

Title: Cooperation Between China and the Horn of Africa: in the context of FOCAC and Belt and Road Initiative

Presentation at the China Africa Institute Dec. 2020 virtual meeting, by Ali Issa, Managing Director of HESPI

Salutations:

The focus of my presentation this afternoon is to discuss the economic, finance and trade cooperation between China and Africa since the FOCAC was established 20 years ago, and more recent achievements of the Belt and Road Initiatives (BRI) in Africa.

China as a credible partner

- ▶ Over the past two decades or so, China has emerged as a credible partner for Africa as a source of investment, finance, technology and trade.

A recent Mckinsey study concluded that “In two decades, China has become Africa’s biggest economic partner. Across trade, investment, infrastructure financing and aid there is no other country with such depth and breadth of engagement in Africa.

- ▶ The Broad Nature of FOCAC as a platform for consultation and multilateral cooperation is broad and ranges from peace building and socio-economic relations and
- ▶ Building a shared future for mankind

Why I focus my presentation on the HoA:

- ▶ The sub region comprises 8 countries, several of them had contacts with China many centuries ago –as Prof Li’s excellent book of “China in Africa indicates”
- ▶ The sub region also includes countries that have performed well economically in the last 2 decades – Ethiopia, Kenya etc.
- ▶ Also it includes several fragile countries such as Somalia and South Sudan
- ▶ All 8 countries are signatories of the BRI and are its associates

China's Foreign Direct Investment in the HoA and rest of the Continent is facilitated by FOCAC

China's expanding investment in Africa has been supported by the Forum from its inception to:

- ▶ Promote economic infrastructure development
- ▶ Encourage Chinese enterprises to invest in Africa
- ▶ Facilitate trade and associated finance
- ▶ Assist with development of SMEs In Africa

Perception of Chinese Investments in HoA

China's emergence as world economic power and its development and foreign relations approach is perceived positively in the HoA.

- ▶ Owing to the country's diplomacy of non-interference
- ▶ Engagements in mutual respect and friendship with Africa
- ▶ And as a partner in economic development and its practical applications

How the successful economic performers benefited from FOCAC and BRI

The HoA good-performing economies were able to attract substantial FDI from China on account of:

- ▶ Favorable economic growth potential
- ▶ Growing consumer markets
- ▶ Relatively inexpensive labor costs
- ▶ And abundant natural resources

Djibouti has received huge Investments from China amounting to billions of US dollars

Djibouti has sourced from China large projects support and has built with Chinese credits and FDI the following:

- Doraleh container terminal and multi-purpose port
- An international free zone and industrial park – the largest in Africa
- Rail and road projects linking the country with Ethiopia

Ethiopia is a notable beneficiary and the 5th largest recipient of Chinese FDI and financing in Africa

Ethiopian investments supported by China have amounted to \$14 billion between 2000–17, and include:

- ▶ The Djibouti – Ethiopia railway
- ▶ The Addis Ababa transit railway and ring Road
- ▶ A number of inter-city road projects
- ▶ And multiple industrial parks projects and manufacturing industries

Kenya and Uganda have received massive cross-border infrastructure investments and national projects as well

Kenya is among the top 10 African countries receiving investments from China including:

- ▶ The Mombasa– Nairobi standard Gauge Railway to be extended to Kampala (Uganda) and Juba (S. South)
- ▶ Multiple road projects linking Kenyan cities and other East African neighbors
- ▶ Huge dams and power distribution projects, for both Kenya and Uganda

Economic infrastructure investments are seen as essential for sustained and inclusive economic growth

The good economic performing countries view China's substantial investments as fostering sustainable development. Through to world markets by:

- ▶ strengthening their access to technological transfers
- ▶ Integrating more in global value chains
- ▶ And countries that benefited most from such investments were those that properly aligned their own national strategies with FDI

China is a valuable source of investment finance for the HoA countries

China has already become a big source of finance for the development endeavors of the HoA sub region and elsewhere in Africa.

- ▶ The FOCAC pledge for \$60 billion in 2018 has been a significant commitment comprising interest free credits, concessional loans, credit lines, a special development fund, and financing imports from Africa
- ▶ As a consequence, China is currently the leading bilateral direct source of investment funding in the HoA
- ▶ In 2000–2017, the access to investment finance amounted to: US\$ 13.7 for Ethiopia, \$9.8 billion for Kenya; US\$ 6.5 billion for Sudan; US\$ 3 billion for Uganda, and \$2.1 for Djibouti

Uses of investment funds from China in the HoA

The principle uses of the China sourced funding by the HoA countries were as follows:

- ▶ In Ethiopia, the major use projects were in the transport, communications, power and Industrial parks
- ▶ In Kenya the transport sector was the beneficiary for Chinese
- ▶ In Djibouti and Sudan, and Uganda large amounts went to transport sector and for the power sector as well.
- ▶ Overall the largest share of Chinese financing of HoA country investments were allocated to economic infrastructure; predominantly transport and energy sectors

The achievements under FOCAC & BRI are immense

Under FOCAC and BRI, the relationship between China and HoA countries has been broadened and deepened with regard to investments and financial access:

- ▶ The achievements to date have impacted significantly on enhancing the region's basic economic infrastructure "to drive sustained development and productive employment"
- ▶ The cooperation among the partners also extends to other key sectors "to build a stronger community with a shared future"
- ▶ This is manifested in the demonstrated efforts to collaborate in the health and education fields; and more specifically in the recent solidarity and support by China to African countries under the difficult global circumstances of Covid-19 pandemic

Considerations that merit further expansion of the China -HoA cooperation are as follows

Modeling China's success in poverty reduction:

- ▶ There are concerns that the current focus of the cooperation on economic relations could have unintended consequences and aggravate the inequalities in the continent between states and within countries
- ▶ Current support predominantly for middle income and high natural resources states
- ▶ Even within individual countries, support is biased towards urban areas where income levels are higher
- ▶ Income levels inequalities could be aggravated
- ▶ More focus on broad based poverty reduction support, so as to learn the lessons of China's true transformation and poverty elimination

Addressing the challenges of fragile economies

The lagging and fragile countries are challenged by instability and do not benefit much from the China– HoA cooperation

- ▶ Such states have limited or no access to “traditional routes of attracting investment and finance” for their urgent recovery
- ▶ There is justification to argue that without peace, security and stability not much development could be attained
- ▶ But then, stability is endangered without socio–economic well being. In fact countries transiting from conflict are most likely to succeed *when basic needs of youth and other vulnerable communities are catered to*
- ▶ Different and less conventional modalities of engaging in such fragile countries ought to be considered under the China and HoA cooperation.

Technological transfers for sustained growth

The pace of technology transfers from China to sub regions and continental Africa could be accelerated

- ▶ There is broad consensus that the bricks and mortars of the investment exchange is not being accompanied by the pace of necessary technological transfers
- ▶ The obvious response is that technology transfers are conditioned on the skills set of the labor force to absorb it and its timely delivery
- ▶ The HoA countries much desired industrial future that is critical for productive employment and sustainable growth demands no less that enhanced pace of technological transfers and absorption

The risks of unsustainable debt accumulation

Some HoA countries have accumulated large amount of loans at terms and conditioned that endanger their debt sustainability

- ▶ The nature of assuring a country's sustainable debt profile depends on the borrowing terms and the productivity of the investments that the financing is used for
- ▶ The lending partner and the borrower should both be concerned about capacity of the latter to meet the terms and conditions negotiated in deals
- ▶ There is a cause for concern under the current circumstances of frequent rescheduling of repayments of debt obligations of some HoA countries

The crisis of adverse climate change has to be addressed

Many African countries in the HoA are facing severe challenges from adverse climate change, including prevalent food insecurity

- ▶ Combined with the health pandemic impact the prevalence of under nourishment and food insecurity is growing in the sub region
- ▶ It is critical to take comprehensive and longer term approach to respond to the impacts of the climate change in an effective manner to build human resilience
- ▶ An integrated response at the country and sub region level is required and the lessons learned in China to ensure security for the vulnerable communities and improve agricultural productivity could be instructive and should be considered under FOCAC and BRI cooperation.

THANK YOU



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