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Africa-Asia economic relations: Let the private sector shine

By **Kelvin Tan**

For almost two decades, Asian governments have been very vocal in their desire to get involved in the African continent. Bilateral forums, conferences, meetings and seminars happen more often than one can count, and usually result in numerous announcements - ranging from memoranda of understanding (MoU) to billions of financial commitments.

China is by far the most prominent investor into Africa, with $120bn pledged between 2015 and 2018, namely during the past two Forums on China-Africa Cooperation (FOCAC). The most recent FOCAC in Beijing drew African delegates from 53 states and renewed financial pledges amounting to some $60bn. Numbers like these are bound to draw all kinds of attention, and in recent years, various international organisations - including the International Monetary Fund (IMF) - have warned African countries and China about the risky levels of sovereign debt reached by the former.

On a different level, China has been accused of practising a form of neo-imperialism in Africa, as such a heavy economic presence must come with at least a small degree of political leverage. But while China's recent Africa strategy remains largely linked to the development of its 'One Belt, One Road' initiative, Beijing seems to be shifting away from concessional debt lending and introducing new financing instruments that place greater emphasis on private-sector-led investments in project finance, including trade.

This is the way forward for Africa-Asia cooperation: enough MoUs have been signed; enough financial aid has been pledged. The real change will only come when the Asian private sector is given opportunities and incentives to broaden its investments into the continent.

Asia engages Africa through different modalities

In just two weeks between the end of August and the start of September, three notable events took place to discuss the involvement of Asia-Pacific countries in Africa. The modalities may be different, but the outcomes remain the same: to encourage the private sector to do more with Africa.

First stop, Singapore – through the Africa Singapore Business Forum organised by Enterprise Singapore, a recently formed government agency to spur the globalisation of Singaporean companies and upskill small and medium-sized enterprises (SMEs). The forum, in its 5th iteration since 2010, positions Singapore as a gateway to Asia for African companies. In his opening speech, trade and industry minister Chan Chun Sing encouraged African businesses to see Singapore as a "launchpad" in South-east Asia and beyond, pointing to the country's strong connections with regional governments and businesses. Singapore is already an important trading partner, with about $15bn of foreign direct investment (FDI), more than $7bn of bilateral trade and more than 60 Singaporean firms operating in Africa.

Agreements signed at the event largely focused on the private sector: the 13th double taxation avoidance agreement between Singapore and an African country was inked, namely with Gabon; along with five MOUs in areas of digital, infrastructure and business services between African and Singapore companies.

Around the same time, in Perth, Australia, the 16th Africa Down Under Conference gathered a host of mining executives and ministers from both regions to discuss opportunities in African minerals. Australian companies are a great example of private-sector-led development in Africa: In 2017, an estimated 140 Australian mining firms were present in 34 countries on the continent, having invested around A$40bn ($29.1bn) in just a decade, according to the Australia-Africa Minerals & Energy Group. This makes Australia the largest international miner in Africa.

Finally, Beijing. FOCAC 2018 indicated the recalibration of China's strategy in Africa. For the first time, Beijing's $60bn of financial pledges to the continent includes $10bn of private investment, which the government has promised to encourage companies to make in the next three years. The incentive will most likely take the form of contributions or joint funding by Chinese financial institutions and state-owned enterprises, but the goal is definitely to move away from public loans. This decision was urgently needed: while Chinese debt to African countries has gone through the roof, Chinese investment on the continent has remained small over the years, standing at $3.1bn in 2017 - just 2.5% of China's overall FDI.

Furthermore, the most recent agreement includes a $5bn fund for trade facilitation - specifically to finance Chinese imports of African goods, with a priority for non-commodity goods. The focus will also be placed on promoting e-commerce cooperation with Africa, according to President Xi Jinping's opening speech.

Private-sector initiatives across Asia

Chinese e-commerce giant Alibaba is the perfect example of this e-commerce co-operation: Alibaba Cloud, Alibaba.com and AliExpress are available in all 54 African countries, while TMall Global facilitates African exports to China from around the continent. But more importantly, the company is very active in trying to enable SMEs and create a more inclusive globalised trading network, particularly through its eFounders Fellowship. In July this year, 29 Africa-based entrepreneurs from 11 countries participated in the programme hosted by Alibaba Business School and the United Nations Conference on Trade and Development.

A recent report by McKinsey estimates that there are more than 10,000 Chinese-owned firms operating in Africa, most of which are SMEs. Digital and telecom companies in particular have made great strides on the continent in recent years, with Huawei and Transsion, for example, gaining huge amounts of market share. Transsion's subsidiary Tecno Mobile even gave up the domestic Chinese market in 2008 after realising the size of the opportunity in Africa. Today, it is the number-one smartphone company in Africa and makes at least three out of every ten phones purchased by Africans.

But Chinese companies are not the only ones keen to get involved in Africa. This year, Malaysia's Petronas acquired stakes in two energy projects in Senegal and Gambia, from France's Total and Australia's FAR, respectively. Singapore agribusiness giant Wilmar recently upped its stakes in Côte d'Ivoire's palm oil production. It also addined to its involvement in Ghana, Uganda and Tanzania, and its approximately 30% stake in Morocco's Cosumar, Africa's third-largest sugar producer. Last year, Singapore-headquartered Indorama – already the largest producer of urea fertilisers in sub-Saharan Africa -- opened a $1.5bn plant in Nigeria. And this year, it received $1bn of financing from 20 multilateral and commercial lenders to expand it. Meanwhile, Singapore e-government solutions firm CrimsonLogic just opened an office in Rwanda to serve as a regional hub.

The difference between public and private investment is significant, in that commercial firms tend to be a lot more focused on efficiency, returns and deliverables. In Africa, most of them realise that to reach those, they need to involve local communities and help their economic and social development. Now that Asian governments are ready to incentivise private-sector investment, Asian firms are ready to jump on the opportunity.

How Africa can prepare for the change

This is a turning point for relations between the two continents, and Africa needs to be ready for it. Private investors have different requirements from state-owned enterprises and a different, more competitive way of doing business - one that governments in Africa must adapt to. In order to do that, they should increase ties with local and regional development financial institutions such as Afreximbank, the African Finance Corporation and the African Development Bank. They should use these organisations' tremendous international experience to improve negotiations and financing terms with foreign firms.

Private-sector alliances led by regional chambers of commerce are also a great tool for this purpose: the most recent Africa-South-east Asia Chamber of Commerce's annual general meeting gathered 15 private members from both regions in Singapore – including NSIA, Afreximbank, Opaia, African Logistics Holdings and Aenergy on the African side, and PIL, Olam, Wilmar and CrimsonLogic on the Asian side. These events are a bridge between Africa and Africa, encouraging private-sector partnership and collaboration.

This is an exciting time for Africa-Asia relations: with the right preparation and incentives, the growth of private-sector investment has the potential to propel Africa's industrialisation further than ever. Let's keep this momentum going.

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