

# THE BELT AND ROAD INITIATIVE AND CONSTRUCTION OF THE FREE TRADE AREA IN AFRICA

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The African Continental Free Trade Area (AfCFTA), one of the flagship projects under the Agenda 2063 of African Union (AU), aims to eliminate intra-African trade barriers and boost African trade through trade agreements, achieve regional economic convergence and accelerate Africa's economic integration. The establishment of the AfCFTA marks a new stage in Africa's economic integration and is expected to have a significant impact on the growth and development of member states of the AU and is expected to expand investment opportunities and create jobs.

The year 2023 marks the 10th anniversary of Chinese President Xi Jinping announcing the Belt and Road Initiative (BRI) and the principle of "sincerity, real results, amity, and good faith" towards African countries. Over the past decade, China and Africa have not only deepened their cooperation in trade and economy, infrastructure construction, health and cultural exchanges, but also expanded new opportunities for cooperation in areas such as environmental protection, science and technology, digital economy and climate change. Under the impetus of the BRI, China-Africa trade has continued to grow, and investment and cooperation projects have spread across the African continent. The principle of "sincerity, real results, amity, and good faith" has further consolidated China-Africa friendly relations and made the two sides work more

closely in global and regional affairs. With the official launch and in-depth promotion of the AfCFTA, the BRI is increasingly in line with the development strategy of the AfCFTA, which will lay a solid foundation for the construction of a closer China-Africa community with a shared future in the new era.

## THE FAR-REACHING IMPLICATIONS OF THE AFCFTA

On May 30, 2019, the African Continental Free Trade Area Agreement came into force. In July of the same year, the "African Union Extraordinary Summit on the African Continental Free Trade Area" declared official establishment of the AfCFTA. Disrupted by the COVID-19 pandemic, the AfCFTA was forced to be postponed and was eventually officially launched on January 1, 2021. Fifty-four AU member states, excluding Eritrea, signed the agreement.

Despite the challenges of the COVID-19 pandemic and the uncertainty of the global economic recovery, the AfCFTA has made remarkable progress. To date, the first two phases of its negotiations have been largely completed, and the third phase, covering digital trade and protocols specifically for women and youth, is in full swing.

The AfCFTA will significantly reduce transaction costs in trade, thanks in large part to the launch of the

Pan-African Payment and Settlement System in January 2022 in Ghana's capital, Accra. Through the system, member states will be able to settle transactions directly in their own currencies, saving the continent an estimated \$5 billion a year in payment costs.

In terms of advancing trade flows, the AfCFTA has likewise achieved considerable success. In July, 2022, a total of seven countries participated in a pilot program of trade as a way to test the infrastructure, regulatory, and policy environment for intra-African trade. In addition, member states are actively pursuing their own strategies, such as Nigeria's Enyimba Economic City project, which allows duty-free access to the entire African market for locally processed or assembled products.

The AfCFTA is the largest free trade area since the establishment of the World Trade Organization in 1994, covering a continental economic market of 1.3 billion Africans and a GDP of about \$3.4 trillion. The AfCFTA is a vision of development under the AU's leadership in exploring the concept of independent and autonomous pan-Africanism to expand intra-African trade and create a single continental market by promoting the free movement of commodity goods and services, better coordination of trade liberalization and facilitation regimes across African Economic Community and at the continental level as well.

Now Africa is in the stage of demographic dividend. The construction of the AfCFTA can accelerate the process of African integration, and is an effective way for Africa to get rid of its dependence on the global market, strengthen the competitiveness of its own market, realize internal economic and political integration, and integrate into regional and global value chains. In recent years, the scale of trade in the African market has been expanding. According to the World Bank, the total import and export volume of the African region reached 2.1 trillion U.S. dollars in 2022, a year-on-year increase of 3.6%. Among them, exports amounted to 1.1 trillion U.S. dollars, an increase of 3.8% year-on-year; imports amounted to 1 trillion U.S. dollars, an increase of 3.4% year-on-year. The establishment of the AfCFTA not only stimulates the economic potential of value-added production and trade in all sectors of the African economy and accelerate the process of industrialization in the African continent, but also brings about economies of scale through the unified market, enabling it to improve its competitiveness and create

more employment opportunities in the medium and long term, and gradually achieve the transformation of Africa's economic structure and the sustainable development of society.

Indeed, the future course of the AfCFTA depends on the potential interests of Member States in it. African countries must strive to realize the common vision of the AfCFTA. Challenges such as competition for regional powers, the legacy of colonialism, overlapping memberships, lagging national infrastructures and the lack of complementarities among regional partners in terms of commodities and factors of production, as well as the mistrust that still exists in economic cooperation and protectionism among African countries, are inevitably challenges that need to be overcome in the construction of the AfCFTA.

### **JOINTLY BUILDING THE BELT AND ROAD TO DEEPEN CHINA-AFRICA COOPERATION**

The BRI highlights the importance of Africa. Africa is an important pole in the current world political and economic structure, and an important direction and purpose for the Belt and Road construction. In May 2017, the relevant documents of the first Belt and Road Forum for International Cooperation explicitly stated that Africa is a key partner in the joint Belt and Road construction. In 2018, the Beijing Summit of the Forum on China-Africa Cooperation adopted the Beijing Declaration – Toward an Even Stronger China-Africa Community with a Shared Future, which once again reiterated the importance of Africa's participation in the construction of the Belt and Road.

At the end of 2020, China and the AU signed Cooperation Plan between the Government of the People's Republic of China and the African Union on Jointly Promoting the Building of the Belt and Road. This is the first cooperation document signed by China and regional international organizations to jointly build the Belt and Road projects, and its main content is centered on the "five links" of the Belt and Road construction, namely policy coordination, infrastructure unimpeded trade, financial circulation and people-to-people bond. It specified the contents of cooperation and key cooperation projects, and put forward the corresponding timetable and roadmap. The cooperation plan effectively facilitates the top-level interface between the BRI and

the Agenda 2063, and promotes complementarity of strengths of the two sides to jointly address global challenges.

In November 2021, Information Office of the State Council of the People's Republic of China released a white paper named *China and Africa in the New Era: A Partnership of Equals*. This is the first white paper issued by the Chinese government to comprehensively introduce China-Africa cooperation, and the first white paper since the 18th National Congress of the Communist Party of China to introduce the achievements of China's cooperation with a region of the world. In the same year, the 8th Ministerial Conference of the Forum on China-Africa Cooperation adopted the Vision 2035 for China-Africa Cooperation, which sets out the direction and goals of cooperation in the medium and long term, emphasizing the promotion of the building of a closer China-Africa community with a shared future.

As of June 2023, 52 African countries as well as the AU Commission signed cooperation documents with China on the construction of the Belt and Road. In August 2023, the BRICS Summit was held in Johannesburg, South Africa. At the summit, the BRICS achieved a historic expansion of its membership. Egypt and Ethiopia became new members of the BRICS cooperation mechanism. After the expansion, the total population of BRICS countries is 3.68 billion, accounting for 46% of the world's total population, and the proportion of BRICS countries in the global economy has exceeded that of the G7 countries in terms of purchasing power parity. The BRICS countries reaffirm their support for the Agenda 2063 and for Africa's integration through, among others, the AfCFTA. The BRICS cooperation mechanism echoed the BRI and had become an important driving force in support of the the construction of free trade area in Africa by promoting the growth of trade and infrastructure investment.

## THE BRI AND COOPERATION ON CONSTRUCTION OF THE AFCFTA

China has always supported Africa's economic integration process and played an active role in realizing peaceful development in Africa. China's BRI will give strong impetus to the construction of the AfCFTA and the opening up of Africa, thus contributing to Africa's autonomous and sustainable development.

### I. Promoting Infrastructure Construction in Africa

Strengthening Africa's infrastructure construction and realizing inter-regional connectivity is a prerequisite for Africa's productivity growth and industrialization, and also the key to the smooth operation of the AfCFTA. First, China shall increase its investment and technical support in Africa's infrastructure construction, especially in key areas such as transportation network, energy supply and information communication. An improved infrastructure network can not only promote Africa's own connectivity and regional integration and provide a material foundation for the implementation of the AfCFTA, but also provide a broader market and more convenient logistics for Chinese enterprises.

Second, China and Africa should deepen production capacity cooperation and explore a China-Africa free trade cooperation mechanism. The establishment of the AfCFTA provides new space and platform for China-Africa capacity and investment cooperation. China can optimize its industrial layout according to the actual needs of African countries' development, build a number of production capacity cooperation demonstration zones in Africa, and strengthen cooperation in agriculture, manufacturing and other fields. At the same time, supporting African countries in upgrading their own industrial chain will not only help African economic growth and employment, but also facilitate the export of Chinese products and services, and realize the balanced development of China-Africa trade.

Third, China and Africa should actively explore innovative financing models. Infrastructure projects usually require huge capital investment. China can explore diversified financing channels with African countries, such as using the public-private partnership model, setting up a special fund, and utilizing loans from multilateral development banks, so as to alleviate the financial burden of individual countries and reduce investment risks. In addition, China and Africa should strengthen bilateral and multilateral dialogue mechanisms and jointly explore investment agreements and bilateral trade agreements, etc., in the form of laws and policies to ensure the stability and sustainability of cooperation between the two sides.

### II. Expanding Emerging Areas in China and Africa

First, China-Africa cooperation needs to pay more attention to the joint development of emerging areas,

such as the digital economy, green energy and biotechnology industries. In terms of digital economy, China and Africa can jointly build digital transaction and cross-border e-commerce platforms, promote the development of digital currency payment systems, as well as promote the construction and upgrading of Internet infrastructure to enhance the digitalization of the African region, which will not only help African countries cultivate local digital talents, but also provide a new impetus for trade between China and Africa, and form a mid-to high-end value chain cooperation model.

Second, investing in green energy and environmentally friendly industries will help China-Africa cooperation extend to the high-end value chain. For example, building solar and wind power projects in Africa can not only help Africa solve the problem of energy shortage, but also promote local sustainable development. At the same time, China can help African countries upgrade their industrial level in areas such as environmental protection technology and clean production through technology transfer and joint research and development, and then participate in the higher-end global industrial chain.

Third, biotechnology is also a high value-added area where China-Africa cooperation can be further explored. China can join hands with African countries to establish biotechnology parks and jointly carry out pharmaceutical R&D, vaccine production and agricultural biotechnology development. Through such cooperation, African countries can improve their independent research and development capabilities in the field of biotechnology, and gradually upgrade their related industrial chains, and promote the high-quality development of industries such as health care and agriculture.

### **III. Encouraging china's Private Enterprises to Cooperate with Africa**

By the end of 2020, private enterprises had accounted for about 70% of the scale of Chinese enterprises' direct investment in Africa. According to *Market Power and Role of the Private Sector: Report on Chinese Investment in Africa* released by the China-Africa Business Council in 2021, under the promotion of the FOCAC, Chinese private enterprises have gradually become the main force in China-Africa economic, trade and investment cooperation, and their participation mode has been transformed from trade-driven to investment-driven.

Firstly, Chinese private enterprises can be encouraged to participate in the BRI-AfCFTA cooperation through the establishment of special funds or the provision of fiscal and tax incentives. These incentives can help reduce investment risks and operating costs, and facilitate the expansion of Chinese private enterprises into Africa to participate in local infrastructure construction, resource development, agricultural modernization and other areas. At the same time, the establishment of the special fund also helps enterprises promote their brand building in the African market and upgrade the industrial level and overall competitiveness of the African region by providing technical support and management experience.

Secondly, it is necessary to strengthen humanistic exchanges and cooperation in education and training with African countries, especially the multi-channel cultivation of specialized talents. The Chinese private enterprises can provide African students and professionals with opportunities of study and training in China through scholarships, internship programs, workshops and other forms, which can not only enhance mutual understanding and trust between the two sides, but also cultivate international talents familiar with the African market and culture for private enterprises, laying a foundation for the long-term development of enterprises.

Thirdly, private enterprises should pay more attention to local social development and environmental protection when investing in Africa. Through the implementation of green production and the provision of social welfare services, private enterprises can build a good social image and reputation, and accumulate favorable conditions for long-term development. This responsible business philosophy will promote win-win cooperation between enterprises and the local investment sites, which is conducive to promoting the construction of the AfCFTA and realizing the goal of regional integration.

Today, the world is experiencing profound changes unseen in a century, with the international situation undergoing abrupt changes, the strategic gaming of major powers intensifying, and the world economic and security situation being complicated and severe, all of which are deeply transforming the restructuring of the global order. The BRI and the Agenda 2063 will be closely aligned to help the rapid development of the local free trade zone and build a even closer high-level community with a shared future between China and Africa. 