



Transforming Africa's Trade

# Trade & Development Finance Brief

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## **African Export-Import Bank Launches Inaugural Intra-African Trade Fair**

Strengthening links between producers, buyers, and sellers throughout the African continent, the African Export-Import Bank in December 2018, held its first-ever Intra-African Trade Fair. Convened in Cairo, Egypt, in collaboration with the African Union and the Egyptian Government, the Intra-African Trade Fair, IATF 2018, assembled manufacturers, international banks, major multilateral institutions, and corporate partners to share trade, investment, and market information in the first gathering of its kind in Africa.

His Excellency President Olusegun Obasanjo, IATF 2018 Advisory Council Chairperson and former President of the Federal Republic of Nigeria, captured the historic nature of the event and its transformational impact in fostering trade ties across the continent, the diaspora, and the world. *“The Trade Fair will contribute towards the implementation of the African Continental Free Trade Agreement (AfCFTA), which will play a vital role in transforming businesses, economies, and prosperity across the continent,”* Obasanjo said.

With 1,086 exhibitors in attendance, far exceeding the initial goal of 700, the weeklong trade show provided a forum for high level engagement and exchange on trade and investment opportunities in Africa. By facilitating the dissemination of investment and market information, it created a platform for exhibitors to showcase their goods and services, engage in business to business (B2B) exchanges, and strike deals. Exhibitors hailed from 29 African and 16 non-African countries, including Russia, China, India, Indonesia, and the United Kingdom. They showcased a wide range of products, from agriculture, agro-processing, and consumer goods to clothing and textiles, manufacturing and light manufacturing, services, banking, technology, and tourism. More than 26 multilateral institutions and corporate partners attended the event. Among them were United Nations Conference on Trade and Development, The Export-Import Bank of China, United Nations Industrial Development Organization, The Russian Export Centre, United Nations Economic Commission for Africa, The Afro-Champions Initiative, and regional chambers of commerce and industry.

*“This grand occasion has successfully brought together African and global enterprises and institutions to exhibit their goods and services, while simultaneously providing an excellent platform to explore business and investment opportunities in Africa,”* said Xu Yan, General Manager, International

Department at the Export-Import Bank of China. *“We believe the big event, which will be held every two years going forward, will play a significant role in promoting closer economic and trade ties within the African continent, as well as expanding cooperation between the continent and the rest of the world,”* Yan said.

The trade fair was filled with activity. Through B2B and business to government (B2G) meetings, sovereign and corporate entities shared trade and investment opportunities. Government representatives showcased key export strengths and scouted for suppliers, buyers, and investors, helping generate US\$32.6 billion in deals, exceeding the IATF 2018 target of US\$25 billion.

In addition to the exhibition, IATF 2018 featured a conference with 133 African and international speakers and 2,500 registered delegates taking part in 43 separate sessions over six days. The conference explored options to boost intra-African trade, accelerate the structural transformation of African economies and the diversification of exports, including building robust domestic and continental supply chains. The Creative Industry Showcase featured a seminar on the Creative Africa Exchange, fashion shows, music, artists, and other elements of Africa’s rich creative economy.

Building on the success of the Inaugural Intra-Africa Trade Fair and following a competitive bidding process, Rwanda has been selected to host IATF 2020, to be held September 1 to 7, 2020 in Kigali.

## **Intra-African Trade Fair Showcases Africa’s New Manufacturing Landscape**

The first Intra-African Trade Fair (IATF 2018) provided a valuable platform for key stakeholders to address trade and market information gaps by showcasing the range of industries, products and services available across the continent. African industrial and manufacturing companies made up more than 60 percent of all exhibitors and attracted more than half of the US\$32 billion worth of deals closed during the fair. These companies are driving value addition in heavy industry, manufacturing, agribusiness, and pharmaceuticals, among other sectors. The range of products and services displayed highlighted the increasingly sophisticated manufacturing and industrial base in Africa driving intra-African trade. That base is poised to take advantage of growth opportunities and economies of scale offered by the African Continental Free Trade Area (AfCFTA).

More than 50 heavy industrial companies based in Africa mounted exhibits at IATF. Along with other African corporations and institutions, they are playing increasingly important roles in strategic goods production on the continent. Chief among their products are cement, steel and steel structures, ceramics, fertilizers, hot batching plants and belt conveyors for material handling and feeding systems, and automotive and rubber wares. While most of the firms are little known beyond the borders of their countries, their transformational impact at the continental level is already significant, both in terms of intra-African trade performance and balance of payments. The most illustrative example is the Nigeria-based Dangote Group. Over the past 20 years it has become a global player in cement production and distribution, overtaking Lafarge Cement in Africa and significantly contributing to reducing Africa’s import bill for cement, from US\$3.6 billion in 2010 to US\$1.7 billion in 2018. In the process it has made Nigeria a net-exporter of cement.

The changing nature of African aggregate output and sources of growth is equally felt in the manufacturing sector, especially in light manufactured goods such as clothing and textiles, leather and plastic products, and furniture and household appliances, which are taking advantage of growing economies of scale. Unlike heavy industrial goods, produced mainly in the large economies of Egypt, Nigeria and South Africa, light manufactured goods production is diffused across the continent, reflecting growing demand for these goods and expanding access to markets. More than 40 percent of IATF 2018 exhibitors represented the manufacturing industry. And their numbers are likely to increase in subsequent trade fairs, as a growing African middle class drives demand.

IATF 2018 also highlighted agricultural industries and products. Exhibits of shea and cocoa butter, chocolates, locally-packaged and branded coffee and dairy products, sugar and confectionary, cereals and fruit juices studded the trade fair floor. Those numbers reflect big change. A growing number of primary agricultural commodities are processed within the continent by small and medium-sized

enterprises (SMEs). Responding to growing demand from a burgeoning and increasingly urbanized middle class, agri-business industries are strengthening, reducing post-harvest losses and raising farmers' income.

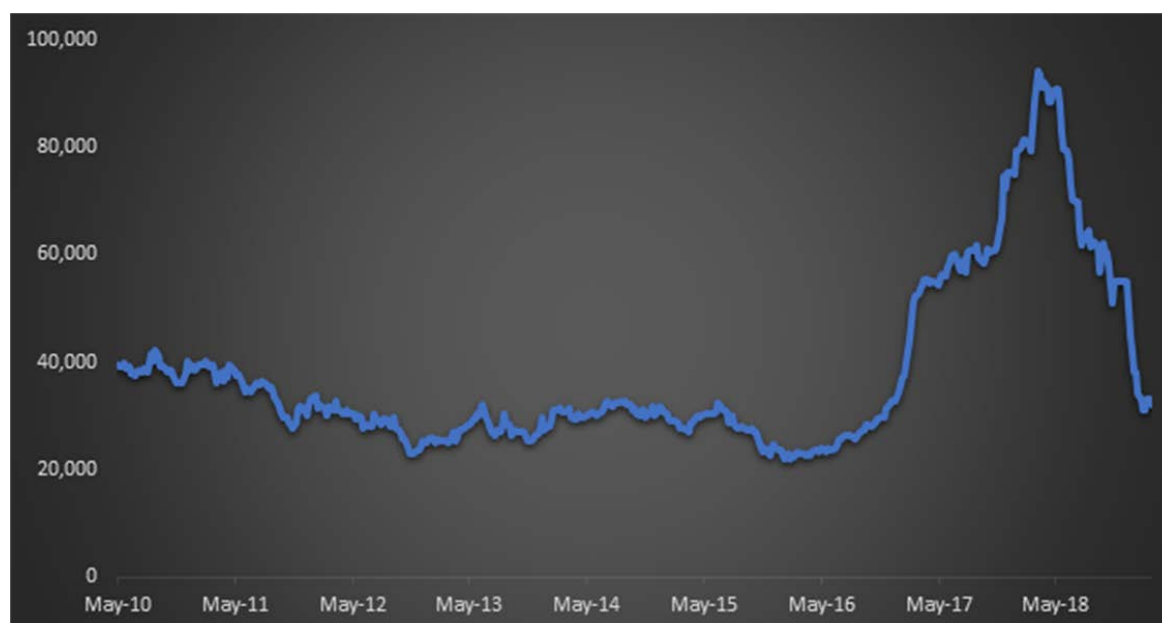
The trade fair also featured several major firms from the pharmaceutical and healthcare industries, another growth sector on the African continent. Africa's pharmaceutical industry is among the fastest growing in the world and it is estimated that the pharmaceutical market will be worth US\$40-US\$60 billion a year by 2020, presenting huge opportunities for manufacturing and intra-African trade.

Together, manufacturing, agricultural, pharmaceutical and healthcare industries are increasingly emerging as major forces on the African continent, a region where manufactured and non-extractive goods account for over 60 percent of total intra-regional trade. The inaugural trade fair provided the opportunity to introduce these champions of Africa's industrialization and structural transformation to the continent and to the world. Future trade fairs will continue to boost their balance sheets and sustain them on a strong growth trajectory.

### Volatile Cobalt Prices strengthen the Case for Value Addition

The meteoric rise in cobalt prices that began in the second half of 2016 has been erased following a sharp drop in prices and contraction in global demand. Between November 2016 and March 2018, prices for cobalt more than tripled, starting at US\$30,000 per tonne and skyrocketing to US\$94,000 per ton. The market has now reverted to its long-term average of about US\$30,000 per tonne (see chart below), down 65 percent from that March 2018 peak.

**Figure 1: Cobalt prices decline sharply from their peak, US\$/tonne**



Source: Bloomberg, Afreximbank Research

The potential for supply bottlenecks in the industry has added a risk premium to prices, helping to lift the market prior to March 2018. Supply risks are also elevated by the oligopolistic nature of the industry. Only a few large mining companies operate in the sector and China accounts for more than 90 percent of the global cobalt refining capacity. The decline in the price of cobalt—a by-product of nickel and copper mining—appears to be tied to the sluggishness in nickel and copper markets during the same period.

Cobalt is critical to a wide range of chemical and metallurgical sectors and industries. According to some industry reports, no other element is as crucial as cobalt to technological and industrial development, especially at a time of global energy transition and increasing concerns about the

correlation between greenhouse gas emissions and environmental degradation. Cobalt is a critical component in rechargeable lithium-ion batteries used in hybrid and electric vehicles, which typically account for 44 percent of cobalt use. According to the International Energy Agency, sales of new electric vehicles globally grew by 54 percent in 2017 and are expected to increase even more in the coming decades.

The volatility observed in the global price of cobalt is in sharp contrast with the dynamics of lithium-ion batteries and could have significant implications for growth and balance of payments, especially in major producing countries within the region. Just under 60 percent of current global production, and around half of global cobalt reserves, are concentrated in the Democratic Republic of Congo (DRC). However, the DRC and other African countries which have large deposits of cobalt could mitigate the risks associated with long-term deterioration of commodity terms of trade by integrating into the global value chain for lithium-ion batteries and electric vehicles. More than drawing on the new wave of new energy vehicles to mitigate the exposure to global volatility, the model could be replicated to other strategic resources to accelerate the process of structural transformation in resource-rich African economies.

## **The New DRC Mining Code and Lessons from Indonesia**

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Although the Democratic Republic of Congo (DRC) is among the world's richest countries in natural resources, with untapped mineral deposits believed to be valued at more than US\$24 trillion, the development impact of these resources has been limited. Income from natural resources, estimated at about 30 percent of government revenue, remains below potential and the welfare impact of the mining sector has also been limited by a development focus on exporting raw materials and primary commodities. The new DRC mining code adopted in 2018 aims to raise the fiscal and development impact of a sector that is one of the most important in the country.

The new code includes provisions to strengthen fiscal and regulatory reforms and boost government revenues. It raises taxes levied on profits from 30 to 35 percent. It increases royalties from 2 to 10 percent on strategic resources, most notably cobalt, coltan, lithium and germanium. It also raises royalties on both base and precious metals from 2 to 3.5 percent. While the new code does not change income taxes on mining companies, it imposes a 50 percent tax on "super-profits" that arise when commodity prices increase by more than 25 percent above the prices indicated in the specific projects bankable feasibility study conducted before commencement of mining operations.

Importantly, the new code restricts the export of certain concentrates and requires mining companies to present a strategy for processing minerals domestically. Perhaps inspired by the Indonesian mining code, which bans exports of unprocessed minerals, the provision is designed to increase value-addition, and enhance both the competitiveness of the DRC's mining sector and its integration into global value chains. It is also consistent with Afreximbank's strategy, which has drawn on development of local content and promotion of value addition to accelerate the process of industrialization and export development.

There are other important provisions in the new code to strengthen government ownership and control and oversight over the mining sector. The new code requires contractors be majority owned by Congolese shareholders and that priority be given to Congolese companies when concluding services contracts. And the new code requires miners allocate a minimum of 0.3 percent of their turnover to development projects in communities affected by mining activities. Mineral exporters are also required to repatriate more of their export receipts to the DRC. These measures, welcomed by domestic banks and other financial institutions, have the potential to raise the availability of foreign exchange and liquidity in the financial sector.

While the revised mining code is expected to bring significant economic and social benefits to the DRC and has been welcomed by most local stakeholders, large multinational and global mining corporations operating in the country have voiced strong opposition. Understandably, these corporations are concerned about potential implications of the reform on their balance sheets, even though the new

mining code simply aligns the governance and management of natural resources in the DRC to global standards.

Corporate taxes and royalties collected in countries such as Australia, Canada and Indonesia are still significantly higher than the rates adopted by the DRC under the new code. While ideally a continental approach to mining reforms that sets minimum requirements related to the extraction of natural resources is preferable and will mitigate a race to the bottom, the ongoing reforms are a step in the right direction. The main challenge will involve strengthening governance for effective deployment of additional fiscal revenues in support of economic development and structural transformation.

## **The United States New Africa Strategy or New Scramble for Africa?**

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On December 13, 2018, the US Administration outlined the contours of its New Africa Strategy. Reflecting the core tenets of President Trump's "America First" doctrine, the approach is premised on the view that lasting stability, prosperity, independence, and security on the African continent are in the national security interests of the US. As outlined by John R. Bolton, President Trump's national security adviser, the strategy is designed to advance US trade and commercial ties with nations across the region, to counter the threat from radical Islamic terrorism and violent conflict, and to ensure the effective and efficient use of US aid dollars.

A key component of the strategy is the "Prosper Africa" initiative, designed to counter the emerging power of China in the region by deepening US trade and commercial ties with Africa. China is Africa's single largest-trading partner and has been playing a key role in the financing of infrastructure and promotion of economic development within the region. While no specific dollar figure is attached to the initiative, which will replace current US Agency for International Development programs "Trade Africa" and "Power Africa," it aims to support US investments across the continent, grow Africa's middle class, and improve the overall business climate in the region.

The African Growth and Opportunity Act (AGOA), the framework for economic engagement between the United States and Africa since 2000, will expire in 2025. The impact of AGOA has been marginal to date. With the Trump administration strongly favouring bilateral over regional agreements, the US is likely to target specific African countries for trade deals, especially those willing to engage on "new generation" trade issues and those viewed as strategic partners to further US interests in the region.

Although ostensibly focused on Africa, a consistent theme running through the strategy is the determination of the United States to counter the growing influence in the region of China and Russia. The new strategy labels these two countries as "great power competitors" in Africa.

In addition to emerging as Africa's single largest-trading partner, China has become its fourth largest investor, and the region's largest creditor. Russia is also emerging as a key partner for Africa, with trade with the continent growing from US\$1.5 billion in 2000 to \$9.4 billion in 2018 and investment by Russian enterprises growing as well.

The long-term impact of the new US strategy on the relationship between Africa and other emerging powers is not clear. In the short term—just as during the Cold War—Africa could again become the theatre in a battle for global hegemony, with political and economic leverage exerted to pressure countries to choose partners and become satellites, to the detriment of their own overall economic development.

The rise of new powers in the global arena and the impressive growth of South-South trade has enabled Africa to diversify its trade and sources of investment. In the process, it has mitigated the exposure of the region to global volatility. The renewed interest from the United States is a positive development, but one that should not be pursued at the expense of existing engagements and strengthening cooperation with other major partners. The implementation of the AfCFTA is a major undertaking, and Africa will need all its partners—old and new—to establish a vibrant free trade area and develop regional value chains to boost cross-border trade and the structural transformation of African economies.

The challenge for the region is and has been to speak with one voice on trade negotiations. That challenge will be tested under the new global engagement of the United States through bilateral trade agreements.

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