Launching of report on the "Chinese Enterprises' Investment in Africa: Power of the Market and Role of the Private Sector"

Statement by Vera Songwe

UN Under-Secretary General and Executive Secretary of ECA

H.E. Wamkele Mene, Secretary-General of the African Continental Free Trade Area,

Mr. Wang Licheng, Chairman of China-Africa Business Council,

Members of the Diplomatic Corps,

Colleagues of the United Nations,

Ladies and Gentlemen,

I am delighted to address you at this event to launch the report on "Chinese Enterprises' Investment in Africa: Power of the Market and Role of the Private Sector".

I would like, at the outset, to commend the China-Africa Business Council for publishing and launching the report in partnership with the United Nations Industrial Development Organization (UNIDO).

The report is relevant not only because of China's growing influence in Africa but also because of the critical role of the private sector in Africa's transformation.

Role of private sector in Africa

The important role of the private sector in economic development cannot be overemphasised, especially at a time when the COVID-19 pandemic threatens Africa's hard-earned growth over the last decade. The pandemic is global, but the resilience of Africa depends on the strategies and policies countries adopt to meet national development aspirations in line with the Sustainable Development Goals (SDGs) and the African Union's Agenda 2063.

The cost to achieve the SDGs by 2030 in Africa is estimated at about $1.3 trillion a year, according to the United Nations. It will increase dramatically due to population growth projected at 45 per cent over 2020–2030—a dynamic that could seriously undermine the efforts to end extreme poverty and inequality, tackle climate change and build resilient infrastructure in Africa.

Increasing the role of the private sector stands out among the widely advocated options for such investments, especially given the low levels of investment by governments and the donor community. This option resonates with efforts in Africa to harness the continent's demographic dividend, grow the middle class, increase the use of technology, promote rapid urbanization and boost opportunities for regional and global value chains for African businesses as strategic drivers of economic growth in Africa. And the continent is endowed with a strong natural resource base, abundant human capital and, most important, strong entrepreneurial activity among its people, features that together signpost the road to private sector development.

The private sector in Africa is a powerful force for economic growth and has the potential to transition economies from low-income to middle-income status. At the global level, the private sector generates more than 70 per cent of jobs; invents, designs and produces most of the goods and services that translate into value added and contributes more than 80 per cent of government revenue in low-income and middle-income countries through company taxes and income tax on employees. But in Africa the unavailability of finance has been identified as the most severe obstacle to doing business.

Distinguished Ladies and Gentlemen,

Notwithstanding a number of challenges to doing business in Africa, the continent represents an interesting destination of world investments, including from China. With a population of 1.3 billion people, with a median age of 19.7 years, a 30,500 km length of coastline, surrounded by oceans on both sides, huge natural resources endowment and burgeoning manufacturing industries, only 25% of the arable land cultivated, among other assets, Africa has the potential to attract world investors. The continent will surely benefit from FDI through technologies and knowledge transfer, income growth and development, particularly in the post pandemic period while leveraging to the African continental free trade area.

China has been very alert to the huge investment opportunities that the African continent offers and has sort to leverage them, particularly in the area of infrastructure development.

In that regard, there is evidence that China is translating its rhetoric on Africa's infrastructure development into reality and that it is involved in both national and regional infrastructure projects on the continent. Moreover, its investment in hydro-power generation and railways illustrates that it promotes clean energy and environmentally friendly transport solutions which is in line with Africa's desire for a transformative and sustainable infrastructure development.

According to AfDB's 2018 report on infrastructure financing trends in Africa, China's investments and construction in the continent's infrastructure amounted to US$ 25.7 billion in 2018. This is 32 percent higher than the US$ 19.4 billion it invested in 2017, and the highest level of commitments recorded since the Infrastructure Consortium for Africa (ICA) started collecting such data, which averaged US$ 13.1 billion per year in the 2011-2017 period. The largest share of Chinese financing (71 per cent) was for the energy sector, which amounted to US$18.3 billion. In the transport sector, Chinese commitments amounted to US$ 6.6 billion in 2018, or 26 percent of total financing.

It is interesting to note that China has a long history of involvement in Africa's regional infrastructure projects. For instance, it provided assistance in the construction of the 1,860 km Tanzania-Zambia railway. It was also involved in the construction of the Nairobi-Mombasa railway in Kenya that was opened in 2017 and is envisaged to be extended to neighbouring countries as well as the Addis Ababa-Djibouti railway project that was completed in 2018.

The Belt and Road Initiative (BRI) is the latest platform for China's involvement in Africa's infrastructure development. It provides an opportunity to implement Africa's regional infrastructure projects while contributing to China's physical infrastructure connectivity aspiration. The initiative has the potential to epitomize a "win-win" partnership that both Africa and China crave in the spirit of the Forum for China-Africa Cooperation (FOCAC).

Ladies and Gentlemen,

To ensure that the Belt and Road Initiative is of mutual benefit to Africa and China, projects of the Programme for Infrastructure Development in Africa (PIDA) that would facilitate intra-African trade and trade between Africa and China could be identified and promoted for implementation through BRI.

It is interesting to note that the launch of BRI has been accompanied by the creation of financial mechanisms to fund its projects. In that regard, we would like to see projects in Africa benefiting from facilities such as the Silk Road Fund, and Development Finance Institutions such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (also known as the BRICS Bank) where China wields considerable influence.

Distinguished Ladies and Gentlemen,

Investments from China are not targeted only to infrastructure. Overall, Chinese Overseas foreign direct investments to Africa has kept increasing - from US$ 75 million in 2003, they jumped to US$ 2.7 billion in 2019. The most substantial increase was recorded in 2008 at US$ 5.5 billion, arising mainly from the huge investments in Standard Bank of South Africa; making China one of the main investors in Africa since 2014 and taking over from the USA, that was until then, the traditional largest investor in Africa.

In 2019, the main destinations of Chinese investments were Democratic Republic of Congo, Angola, Ethiopia, South Africa, and Mauritius. The main target sectors are energy, transport, metals, real estate and utilities with the key investors being State Owned enterprises.

Ladies and Gentlemen,

Aside from rapidly growing Chinese FDI inflows and massive infrastructure development financing in Africa, another important and dynamic area of China – Africa economic relations has been in trade. China has been the most important destination for African exports since 2011, with African exports to China averaging over $40 billion annually in that decade. While China became the most important source of imports into Africa in 2005. Over the last decade, Africa's imports from China have averaged $65 billion annually.

Clearly, if Africa is to use trade as a lever for development that process must involve China. There are a number of steps that could help. Africa's exports to China continue to be dominated by Africa's traditional exports: in recent years, approximately 48 per cent has comprised petroleum fuels and another 38 per cent base metals and ores. This replicates Africa's long-standing commodity dependencies, and isn't a feature only of Africa's trade with China but its trade more broadly.

Yet, African countries could benefit considerably if they can adopt the features of export-oriented industrialization that have been so successfully achieved by China. At the point at which China's manufacturing sector was its largest as a share of national employment, in 2012, an estimated 176 million jobs were found in Chinese manufacturing. As that sector of the Chinese economy advances and its wages rise, many of the lesser-skilled among those manufacturing jobs have begun migrating abroad to countries underneath China on the ladder to development. With approximately 10-12 million African youth entering the workforce each year, migrating some of those manufacturing jobs to African countries would have a transformative impact on development.

Thank you,