AFRICA IS EVERYONE'S DARLING

US-China Trade Spat Plays into Continent's Hands

BY KERRY DIMMER

The spillover from the U.S.-China trade war is playing out positively for Africa. With 20 of the fastest growing economies back in 2018, Africa was always going to be a target by both giants as an opportunity for economic influence and growth.

On the one hand, there is China's penetration in Africa, playing the long game with infrastructure development, particularly port, rail and road development, that underpins integration, and a heavy investment in the African Continental Free Trade Agreement.

On the other hand there is the U.S., which despite declining crude needs from Nigeria and Angola, still has an interest in exporting its cars, machinery and airplanes to Africa. It was the African Growth and Opportunity Act, or AGOA, of 2008 that provided tariff-free access to more than 6,500 sub-Saharan products, and led to some US$100 billion growth in U.S. trade – tariffs have underpinned the U.S.-China trade war. However, by 2017 this had declined to under US$39 million versus China's US$148 billion.

Ope Onibokun, head of project finance at Arise, said that the retaliatory tariff war between the U.S. and China, and thus the decline in imports and exports between them, is good news for Africa. "In the short term, U.S. companies will be looking to explore immediate alternatives for products manufactured in China, particularly those that enjoy preferential trade agreements with the U.S.

"In the medium term, a switch from traditional Chinese suppliers to manufacturers with global supply chains will see the U.S. divert its foreign direct investment to other countries. And long term we can expect the U.S. to decouple manufacturing away from China."

Onibokun notes that this decoupling is being accelerated by

Covid-19, as manufacturers from China and the U.S. look to shorten supply chains and focus on countries that offer comparative advantages – such as access to raw material, efficient and low-cost production – and minimal tariffs to intended export markets. He also highlights the Chinese economy's structural shift as it moves from low-skill manufacturing towards a service economy, the latter "now accounting for more than 53 percent of its US$14.3 trillion GDP in 2019.

"Certain African countries stand to benefit especially with the negative impacts of Covid-19 that have resulted in a supply side disruption," Onibokun said. "With 19 of the world's youngest countries in Africa, and over 200 million people between the ages of 14-24, the continent can leverage this attractive demographic to support new manufacturing activities."

TRADE FACILITATION

AGOA also continues to facilitate trade preferences for quota and duty-free entry to the U.S. on goods and, regardless of the November U.S. election, public opinion is that an even tougher trade stance will be taken against China. Onibokun's prediction is that there will be a gradual reallocation of U.S. capital away from China into other regions such as Africa.

Ope Onibokun

Arise

Lars Greiner

Hamburg Port Consulting

"A best guess timeline will be in the next five years," he said. "Investment in infrastructure, transportation and logistics is already picking up in certain African nations, as evidenced by several port expansion projects." He is referring to port hubs like Mombasa, positioned as a hub for East and Central Africa, and Djibouti and Beira that service breakbulk clients in Mozambique, Zambia, Malawi and Zimbabwe.

Lars Greiner, senior consultant at Hamburg Port Consulting, was born on the continent and has vast experience in African logistics. He cautions against considering Africa as a whole because of the separate trajectories and diverse and divergent paths of the eastern, western and southern regions.

The problems of overly complex bureaucracy and overpriced logistics costs can challenge Africa projects. CREDIT: SHUTTERSTOCK.

"East Africa has a very positive growth pattern due to oil and LNG finds, and West Africa continues to experience real industrial growth and infrastructure development," Greiner said. "South Africa on the other hand is floundering due to its sinking economy with few willing to invest real money until it has stabilized."

That said, Greiner still believes that Africa remains an exciting frontier in many areas, particularly regarding resources, development of new economies, and digitalization. But with the Covid-19 pandemic hitting Africa later than the northern hemisphere, there has been a move from a period of rapid and rampant investment to a more cautious and returns-focused scenario. "Most [investors] are no longer looking to invest purely for long-term profit, but more along the model of always investing with an exit strategy in place," he said.

Reasons for this include the sour experiences of the Simandou project in Guinea where the Vale, Rio Tinto and BSGR court cases have been ongoing over several years. The Djibouti spat with DP World, and the Acacia gold mine fines in Tanzania have not been forgotten either.

"These highly expensive excursions have led to heightened caution, but that in turn opens the door for angel investors and venture capitalists in the short to medium high-risk, high-return arena, but who will rarely support mining development," Greiner said.

China, on the other hand, is really the only major nation interested in the mineral and natural resources Africa offers, but is disinclined to grow the manufacturing base or skills level of Africans, he adds. "This is where Europe and the U.S. will step in and become more involved in development, particularly in the western and southern regions."

However, Greiner asks if Africa is ready for massive development growth. "I believe Ghana has the tools for sustainable development and on the east coast, Uganda and Rwanda, despite their dependency on Kenya becoming apparent. South Africa is likely to continue its downward spiral until the corruption that is ravaging its economy is properly addressed, but still has incredible potential."

SAL has an active presence in Africa.
CREDIT: SAL

'PART OF THE SOLUTION'

Greiner quotes from Eldrige Cleaver in relation to the potential of Africa: " 'There is no more neutrality in the world. You have to be part of the solution, or you're going to be part of the problem,' " he said. "Part of the challenge of development has been the lack of transport infrastructure in Africa. HPC is involved in a variety of transport infrastructure projects across the continent, however the problems of overly complex bureaucracy, aided by overpriced logistics costs compound the challenges."

He lists top tips for breakbulk and project cargo movers eyeing Africa as a destination for continued or new investment. First, boots on the ground is essential. Second, project movers need to ensure good representation at key points on the chain into and in Africa, and those supply chains need to be simple, efficient and resilient. Third, movers must strive for more transparency to allow for quick responses to challenges and changes – political or medical – and to expose flaws that need to be addressed. "This can only be realized through good representation and openness," Greiner said.

SAL Heavy Lift already has a keen presence in Africa's project industry. Juergen Kuntz, senior manager and head of SAL's Africa Chartering Desk, confirmed that there is still much port infrastructure and improvement to existing ports required.

"Hot spots are definitely Nigeria, Ghana, Senegal and Mozambique, and Egypt remains strong," he said. "We are seeing activities increasing in infrastructure and oil and gas, which translates into carriers and operators adding tonnage. Freight forwarders, who were previously looking at other regions, are now opening offices in the new hot spot zones."

Kuntz added that there is also increasing activity coming into Africa from SAL's clients in Europe and the U.S. "This is great to see and clearly highlights that there are opportunities for everyone in the Africa theatre. So the challenges really are just disguised opportunities."

CHANGE OF CARGOES

Onibokun said many of those opportunities will alter the cargo types and mixes from African countries, with the need for more breakbulk and project cargo transport.

"Breakbulk cargo carriers will be well-positioned to take advantage of emerging trends, such as the move from the traditional African cargo of raw materials. There will be a push for more in-country processing and value addition. This trend benefits multinationals, who will avail of favorable tariff and tax incentives offered at specialized economic zones.

"Bulk cargo carriers will be required, even in countries like Gabon and Benin, to transport processed wood products and cotton and cashews. And with infrastructure investments needs of up to US$170 billion per annum, according to the African Development Bank, the continent is under huge pressure to increase its port capacity and invest in efficient port equipment, and logistics infrastructure such as warehouse, storage facilities and power plants."

Onibokun's own company, Arise Port & Logistics, is already doing this through its investment in a dry and liquid bulk terminal in San Pedro, Ivory Coast, to service mining clients, and in a mineral port terminal in Gabon, primarily to handle export of manganese. The company's integrated platform is also investing in special economic zones that provide an integrated ecosystem to support manufacturing in Africa.

So while it is true that the investment climate in Africa varies by region and country, and that legislation and regulations can be tricky to maneuver, development is still solely needed, and the door to Africa has truly been propped opened thanks to bickering between China and the U.S. whose positions as first and third of Africa's big traders may now be compromised. BB

Kerry Dimmer is an award-winning freelance journalist, focused on African business affairs.