduce road congestion. They also provide savings in travel and transportation time.

Figure 11: Ports and Railways with Chinese involvement in Africa (as of 2017)



Source: Adapted from Breuer, 2017

As other planned railway lines come online across the continent, there is a possibility that they too could be financed under the BRI and which would provide greater access and connectivity for many more land-linked countries. And given the very long-term nature of the BRI, the examples of the achievements of the last five years alone point to the progress that can be made towards an Africa that is highly connected and thereby cutting down the cost and time of transportation over time. In fact, a study funded by UNECA found that the potential impact of the BRI on trade and welfare could produce an increase in East Africa's exports by US$192 million annually, with a pronounced increase in intra-regional trade (Mukwaya & Mold, 2018). Over time, these benefits could be extrapolated to the rest of the continent as connectivity improves.

Other forms of infrastructure development and connectivity particularly in energy and ICT which are critical for economic growth have also taken centre-stage under the BRI. Since unreliable energy supply remains one of the binding constraints to Africa's industrialisation and sustained economic growth, the BRI has the potential to in part, ease these constraints as well. The 100MW Solar Power Project in Pakistan said to be the largest single power project using the photovoltaic technology in the world; the 500KV Transmission Line Project in Kyrgyzstan; the Houay Lamphan Gnai Hydropower Project in Laos; and the Karot Hydropower Project in Pakistan are good illustrations of the type of energy projects that could be supported through the BRI in Africa (Office of the Leading Group for the Belt and Road

Initiative, 2017). With Turkey, Poland and Saudi Arabia, China has gone as far as to sign specific MOUs for increased cooperation in information, communications and technology connectivity (Office of the Leading Group for the Belt and Road Initiative, 2017). Such forms of cooperation in ICT can greatly increase Africa's efficiency and competitiveness.

3.3 Production Capacity, Trade and Investment

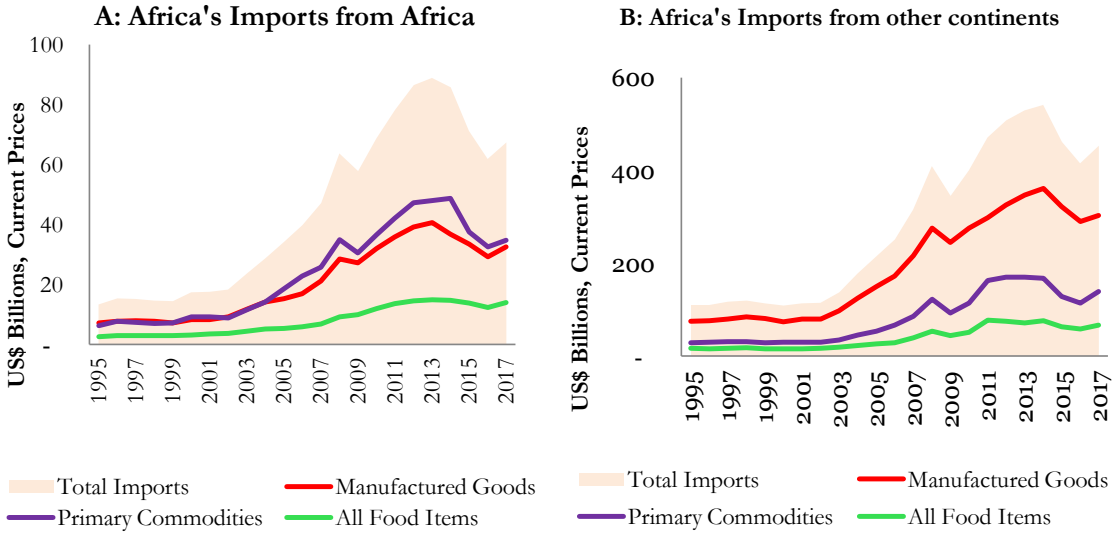
3.3.1 The challenges

Manufacturing in Africa is characterised by weak productive capacities as evidenced by the low share of MVA in overall GDP and the resultant structure and composition of Africa's trade. This state of affairs, coupled with the advent of free trade, has significantly skewed Africa's exports towards low-value added products, consequently limiting trade amongst African countries and the continent's effective participation in global trade. With manufacturers dominating world merchandise exports at 70% in 2017 (WTO, 2018), Africa needs to produce and export higher value-added manufactured products if the continent is to participate more effectively in global trade and harness inclusive and sustainable development from trade. Figure 12 below contrasts Africa's imports from Africa and from other continents. The size of Africa's imports from the rest of the world is not only larger, but also comprised of manufactured goods with higher value addition and stronger backward and forward linkages that can reinforce growth in other economic sectors, thereby stimulating broader economic growth.

More precisely, on average, Africa imports 9 times the value of manufactured goods from other continents compared to manufactured imports from Africa. Africa's imports of food items from within the continent – the production of which Africa has a relative latent comparative advantage – is still far smaller than what is imported from other continents. While eliminating tariffs can stimulate increased intra-African trade, to harness the full potential of the AfCFTA as a catalyst for inclusive economic growth, Africa needs to increase the production and export of more agricultural, agro-processed and manufactured goods that are imported by Africa from other continents – i.e. import substitution.

In addition to the financing constraints discussed under section 3.1, Africa's productive capacities are limited by the quality of human capital and the level of investment in research and development, which are both quite low in Africa. When it comes to skills and health, which are critical for improving overall labour productivity, sub-Saharan Africa is the worst performing region on these two human capital pillars in the Global Competitiveness scorecard at 43.4 and 48.0 out of 100 respectively (see Figure 9 under section 3.2.1). The region does not fare any better on innovation capability (28.4 out of 100) and business dynamism (51.1 out of 100) which measure research and development (R&D), creativity and the innovation of new ideas particularly inventions and products that drive global competitiveness.

Figure 12: Composition of Africa's Imports from Africa and Other Continents

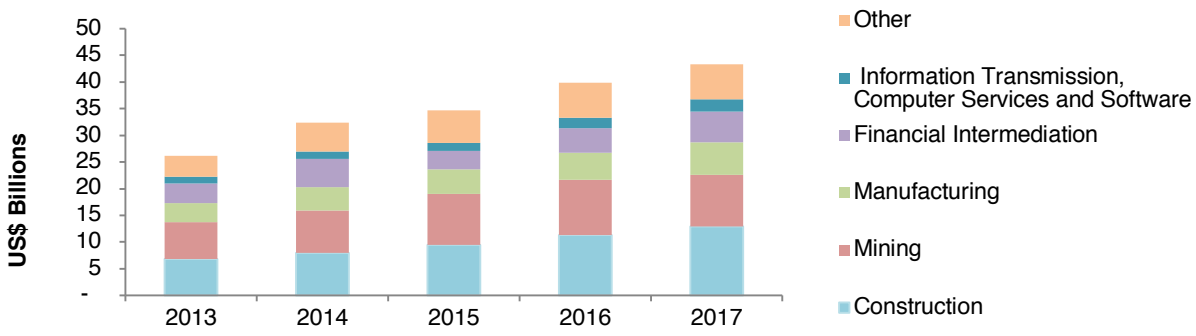


Source: Plot based on UNCTAD STAT data

Notwithstanding these capacity challenges, as recognised in the BIAT Action Plan for the AfCFTA, FDI can be used to build industrial productive capabilities in Africa. Improved efficiency and technology gains can be derived from foreign investments that inherently introduce better factors of production into their host countries. These create potential for increasing overall industry productivity, stimulating processes of upgrading production capabilities and the transfer of skills and know-how on to local producers through linkages in value chains. In turn, this can stimulate the export of more sophisticated products.

First thing to note is that China's FDI in Africa has been increasing over the years from an estimated US$26.2 billion in 2013 to nearly double this in 2017 at US$43.3 billion (Johns Hopkins University SAIS China-Africa Research Initiative, 2019). This already indicates that Africa is an attractive investment destination. However, the composition of China's FDI has largely been comprised of investments in construction which have slowly surpassed investments in mining, another sector that initially dominated China's FDI in Africa (Figure 13). While FDI in manufacturing has been on an upward trajectory, to build productive capabilities required to industrialise, Africa should deliberately attract more FDI in manufacturing and other sectors such as ICT.

Figure 13: Chinese End of the Year FDI Stock in Africa, top 5 Sectors



Source: Johns Hopkins University, SAIS China-Africa Research Initiative

3.3.2 Potential Solutions from the BRI

One of the priority areas of the BRI is cooperation in building production capacity and equipment manufacturing and fostering mutually beneficial trade and investment in the Belt and Road countries. To build production capabilities in Africa, the BRI can be leveraged for Chinese FDI in manufacturing that facilitates investments in R&D and the transfer of skills and Chinese technological and environmental

protection standards. For instance, by the end of 2016, China had signed production capacity cooperation documents with Kazakhstan, Ethiopia and 25 other countries for "cooperation projects in raw materials, equipment manufacturing, light industry, clean energy, and environment friendly and high-tech industries" (Office of the Leading Group for the Belt and Road Initiative, 2017).

One of the channels being used to attract Chinese FDI is the construction and establishment of economic and trade cooperation zones in Belt and Road countries. One such example close to home is the 230,000 square metre export-oriented light manufacturing Hawassa Industrial Park in Ethiopia, constructed by China Civil Engineering Corporation. The Park has attracted Chinese and several other leading foreign apparel companies and has contributed towards creating employment, income growth and increasing manufacturing capacity in Ethiopia. According to Zhang et al (2018), by March 2017, the park had created employment for approximately 30,000 people and is expected to increase to 60,000 jobs at full capacity.

Increased FDI in Africa's manufacturing sector can be further achieved through: tailored FDI incentives in manufacturing; streamlining investment licensing processes i.e. addressing double taxation concerns amongst other measures; and providing an enabling business environment in respect of labour and macro policies. Free market access to the continent vis-à-vis the AfCFTA can further stimulate Chinese investments in Africa. The continent's vast arable land, water resources and large labour force already engaged in agro activities can readily lead to increased agricultural produce, higher productivity and agro-processing (given investments in skills development and mechanisation) required to exploit and capitalise on Africa's demand for food and manufactured products. A World Bank study (Chen & Lin, 2018) also shows that there is potential for further growth of FDI in BRI economies as transport networks improve, overall travel times and transportation costs reduce owing to BRI projects.

Another nuanced area in which the BRI can stimulate and change the structure of not just intra-African trade but also trade with other Belt and Road countries, is encapsulated in the pillar on unimpeded trade. This pillar is focussed on countries collectively working together to facilitate trade and investment activities by negotiating agreements and removing trade and investment barriers. China is building a network of Belt and Road free trade zones with Asian countries with the objective of "building a more balanced, equal and sustainable trade system" (Office of the Leading Group for the Belt and Road Initiative, 2017). As Africa's major trading partner, China could with relative ease, extend such initiatives to Africa. Coupled with other trade facilitation measures under the BRI, namely, the establishment of 'Single-windows' and integration of customs clearance and inspection procedures and technological standards, the BRI holds great potential for expanding Africa's intra and inter trade.

To the softer aspects of productive capacity, the pillar on people-to-people exchange under the BRI can address this. This pillar speaks to connecting people around the globe to exchange ideas on many aspects of human interaction including culture and education, development, governance, tourism, science and technology, health care and medical services, and even the exchange of ideologies amongst political parties, think tanks, governments and non-governmental individuals and organisations. This can be an avenue of transferring skills, technology, know-how and expertise to Africa, thereby building human capital. The Institute of South-South Cooperation and Development (ISSCAD) at Peking University has been established for such purposes and intent. ISSCAD is to serve as a platform for sharing experiences in governance and training high-level government officials from developing countries.

The Silk Road Think Tank Network for international think tank cooperation has also been established under the BRI. China's continuous provision of scholarships to African students to study in China is also a means of exposing Africa to China's development experience and modern innovation technologies thereby building the continent's human capital. In addition, some Chinese projects' corporate social responsibility involves construction of schools and health centres alongside the main investment projects which contribute towards building education infrastructure in Africa.

4 Not all that Glitters is Gold: Issues to Consider

4.1 Debt Financing Sustainability Concerns

Despite the obvious benefits of infrastructure and industrial development provided by the BRI, a significant proportion of this Initiative is debt-financed which has important ramifications for Africa in terms of debt sustainability. While Chinese financing might be easier to access, African governments that request this mode of assistance should be mindful of the risks and potential pitfalls of projects that do not generate sufficient revenues and economic growth required to service and liquidate the loans. Hurley et al (2018) have identified Djibouti as an African country at risk of debt distress owing to the anticipated debt from BRI pipeline projects. Likewise, Zambia risks debt distress given its estimated debt-to-GDP ratio of 72.4% in 2018, 12.4 percentage points above the 60% recommended debt sustainability threshold (IMF, 2018). The drastic rise in public debt owing to external and domestic debt and arrears has significantly increased the country indebtedness. Thus, any continued borrowing under the BRI runs the risk of tipping the country over into debt distress.

Another aspect that countries seeking BRI funding need to consider is reports that China struggles with project quality and ensuring transparent procurement processes; all factors that are necessary for sustainable infrastructure development (Risberg, 2018). Moreover, aside from the opaqueness in its funding mechanisms, the BRI has also been plagued by other negative sentiments fuelling the debt sustainability concerns. The proposed scale and magnitude of the BRI has been seen by some Western countries as an attempt by China to exert both geo-political and cultural dominance globally by garnering more soft power. China has been accused of using 'debt-trap diplomacy' as a strategy for exerting its dominance. This term refers to China's financing of large infrastructure projects in largely poor and developing countries with no or little capacity to pay back the loans as a means of acquiring control of strategic assets, as was the case in the often used example of the Hambantota Port in Sri Lanka.

However, Askary and Ross (2018) rebut the above narrative as nothing more than a hoax. They argue that development of the Hambantota Port predates the conceptualisation of the BRI and thus China could not have deliberately engineered the take-over of the Port. Arguably, China's willingness to extend the maturity period of the Addis Ababa-Djibouti Railway loan and write-off other loans is indicative of China's good will. Irrespective of which side of the argument one falls, to ensure sustainability of the BRI financing, China should adopt principles that guide creditors such as the Paris Club and multilateral institutions. These are multilateral frameworks that promote lending transparency, procurement standards, concessionality and guide debt relief (Askary and Ross, 2018). Concurrently, African countries should employ strict feasibility standards for debt-financed projects to ensure that the projects can pay themselves off and are within the debt sustainability thresholds.

4.2 Getting Value for Money Concerns

Another point of concern arises from China's project-financing model which is strategically non-transparent and non-open (Parker and Chefitz, 2018). This precludes a level-playing field for non-Chinese contractors to vie for various projects. From a macro perspective, China's closed bidding process in effect implies that recipient countries of the various projects do not have an equal opportunity to ensure that a considerable proportion of China's money is retained in their systems. To ensure a win-win situation in line with the principles of the BRI, there is need for more transparency and flexibility regarding the procurement of businesses services for various Chinese-funded projects. This will level the playing field and give African businesses an equal opportunity to participate in the BRI.

To further ensure value-for-money for Africa, the BRI projects should be free of corruption. For example, the two BRI railway projects completed in East Africa have been marred by controversy over their cost with questions of corruption surfacing in the case of the Kenyan rail. With China's no interference policy, African countries should ensure that good governance systems are in place to curtail the inflation of project costs. This, however, does not absolve China of any responsibility. In line with Beijing's strong stance on fighting corruption, China should not abet any forms of corruption that may be suggested by African governments for all BRI projects.

4.3 Environmental Degradation Concerns

Historically, Chinese FDI and private sector engagement in Africa has been known to flout Environmental, Social, and Governance (ESG) standards. ESG standards broadly lay out a set of criteria for a company's investment operations. The Environmental criterion refers to the company's treatment of the environment in its operations. The Social criterion speaks to the management of relationships with employees, suppliers, customers, and communities where the company operates. Finally, the Governance criterion deals with the company's leadership and executive structures. Anecdotal evidence from around the continent suggests that some Chinese FDI projects do not always comply with ESG standards.

However, there is evidence to suggest that the BRI is cognisant of the need for sustainable infrastructure development that minimises the damaging effects of construction on the environment. For example, the Hawassa Industrial Park in Ethiopia is based on green technologies and renewable energy sources and is committed to zero emissions. Further, a recurring theme in the BRI is the use of green technologies that prevent pollution and protect and restore the environment. President Xi also reiterated that the BRI is to improve its sustainability record, both in terms of the environment and financing during the 2019 Belt and Road Forum. With this direction coming from the top, it is probable that this vision will translate through in the implementation of projects.

5 Conclusion

The global scene has drastically changed over the years with geopolitical relations taking prominence and shaping the configuration of trade and FDI and other areas of development cooperation. While unilateralism and protectionism are becoming popular approaches for advancing and sustaining employment and industrial development, free trade and increased economic cooperation are still on the menu. To ensure inclusive and sustainable industrial development in Africa and moderate the growing disenchantment with multilateralism and free trade, there is need for an increased understanding of mutually beneficial trade and economic cooperation.

The BRI and AfCFTA in particular are two unique economic diplomacy instruments with strong undertones of these virtues. Together, these two initiatives have the potential to catalyse Africa's industrialisation and intra-African trade for inclusive and sustainable development. Thus, Africa cannot afford to be casual in its approach to these initiatives. The continent needs to aggressively leverage the BRI to address the challenges holding back the transformation of Africa's productive structure from low value addition and informal activities into higher value added, higher productivity and higher income activities. This is also vital for boosting intra-African trade, economic growth, broad-based employment and poverty reduction.

Even so, African governments should take a strategic approach to their negotiations. Where possible, it would be prudent to share lessons learned from one country to another on how to negotiate with China given that the balance of power will often be tilted in China's favour. Another option for greater

leverage in negotiations would be to negotiate as a block where relevant, for example under the umbrella of the African Union (AU). Such negotiations would go some way towards levelling the playing field for negotiations and help facilitate the establishment of key trade corridors and industries across the Continent. In this way, the BRI will complement the AU's Agenda 2063 to accelerate regional integration and develop sustainable economies.

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