

# GUIDE TO CHINESE PRIVATE INVESTMENT IN AFRICA

INSIGHTS FROM SME COMPETITIVENESS SURVEYS





# Guide to Chinese private investment in Africa

Insights from SME competitiveness surveys

## About the paper

Private investment from China into Africa is significant but its potential for increasing local productivity largely underestimated. The main challenge for investors is finding information on the availability and quality of local suppliers.

This new ITC report aims to address this challenge. It uses data from its Small and Medium-sized Enterprises Competitiveness Surveys to provide information on the capability of firms and quality of business ecosystems in a range of sectors in five African countries: the Gambia, Ghana, Kenya, Morocco, and Zambia. These insights help Chinese private investors develop better partnerships and contribute to the development of local economies.

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## Foreword

To achieve the United Nations Sustainable Development Goals by 2030, development assistance, international investment and domestic investment need to work hand in hand. For Africa, this is particularly important; according to one estimate, the continent will face an \$11.4 trillion investment gap by 2040.

The good news is that Africa has huge potential to attract global investment. The African Continental Free Trade Area, agreed to by 44 African countries in 2018, offers new business opportunities. The area has a combined market of more than one billion people, a combined GDP of more than \$3.4 trillion, a growing middle class, and a dynamic young population.

Much of the investment gap relates to infrastructure, especially for transport and information and communications technologies. But African firms also need finance to expand production in manufacturing or services that will serve regional or global markets.

Private investment can play a major role in helping bridge such gaps. Chinese private investment into the continent stands out because it has increased significantly in recent years: today, 90% of Chinese firms operating in Africa are privately owned. The growth in quantity has come along with quality: Chinese private investment has brought diversification in Africa.

While public investment from China tends to focus on infrastructure, energy, construction and resource-related sectors, private investors tend to invest in less capital-intensive sectors such as manufacturing, retailing and logistics. Rising labour costs in coastal China have triggered the offshoring of several tasks. Chinese companies in labour-intensive industries such as textiles, leather and light manufacturing are looking to relocate production. This pattern could reinforce the growth of manufacturing and services in Africa.

Investment spillover effects should strengthen backward and forward linkages between Chinese private investors and African suppliers. The main challenge for investors is finding information on the availability and quality of local suppliers.

This report aims to address this challenge. With first-hand data from the ITC Small and Medium-sized Enterprises Competitiveness Survey, it provides potential investors with insights into the capabilities of firms and the strength of local business ecosystems in selected sectors in five African countries: the Gambia, Ghana, Kenya, Morocco and Zambia.

By linking this information to data on trade and investment flows between these countries and China, this publication identifies potential pockets of growth and investment opportunities. It also provides policymakers, business associations and investors with useful information to reduce or manage risks related to investment decisions.

We hope that this report contributes to demystifying the investment landscape in Africa. It uses firm-level data to contribute to 'investment impact for good', the other side of the coin of ITC's motto 'trade impact for good'.



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## Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons.

ECOWAS	Economic Community of West African States
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
GIEPA	Gambia Investment and Export Promotion Agency
ICT	Information and telecommunications technology
ITC	International Trade Centre
MEE	Metallic, electronic and electric products
MSME	Micro, small and medium-sized enterprise
R&D	Research and development
SME	Small and medium-sized enterprise

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## Executive summary

Chinese private investment in Africa is significant and its potential for increasing local productivity has been largely underestimated. While state-owned Chinese companies in Africa focus on infrastructure, energy, construction and resource-related sectors, Chinese private firms invest mostly in manufacturing, services, trade and real estate.

With rising labour costs in coastal China, private companies in labour-intensive industries such as textile, leather and light manufacturing are looking to offshore their production for greater efficiency as well as access new markets. Africa is becoming an attractive destination for Chinese private investors. This represents a unique opportunity to develop further the manufacturing base in Africa.

However, Chinese firms in Africa need to have more partnerships with local firms. Only about half of Chinese companies source from local suppliers, representing an uncaptured opportunity for local firms. Lack of timely and accurate information about the competitiveness and capacity of local firms is a significant challenge for foreign investors to engage with local business partners.

To address this challenge, data from the ITC Small and Medium-sized Enterprises Competitiveness Survey provides insights into the capacity of firms and the quality of business ecosystems in five African countries: the Gambia, Ghana, Kenya, Morocco, and Zambia. This can help Chinese private investors build more partnerships with the local firms and contribute to the development of local economies.

Following a macroeconomic analysis for each country summarizing growth projections, investment policies and bilateral trade and investment with China, a microeconomic analysis at the firm level in selected sectors then identifies the following potential areas for development and new business opportunities in each country.

### *Information and telecommunications technology in the Gambia: Tapping into youth employment and entrepreneurial opportunities*

The Gambia is a new market for Chinese investors as diplomatic ties resumed in 2016. China is the largest export destination and sourcing country for the Gambia, accounting for over half of the country's exports and a third of imports.

The Gambia has a strikingly young population with 45% of its 2 million residents under the age of 15. Information and telecommunications technology (ICT) is an active sector for youth employment. In general, firms in this sector are micro and small in size but perform well in terms of meeting delivery time and quantity requirements, at competitive costs. Foreign investors will be able to benefit from functional interlinkages at the business ecosystem level in terms of connecting with customers, as well as business and public institutions.

Skilled professionals are in high demand and firms report to have difficulties in recruiting professionals in application development and testing; software and multimedia development and analysis; and data specialists and system administrators. Knowledge transfers from foreign investors and joint vocational training might be particularly beneficial in this sector. Local firms may also benefit from engagement in research and development (R&D) and increased awareness in intellectual property.

### *Textiles and apparel in Ghana: A door to new markets*

Investing in Ghana's textile and apparel industries may provide easier access to enter the United States and European Union (EU) markets through preferential trade agreements, and this channel remains largely underutilized.

Policies are supportive to develop the textile sector in Ghana and evidence shows that micro, small and medium-sized enterprises (MSMEs) in this sector are competitive in complying with costs and time requirements. Medium-sized firms are also strong in complying with international quality certification, while small and micro-sized firms find certification-related costs to be expensive. Chinese investors could help unleash the potential of the industry through investing in certification and standards compliance, which could result in further trade with major destination markets at relatively lower costs.

### *Agriculture and food processing: Increasing Kenyan exports to China*

Increasing trade in agricultural products might be an answer for addressing the bilateral trade imbalance between Kenya and China. Black tea, leather, coconut, frozen fish, nuts, flowers, beer and vegetable products may present high export potential from Kenya to China.

Transportation and logistics are key to trade in agriculture products. Kenya already has a comparatively good quality of infrastructure, expected to see further improvement with an upgraded railway system. More firms in the central region of Kenya rated their local infrastructure as 'good', compared to those in the western and the eastern regions.

In general, local firms find the quality of services offered by logistics companies to be of high quality, but expensive, especially for the medium and large-sized firms and firms who trade internationally. It reveals a demand for logistics services that are both reliable and affordable.

### *Electronics and metals: A new engine for Morocco's export growth*

Morocco is a regional centre for the production of automobile components, attracting automakers from France, China and the Republic of Korea to invest in establishing production facilities. The new Mohammed VI Tangier Tech City, jointly developed with China, is expected to be a major attraction for Chinese manufacturers in aeronautics, automobiles, telecommunications, renewable energy and transport equipment.

Large and medium-sized companies are active traders in the metallic, electronic and electric products sector, with half of its sales coming from foreign markets. Foreign investors can leverage on a well-functioning and competitive sector that anticipates smooth operations. Firms are very good at complying with delivery requirements, well integrated into transportation networks, connected to sectoral associations, and skilled in this sector. The sector also has a high number of internationally certified firms. Although firms consider the market very competitive, most aim to offer high quality products, rather than high quantities and low-price products.

### *Business and logistics in Zambia: Servicing the transformation*

By the end of 2015, total Chinese investment in Zambia amounted to \$3.6 billion. Zambian-Chinese economic and trade cooperation that used to focus on copper production, is making an effort to shift towards developing a modern air transportation hub, trade and logistics services, manufacturing, agriculture and real-estate.

With an export structure more diversified in services than in goods trade, business and logistics services offer a business and investment opportunity in Zambia. Zambian firms operating in this sector could benefit from better linkages with business institutions, as well as partnerships with Chinese-invested trading companies. More market intelligence and technical assistance for certification would also benefit local firms. There is untapped potential for many firms as they report that output could increase by 45% without investing further into resources.

Although they have access to financial services in general, access to finance is a significant challenge for local business and logistics companies, especially when having to meet cost and quantity requirements. Foreign investors, including trading and financing companies from China could play a role in providing better access to finance. This could be done through a variety of ways, from timely or advance payment for services, long-term partnership agreements, integrating local firms into the supply chain, or directly investing into the business and logistics companies for the benefit of efficiency of the supply chain.

## CHAPTER 1 CHINESE PRIVATE INVESTMENT PROMOTES GROWTH IN AFRICA

Africa is one of the most economically dynamic regions in the recent decade, with the continent's gross domestic product (GDP) growing by more than 5% per year between 2000 and 2010. The growth rate slowed to 3.3% per year between 2010 and 2015 but is estimated to accelerate to over 4% in 2018 and 2019.<sup>1</sup> The recovery is expected to be driven by non-resource intensive activities, which will contribute to greater economic diversification and sustainability.

The continent has great potential to become the next global growth centre. It will be the youngest and most populous continent in the next few decades, with a workforce of nearly 2 billion people by 2063.<sup>2</sup> The conclusion of the Continental Free Trade Area (CFTA) Agreement ushers in a new era for Africa. It will help to create a common market across the 44 African countries that are parties to the agreement, with a combined market of more than one billion people and a regional GDP of more than \$3.4 trillion.<sup>3</sup> This integrated continental market represents a significant business opportunity for global investors.

### Foreign investment can help bridge Africa's investment gap

Advances in regional and interregional cooperation should make Africa an attractive destination for investment. However, the investment gap remains significant. The continent will need to spend an estimated \$6 trillion over the next 20 years to build, upgrade and maintain its infrastructure and achieve its development goals.<sup>4</sup>

In 2017, investment into Africa has increased by about 10%, to almost \$65 billion.<sup>5</sup> But over the last 40 years, Africa's share in global foreign direct investment (FDI) has declined from around 6% to just over 3.4% in 2018. Compared to a nominal GDP of more than \$2 trillion, the FDI inflow is far from sufficient to generate sustainable growth.

Governments and the private sector in Africa struggle to finance this investment gap alone. Foreign investors could play a role through investing in productive sectors, contributing to and also benefiting from the continent's growth opportunities. As of 2018, Africa's top investor economies are the United States, United Kingdom, France and China. Egypt, Ethiopia, Nigeria, Ghana and Morocco are the top five recipients of FDI in Africa.

### China is an important investor for Africa

China is becoming a large investor in Africa and the world (Figure 1). According to the Ministry of Commerce of China, by the end of 2017, the cumulative Chinese investment in Africa exceeded \$100 billion. China's direct investment in Africa registered \$3.1 billion in 2017, about a 40-times increase since 2003.<sup>6</sup> The United Nations Conference on Trade and Development (UNCTAD) estimates that China's FDI stock in Africa is the fastest growing among all countries between 2011 and 2016 (from \$16 billion to \$40 billion) and China is now the fourth largest investor economy in Africa.<sup>7</sup>

The largest share of Chinese investment in Africa is in infrastructure projects. China is the single largest bilateral financier of infrastructure in Africa, surpassing the African Development Bank, the European Commission, the European Investment Bank, the International Finance Corporation, the World Bank and the Group of Eight countries combined.<sup>8</sup>

<sup>1</sup> African Economic Outlook 2018.

[https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African\\_Economic\\_Outlook\\_2018\\_-\\_EN.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018_-_EN.pdf)

<sup>2</sup> *Ibid.*

<sup>3</sup> African Union. <https://au.int/en/ti/cfta/about>

<sup>4</sup> Global Infrastructure Hub. 2017. *Global Infrastructure Outlook 2017*

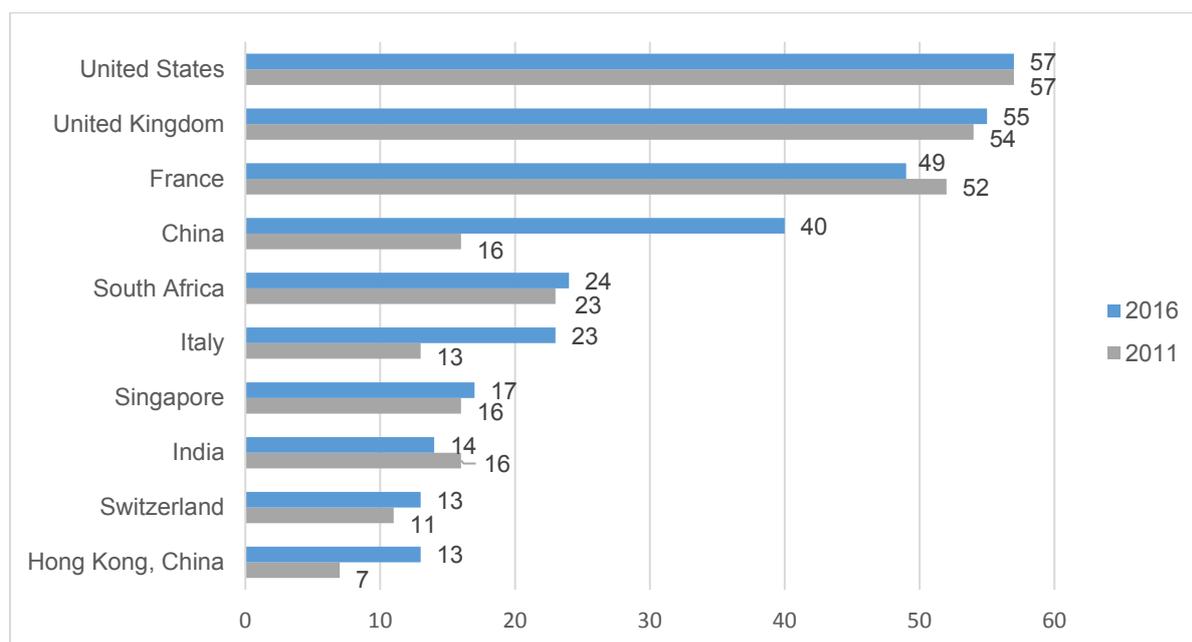
<sup>5</sup> UNCTAD. *World Investment Report 2017*

<sup>6</sup> [http://ijckb.xinhuanet.com/2018-08/29/c\\_137426248.htm](http://ijckb.xinhuanet.com/2018-08/29/c_137426248.htm)

<sup>7</sup> [https://unctad.org/Sections/dite\\_dir/docs/WIR2018/WIR2018\\_FDI\\_Africa\\_en.pdf](https://unctad.org/Sections/dite_dir/docs/WIR2018/WIR2018_FDI_Africa_en.pdf)

<sup>8</sup> BBC News. Should Africa be wary of Chinese debt? <https://www.bbc.com/news/world-africa-45368092>

Figure 1 Top 10 investor economies by FDI stock, 2011 and 2016 (\$ billion)



Source: ITC with UNCTAD data.

Two key trends emerge in Chinese investment into Africa: the rapid increase of private investment and diversification of investment from resources and infrastructure into manufacturing and services sectors.

### Rapid increase in private investment

Although China's outbound investment has been predominantly led by large state-owned companies, private firms are playing a significant role in international investment. It is estimated that Chinese private investment to the world is between \$130 billion and \$160 billion a year.<sup>9</sup> The share of private investment in China's total international investment has been rapidly increasing in the past decade, from 9.6% in 2010 to almost 50% in the first half of 2018, increasing five times in eight years.<sup>10</sup> Other sources estimate that 45% of China's total outward FDI was already coming from the private sector in 2011.<sup>11</sup>

Chinese private investment in Africa is significant and its potential for increasing local productivity has been largely underestimated. A 2017 McKinsey report based on field interviews found that around 90% of Chinese firms in Africa are privately owned.<sup>12</sup> With rising labour costs in coastal China, private companies in labour-intensive industries such as textile, leather and light manufacturing are looking to relocate production for greater efficiency. The Chinese average yearly wage increased significantly in recent years from Chinese Yuan 29,229 in 2008 to 74,318 in 2017.<sup>13</sup> As such, Africa is increasingly an attractive destination for Chinese private investors.

<sup>9</sup> Scissors, D. 2018. *China's global investment: Neither the US nor Belt and Road*. AEI. <http://www.aei.org/wp-content/uploads/2018/07/Chinas-Global-Investment.pdf>

<sup>10</sup> *Ibid.*

<sup>11</sup> Wi and Ding. Private investors play bigger role overseas, *China Daily* (USA), 31 Aug-2 September, 2012, p. 13, cited in Shen, X. Private Chinese investment in Africa: Myths and realities, in *Development Policy Review*, January 2015, 33 (1), pp. 83-106, <https://onlinelibrary.wiley.com/doi/abs/10.1111/dpr.12093>

<sup>12</sup> McKinsey. 2017. *Dance of the lions and dragons: How are Africa and China engaging, and how will the partnership evolve?* <https://www.mckinsey.com/featured-insights/middle-east-and-africa/the-closest-look-yet-at-chinese-economic-engagement-in-africa>

<sup>13</sup> China average yearly wages, 1952-2018. Trading Economics. Accessed on 10 October 2018. <https://tradingeconomics.com/china/wages>

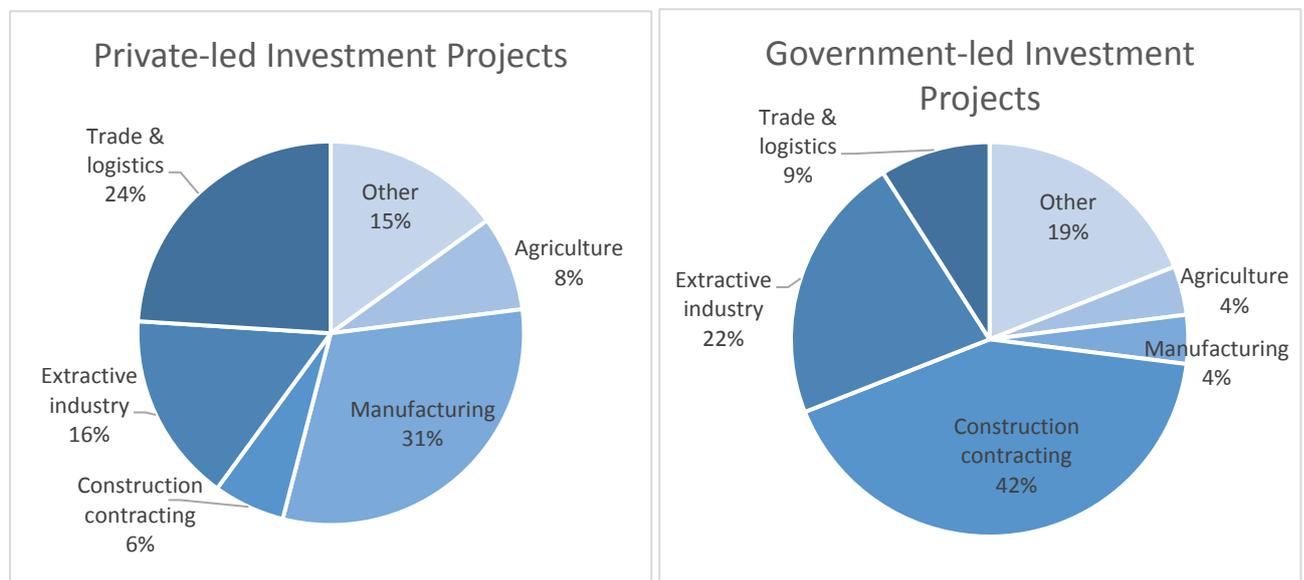
A significant part of Chinese private investment goes under the radar as official statistics often only capture investment projects above certain value thresholds. For example, the Chinese Ministry of Commerce registered 123 investment projects in 2011 in Zambia, while Zambia’s investment promotion agency reported 313 projects from China. In Ghana, 87 investment projects were reported by China and 478 projects registered by the local investment promotion agency.<sup>14</sup> These discrepancies suggest that the role of the Chinese private investment might have been underestimated and deserves more in-depth study.

Studies estimate that the average investment transaction is around \$4 million for Chinese private investment in Africa. However, numbers differ depending on the country and the sector that attracts investment. For example, the average investment project in Zambia is worth \$0.9 million, while in Ghana the average value is \$163,000 as there is more service sector investment. By contrast, the average value transaction is around \$10 million in Nigeria, where there are large capital-intensive projects in energy and infrastructure.<sup>15</sup>

### Diversification into non-resource sectors

While investment projects of state-owned companies in Africa focus on infrastructure, energy, construction and resource-related sectors, Chinese private investment often have much less funds and tend to invest in less capital-intensive sectors such as manufacturing, trade and logistics sectors. The McKinsey study shows that nearly a third of Chinese companies in Africa are involved in manufacturing, a quarter in services, and around a fifth in trade, construction and real estate.<sup>16</sup> Figure 2 shows that private-led investments have a much more diverse portfolio compared with government-led investments.

Figure 2 Diversification of private-led investment projects compared to government-led investment projects



Source: Shen, X. Private Chinese investment in Africa: Myths and realities, in *Development Policy Review*, January 2015, 33 (1), pp. 83-106. <https://onlinelibrary.wiley.com/doi/abs/10.1111/dpr.12093>

<sup>14</sup> Shen, X., Private Chinese investment in Africa: Myths and realities, in *Development Policy Review*, January 2015, 33 (1), pp. 83-106, <https://onlinelibrary.wiley.com/doi/abs/10.1111/dpr.12093>

<sup>15</sup> *Ibid.*

<sup>16</sup> McKinsey, *Dance of the lions and dragons: How are Africa and China engaging, and how will the partnership evolve?*

## Overcoming information challenges to promote more sourcing from local small businesses

A McKinsey survey report found that although 89% of employees in Chinese-invested companies were African, only 47% of Chinese firms were sourcing supplies and services from local African firms, representing an uncaptured opportunity for local firms to benefit from Chinese investment.<sup>17</sup>

Chinese investors should be encouraged to have more partnerships with local suppliers. This will benefit both investors and local suppliers, with the former gaining local expertise and the latter engaging in more value-added transactions. Supply chain linkages can take place through backward, for instance, local firms providing inputs or services to foreign companies, or through forward spill-overs, when products or services of the foreign company are incorporated in local production. Subcontracting local firms for part of the production in the host country is also frequently used to develop local partnerships.<sup>18</sup>

Technology and knowledge transfer are among the specific channels through which Chinese investors might help local producers participate in the value chain. Studies show that in general, the perception of African business to Chinese investment is positive when it comes to job creation, but it remains mixed for local industrialization, and negative for technology transfer.<sup>19</sup> These perceptions reinforce the need to strengthen further engagement and partnerships to invest in local economies.

Specific instruments for technology and knowledge transfer could include: providing trainings, sharing production techniques, advance payment, leasing of machinery, contribution to quality assurance and compliance with other certifications, and organization of product lines.<sup>20</sup>

### Using survey data to build partnerships with local firms

However, finding information about the availability and quality of local suppliers is a common challenge for many investors.<sup>21</sup> A lack of ground-truth information can hamper eager investors from understanding their options, thereby reducing sourcing from local suppliers. This publication aims to address this challenge. With first-hand data from the ITC Small and Medium-sized Enterprises Competitiveness Survey, it offers potential investors insights on the capabilities of firms and the business ecosystem in selected sectors in five African countries: the Gambia, Ghana, Kenya, Morocco, and Zambia.

The survey data brings together over 50 years of relevant experience helping SMEs by enabling investors to assess if enterprises follow best practices and the fitness of their local business ecosystems. Data is collected through on-the-ground interviews with firm owners and managers, who are asked a number of questions such as the firms' ability to deliver goods to market, their views on the quality of transport infrastructure, and the quality and cost of logistics services companies.

The data provides insights into key issues such as:

- Quality of infrastructure for firms to meet international standards and become certified;
- Quality of infrastructure, logistics providers and inventory management to determine SME ability to deliver on time;
- Human capital requirements at sectoral level and quality of education and training environment; and

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<sup>17</sup> *Ibid.*

<sup>18</sup> Farole, Thomas and Deborah Winkler, eds. 2014. *Making Foreign Direct Investment Work for Sub-Saharan Africa: Local Spillovers and Competitiveness in Global Value Chains. Directions in Development.* Washington, DC: World Bank. doi: 10.1596/978-1-4648-0126-6. License: Creative Commons Attribution CC BY 3.0

<sup>19</sup> Shen, X. Private Chinese investment in Africa: Myths and realities, in *Development Policy Review*, January 2015, 33 (1), pp. 83-106. <https://onlinelibrary.wiley.com/doi/abs/10.1111/dpr.12093>

<sup>20</sup> Farole, Thomas and Deborah Winkler, eds. 2014. *Making Foreign Direct Investment Work for Sub-Saharan Africa: Local Spillovers and Competitiveness in Global Value Chains. Directions in Development.* Washington, DC: World Bank. doi: 10.1596/978-1-4648-0126-6. License: Creative Commons Attribution CC BY 3.0

<sup>21</sup> World Bank. 2018b

- Companies' ability to access finance and an appropriate financial system to support them.

This information helps to answer questions such as:

- do local firms usually deliver on time?
- what is the performance of the logistics and service companies?
- do firms in general have internationally recognized qualifications?
- how accessible are the financial services and what is the performance of the financial ecosystem?

This publication only examines non-extractive sectors, such as textiles, ICT services, electronics and agriculture, as these are more relevant to Chinese private investors as well as sustainable development of local industries. For each country, the publication features detailed analysis on one particular sector: textiles and apparel in Ghana, agriculture and food processing in Kenya, electronics and metals in Morocco, ICT services in the Gambia, and business and logistics services in Zambia.

The selection of sectors is based on a number of considerations, including availability of survey data, existing Chinese investment in the sector and its potential to attract more Chinese private investment, as well as the potential to increase trade with China. The selected sectors do not necessarily correspond to the priority sectors for the host countries in attracting FDI, as in the most cases, the investment promotion agencies in the host countries target global investment and therefore focus on sectors with higher value added such as ICT and tourism.

### Investing to increase and diversify trade between Africa and China

China has been Africa's largest trade partner for the past nine years. Africa-China trade registered \$170 billion in 2017.<sup>22</sup> However, the main exports from Africa to China remain in the resource sectors, including metals, fuel and wood products. For some countries, the trade imbalance needs to be urgently addressed as imports from China significantly outweigh exports to China. Further diversification and increase of exports from Africa to China are needed for sustainable trade and investment growth.

Chinese private investment into Africa may contribute towards increased trade and export diversification from Africa to China, particularly in the case of manufacturing and services sectors with longer value chains. This publication examines bilateral trade data using ITC trade maps and ITC export potential maps to identify possible sectors and products where there is an unfulfilled gap in Africa's export to the Chinese market. These sectors and products could represent business opportunities for Chinese private companies operating in the continent.

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<sup>22</sup> [http://jjckb.xinhuanet.com/2018-08/29/c\\_137426248.htm](http://jjckb.xinhuanet.com/2018-08/29/c_137426248.htm)

## CHAPTER 2 COUNTRY FOCUS: A COMPETITIVENESS ANALYSIS

This section presents a macro and microeconomic analysis of each country for foreign investors interested in exploring sourcing opportunities in the Gambia, Ghana, Kenya, Morocco, and Zambia.

The macro perspective starts with a summary of the country's growth projections, investment policies and bilateral trade and investment with China. It highlights the top exporting sectors in goods and services and features case stories of Chinese investment that produced positive results both for investors and host countries.

The second part zooms into a microeconomic analysis at the firm level. Based on availability of the SME Competitiveness Survey data, existing Chinese investment in the sector and its potential to attract more Chinese private investment, a particular sector is identified for each country. Firm-level competitiveness as well as the competitiveness of business ecosystems in this sector is examined in detail, offering insight into factors for consideration if Chinese companies seek to invest in the sector or expand partnerships with local suppliers. The main findings inform investors what they can already leverage as well as where there is room for further development and new business opportunities to be exploited.

The assessment of the competitiveness of firms is enabled by data collected through the ITC SME Competitiveness Survey. The survey data is in some cases based on a limited number of samples and may not represent the full picture of the selected industries. Nevertheless, it allows for a quick assessment of the strengths and weaknesses of the firms and the business ecosystem by capturing a wide range of factors that determine firm competitiveness. The data collected help policymakers, business associations and investors make informed decisions to support SMEs and inclusive economic growth.

## The Gambia

The Gambia's economy relies on tourism, agriculture, and remittances.<sup>23</sup> Sixty-five per cent of its GDP comes from the services industry, with agriculture and industry accounting for around 20% and 14% respectively.<sup>24</sup>

MSMEs play a key role in production, employment and income in the country. They represent the majority of enterprises, contributing to 20% of GDP and employing 60% of the urban labour force (15–64 years old). More than 40% of MSMEs are owned by the youth (18–35 years old). Their main sectors of operation are wholesale and retail (62%) and manufacturing (16%).<sup>25</sup>

The Gambia has a strikingly young population with 45% of its 2 million residents under the age of 15. Fifty-seven per cent of the population is in urban and peri-urban areas.<sup>26</sup> More than half of the population are within 15 and 64 years old, thus part of an active labour population. This share is expected to grow to 60% by 2035, thus anticipating the need for more jobs in the coming years.

While the Gambia is open for investment in any sector, they are eager to give priority to agriculture and its processing, fisheries, tourism, manufacturing and energy. The Gambia Investment Promotion Act 2001 and Free Zones Act 2001 offers incentives for all sectors of the economy. Apart from specific incentives packages such as exemption from import duties and tax holidays, other packages could be negotiated. The Gambia Investment and Export Promotion Agency (GIEPA) is developing free zones in selected locations to facilitate the availability of infrastructure and give special tax incentive regimes to investors.<sup>27</sup>

Among the reasons for investing in the country, GIEPA highlights its competitive labour costs, a stable and friendly business environment, an English-speaking population, and the country's access to a market of 300 million people in West Africa through ECOWAS.<sup>28</sup>

### Bilateral trade and investment

China is the Gambia's largest export destination and the largest source of imports, accounting for 52% of the Gambia's exports and 32% of the Gambia's imports. (Table 1).

<sup>23</sup> The World Bank in the Gambia, update on April 2018. Accessed on 12 October 2018.

<https://www.worldbank.org/en/country/gambia/overview>

<sup>24</sup> The Gambia, The World Factbook, Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html>

<sup>25</sup> MSME Mapping Study, 2013. cited on ITC (2018). *Promoting SME competitiveness in the Gambia*,

<http://www.intracen.org/publication/Promoting-SME-competitiveness-in-the-Gambia/>

<sup>26</sup> The World Bank in the Gambia, update on April 2018. Accessed on 12 October 2018.

<https://www.worldbank.org/en/country/gambia/overview>

<sup>27</sup> Gambia Foreign Investment Incentives Guide. Accessed on 12 October 2018. ,

<http://www.accessgambia.com/information/investment.html>

<sup>28</sup> Reasons to invest. Gambia Investment and Export Promotion Agency (GIEPA). Accessed on 12 October 2018.

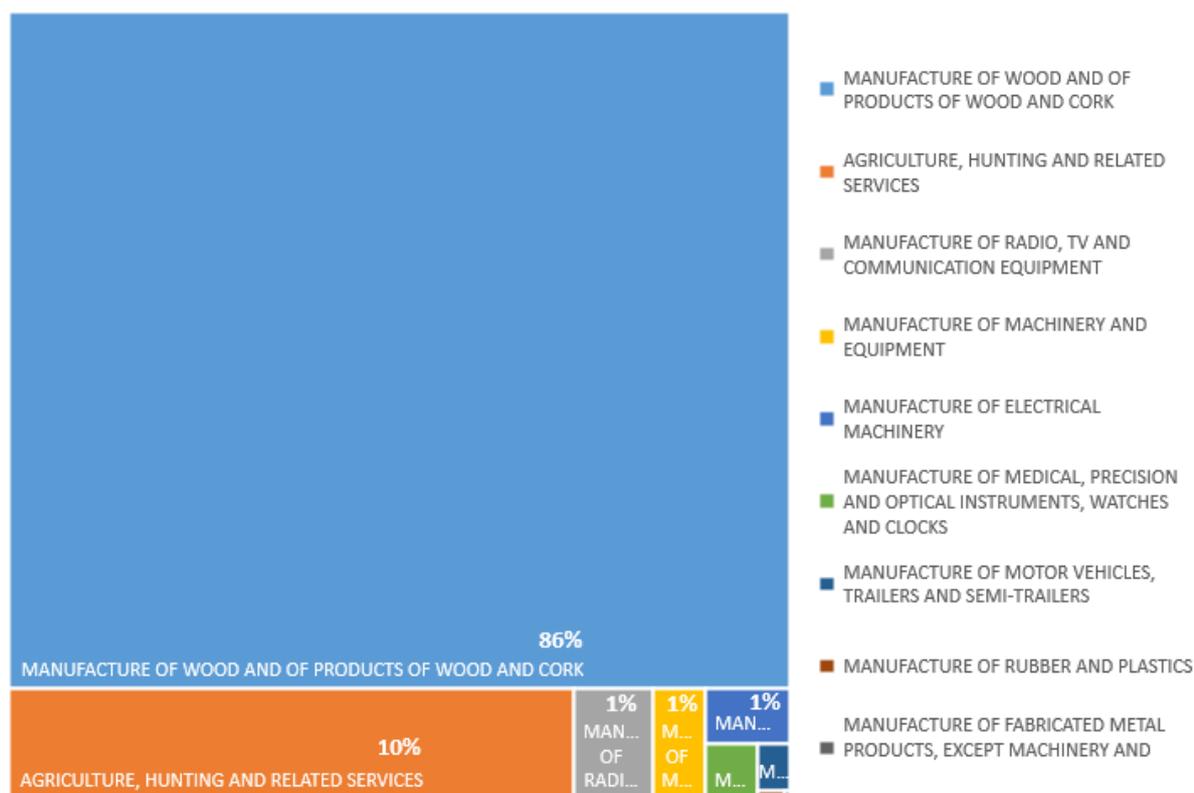
<http://www.giepa.gm/node/81>

Table 1 Top 10 export and import markets for the Gambia (2017, \$ thousand)

Exports				Imports			
Rank	Country	Value	Share in total exports	Rank	Country	Value	Share in total imports
1	China	99 052	52%	1	China	398 653	32%
2	India	57 834	30%	2	India	108 328	9%
3	United Kingdom	3 733	2%	3	Senegal	107 267	9%
4	United Arab Emirates	3 684	2%	4	Brazil	90 636	7%
5	Korea, Republic of	3 621	2%	5	Netherlands	58 748	5%
6	Senegal	3 040	2%	6	Indonesia	46 876	4%
7	Belgium	2 994	2%	7	Malaysia	44 855	4%
8	Spain	2 286	1%	8	United States	39 236	3%
9	Tunisia	2 168	1%	9	Turkey	38 399	3%
10	Netherlands	2 077	1%	10	United Kingdom	34 677	3%

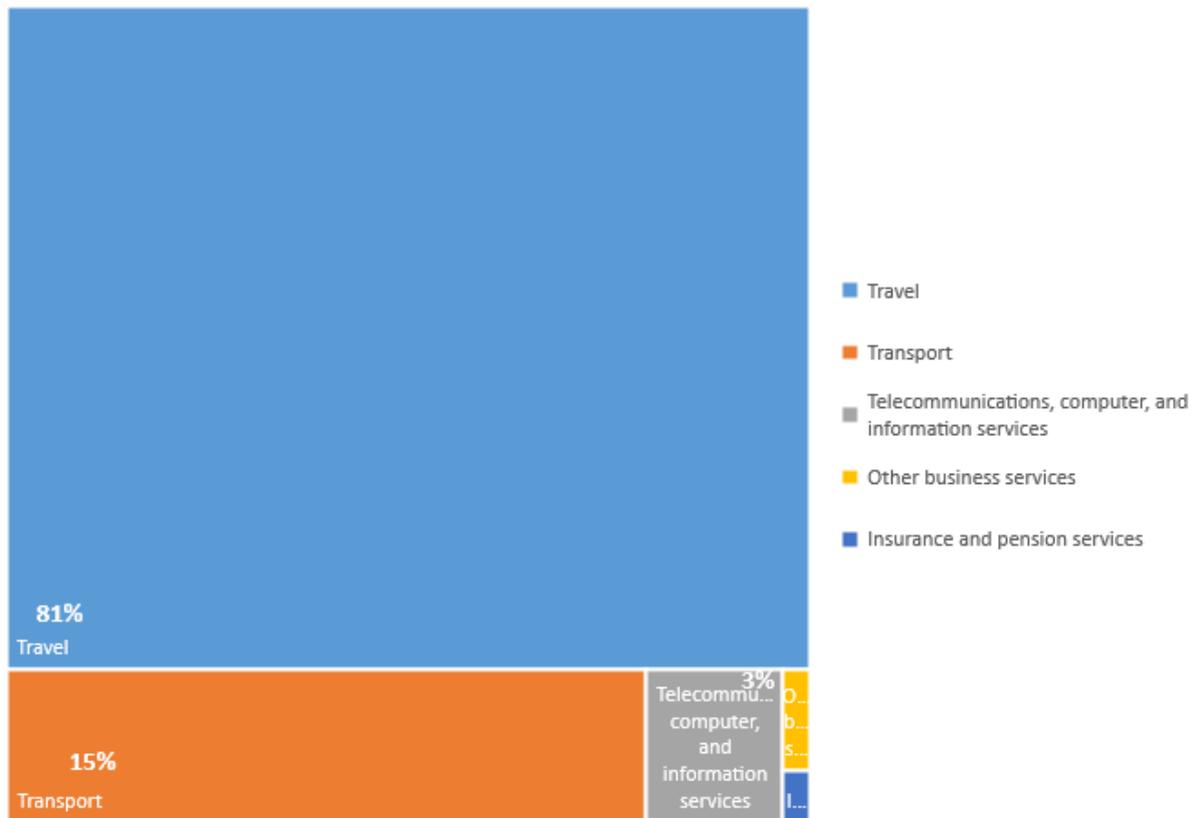
Source: ITC Trade Map, mirror data.

Figure 3 The Gambia's top five exporting goods sectors to China in 2017, by percentage (extractive industries excluded)



Source: UN Comtrade

Figure 4 The Gambia's top three exporting services sectors to the world in 2017, by percentage



Source: WTO Trade Statistics

After diplomatic ties between Beijing and Banjul were resumed in March 2016, bilateral cooperation on infrastructure construction, agriculture and tourism has further advanced. The Government of the Gambia has expressed their hope for deeper cooperation with China on trade and investment, especially on infrastructure and tourism. The economic policy under GIEPA aims to boost exports and attract FDI especially in tourism, education, services and infrastructure.<sup>29</sup>

In December 2017, the two governments signed a \$75 million grant earmarked for construction projects in the Upper River Region of the country, including the construction of a bridge on the Fatoto-Passamas crossing point.<sup>30</sup>

Accomplished major projects by Chinese companies include the Gambia International Conference Centre at Bijilo. China has also expressed interest in investing in key sectors of the country including agriculture and infrastructure.

<sup>29</sup> President Barrow's speech at the Global Investment Forum. <http://thepoint.gm/africa/gambia/article/president-barrow-addresses-global-investment-forum>

<sup>30</sup> <http://mobile.apanews.net/index.php/en/news/gambia-gets-75m-china-grant-for-construction-projects>

**Box 1 Health products and services; and e-commerce attracts Chinese investor**

In 2018, Mr. Li Jinyuan, Chairman of Tiens Group, has frequently flown between China and Africa, investigating investment opportunities in several African countries, including Kenya, Ghana, Nigeria, Ethiopia, Sudan, South Africa and the Gambia. Tiens Group is a Chinese multinational conglomerate whose business operations range from biotechnology, logistics, and finance to international trade, e-commerce, education and tourism. The company entered the African market in 1997, but retreated years later from several markets due to political instability. With the growing importance of the African market, the group has decided to pivot to the continent and increase its subsidiaries in Africa from 12 to 32.

Tiens concluded a series of agreements with partners in the Gambia in the fields of health services, education and biotechnology. The group's education branch, Tianyuan University, plans to work together with the University of Gambia on the exchange of students and faculties and well as offering scholarships.

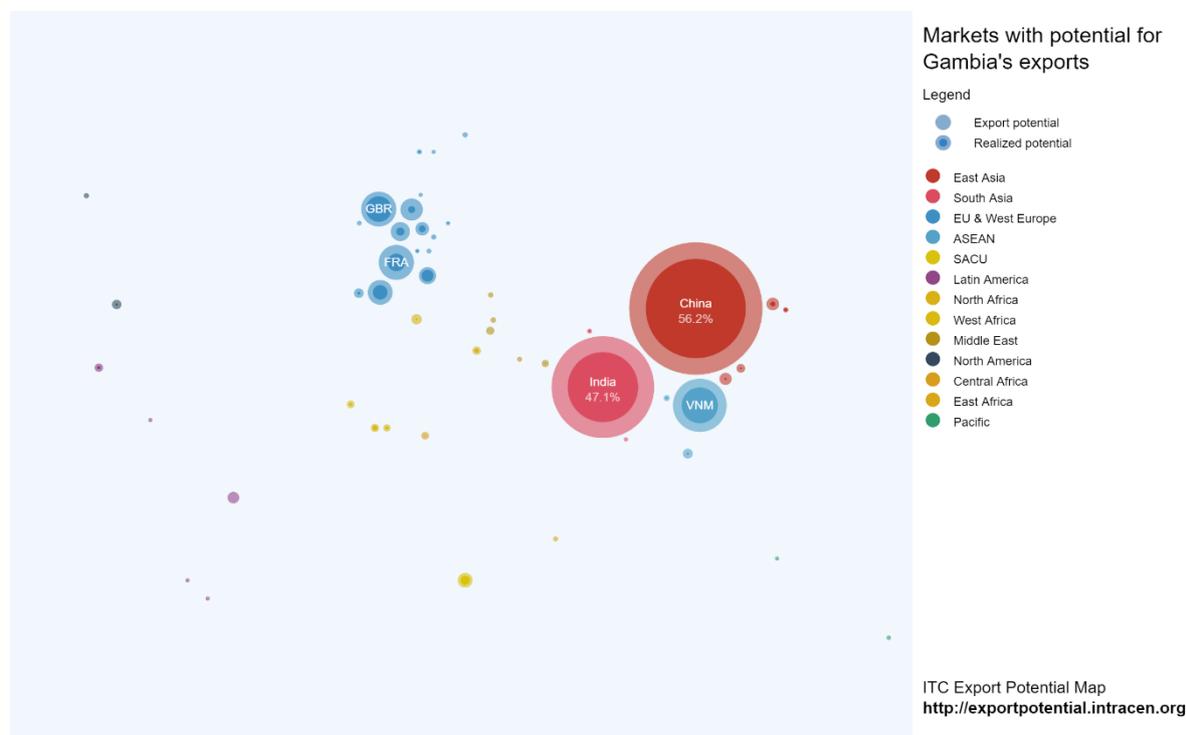
Mr. Li sees opportunities for medicine, cosmetics and health-related products and services in Africa and plans to establish retail stores in Ghana, Nigeria, Ethiopia, Sudan and South Africa. An e-commerce platform for Africa is also on the agenda.

**Source:** Xinhua news. [http://www.xinhuanet.com/2018-05/15/c\\_1122833043.htm](http://www.xinhuanet.com/2018-05/15/c_1122833043.htm)

The ITC Export Potential Map shows that the Gambia has \$113.9 million of unrealized export potential across many products. Well over half corresponds to wood (\$67.2 million), 18% to cashew nuts (\$20.1 million) and 11% to crude groundnut oil (\$12.7 million). The remaining products with untapped exports are fish and shellfish, fruits and pulses.

China is the market with greatest potential for the Gambia's exports (Figure 5), followed by India and Viet Nam. China shows the largest absolute difference between potential and actual exports, leaving room to realize additional exports worth \$50.5 million.

Figure 5 The Gambia's export market potential



**Source:** ITC Export Potential Map.

## ICT in the Gambia: Tapping into youth employment and entrepreneurial opportunities

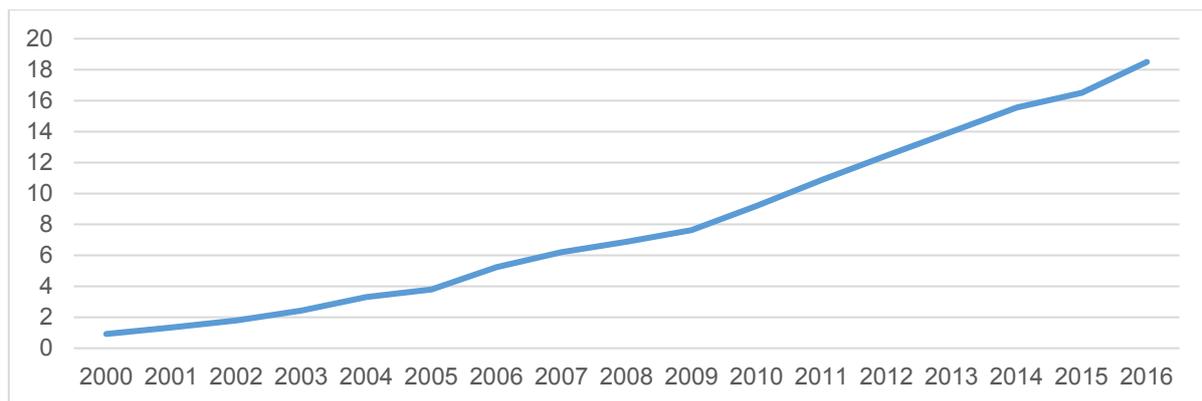
Given the Gambia's young population, the ICT sector offers employment and entrepreneurship opportunities for the youth.

Trade reforms have contributed to the development of this sector in the last 10 years, as well as access to the Africa Coast to Europe submarine cable system. The Gambia has a partially liberalized telecommunications sector with good competition in mobile and broadband services, but still a monopoly over the international voice gateway through the state-owned company, Gamtel.

The company is the only national fixed line operator, and it also provides internet services, four global system for mobile communications (GSM) operators, namely Gamcel (national operator), Africell, Comium and Qcell. Netpage, Unique Solutions, Lanix and Qcell have also been licensed as internet service providers. Africell leads with largest mobile market share of 51%, followed by Qcell at 18%, Gamcel at 16% and Comium at 15%.<sup>31</sup>

Although the sector still remains marginal in comparison with agriculture and tourism, it has great potential to grow, with mobile internet access now widely available. About 96% of the population is within reach of a cell phone signal, and 86% covered by data networks, including rural areas. However, data usage remains limited, which may be linked to the affordability of these services.<sup>32</sup> Today 18.5% of Gambians have internet access, compared to 1% in 2000.

Figure 6 Percentage of individuals using the internet in the Gambia (2000–2016)



Source: International Telecommunication Union, country ICT data until 2017, <https://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx>

### Micro and small-sized firms dominate ICT industry in the Gambia

The ITC together with the Gambia Investment and Export Promotion Agency conducted the SME Competitiveness Survey in 2017, focusing on three sectors: agriculture, tourism and information and communication technology (ICT).

Micro and small-sized firms together represent 84% of surveyed companies in the Gambia, a share much higher than in agriculture and tourism (Figure 7).

This might have to do with the initial high capital requirements to operate in agriculture or own tourist accommodation, for example, in comparison with a lower initial investment required in the ICT sector.

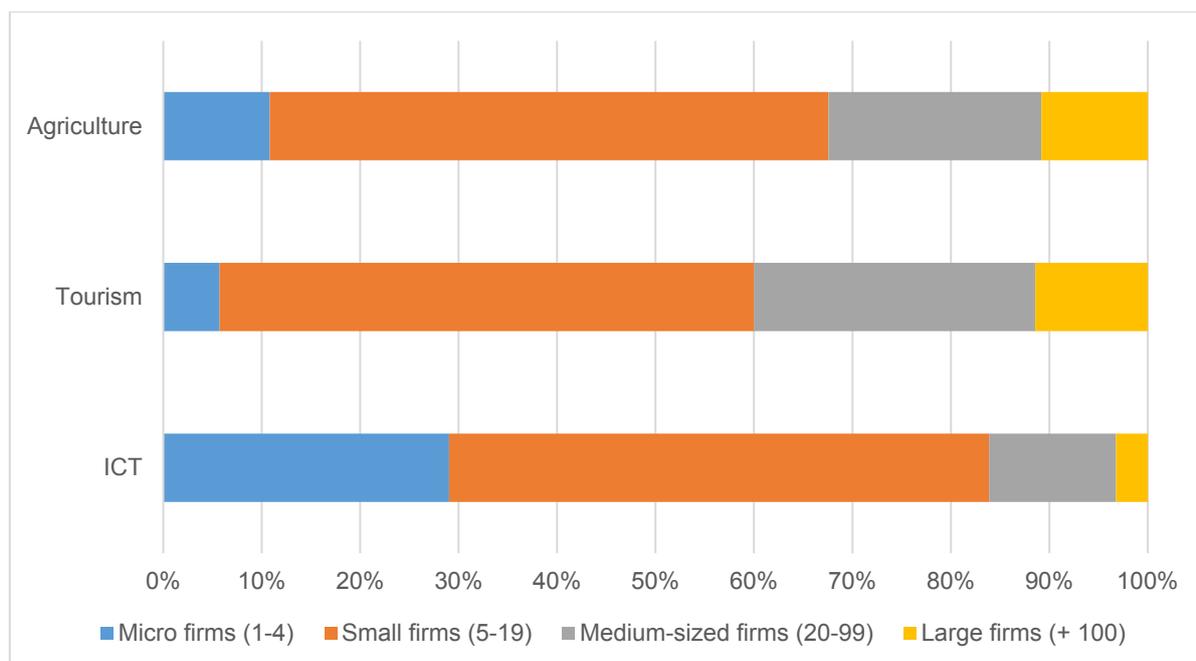
<sup>31</sup> The Strategic Youth and Development Roadmap of the Gambia: Information and Communication Technologies Sector (2018-2022). <http://www.intracen.org/uploadedFiles/intracenorg/Content/Redesign/Projects/YEP/Gambia%20SYTDR%20RoadMap%20Web%20Final.pdf>

<sup>32</sup> *Ibid.*

In the ICT sector, surveyed companies find less constraints when assessing input costs, electricity and water, thus giving more opportunities for smaller companies (Figure 8).

Smaller firms are usually more flexible to adjust their structures and procedures to the client's or even the investor's specific demands. This is particularly important in services where there is no standardization of products but rather a customized solution designed with the client's input.

Figure 7 Distribution of firms by size (number of employees) within the ICT, agriculture and tourism sectors in the Gambia



Source: ITC, SME Competitiveness Survey, the Gambia (2017).

Figure 8 Level of constraints ranked for input costs, access to water and electricity by sector in the Gambia

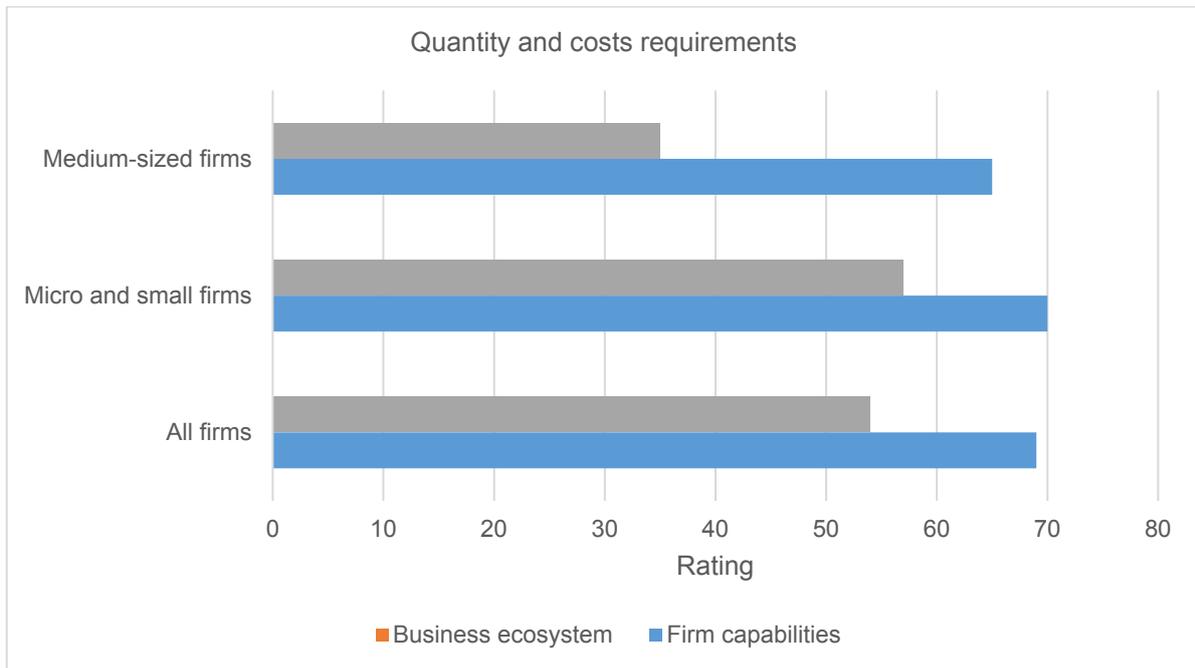
Level of constraint	Input costs	Access to electricity	Access to water
Higher	Tourism	Agriculture	Tourism
Lower	Agriculture	Tourism	Agriculture
	ICT	ICT	ICT

Source: ITC, SME Competitiveness Survey, the Gambia (2017).

Furthermore, the surveyed firms meet time deadlines when it comes to delivery. As Figure 9 shows, micro and small-sized firms are even more reliable than medium-sized firms at meeting quantity and cost requirements from suppliers. This is of particular importance for foreign investors that might need to comply with specific deadlines as part of global operations.

Selecting micro and small-sized enterprises as a counterpart would seem to be a reliable choice when it comes to complying with delivery requirements and times.

Figure 9 Performance of firms in the Gambia, by firm size



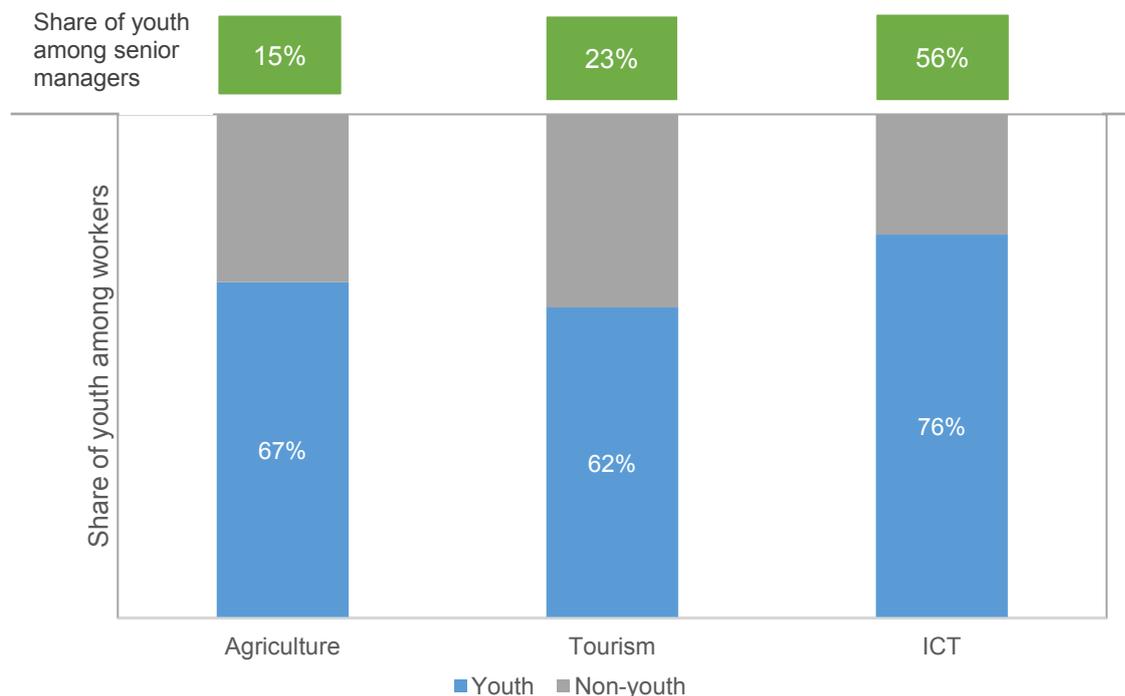
Source: ITC, SME Competitiveness Survey, the Gambia (2017).

#### *ICT offers youth employment and entrepreneurial opportunities*

The ICT sector offers plenty of opportunities for the youth in term of employment and entrepreneurship. Seventy-six per cent of employees 35 years old or younger are employed in ICT, a higher share than in agriculture or tourism.

Moreover, more than half of senior managers operating in ICT are 35 years old or younger, while the share of youth in management for tourism and agriculture is substantially lower. Investors might benefit from a more flexible and adaptable mind-set when working with young managers in ICT.

Figure 10 Percentage of youth in workforce and among managers, by sector



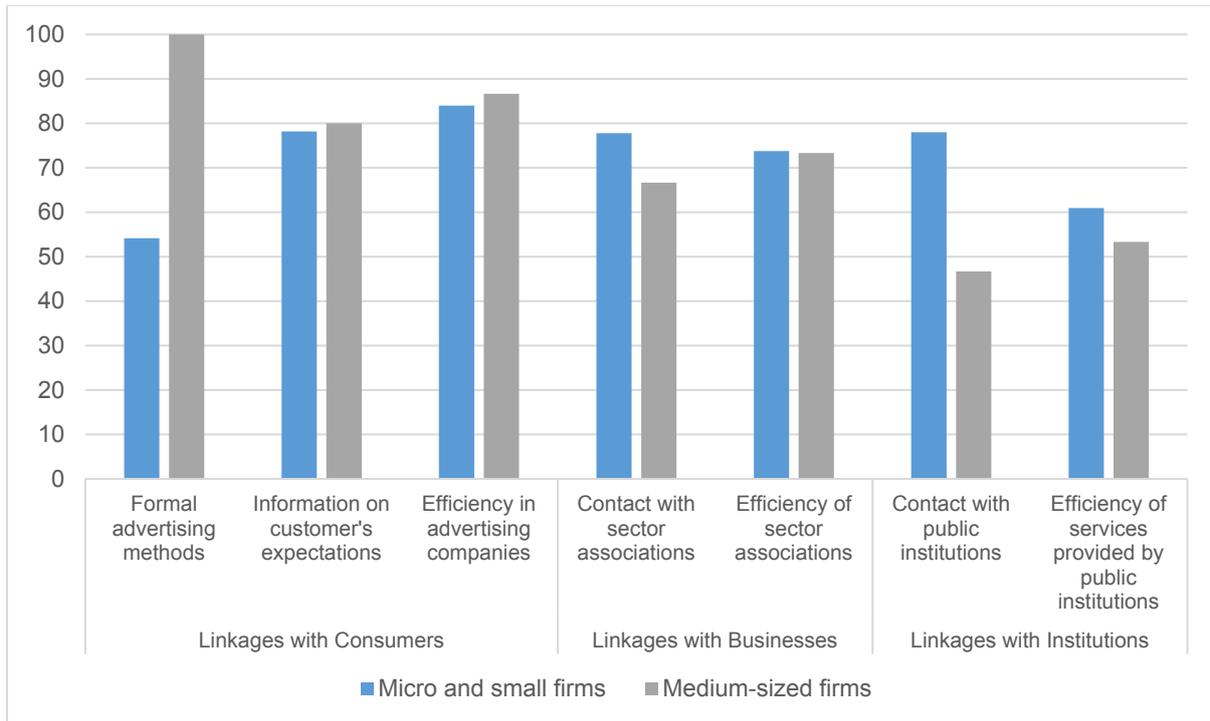
Source: ITC, SME Competitiveness Survey, the Gambia (2017).

*ICT enterprises connect well with clients and the overall business ecosystem*

Surveyed ICT enterprises in the Gambia link with their customers, other businesses and public institutions relatively better than in other sectors. Eighty per cent of these enterprises state having good information on customer expectations, 68% claim having contact with ICT sector associations and 67% report good contact with public institutions.

As Figure 11 shows, this is particularly the case among micro and small-sized firms, with the exception of the use of formal advertising methods.

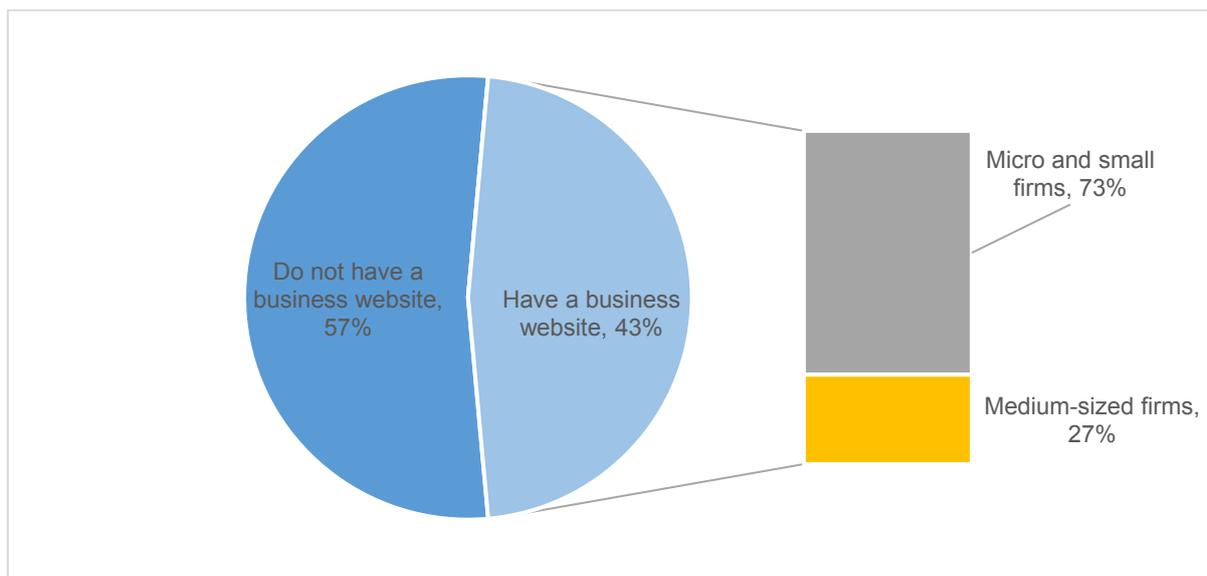
Figure 11 Strength of linkages with consumers, businesses and institutions, by firm size, in the Gambia



Source: ITC, SME Competitiveness Survey, the Gambia (2017).

Almost half (43%) of firms surveyed in the Gambia for all sectors have a business website (Figure 12), of which 73% are micro and small-sized firms. This shows the dynamic attitude of this group of companies for connecting with clients and others, while highlighting the overall internal demand for website development.

Figure 12 Share of firms with a business website, by firm size, in the Gambia



Source: ITC, SME Competitiveness Survey, The Gambia (2017).

Foreign investors will benefit from functional interlinkages at the business ecosystem level when it comes to connection with customers, business and public institutions. Such relationships are already functional in the ICT sector and perform better than in other sectors, ensuring smooth business operations. This is particularly the case when collaborating with micro and small-sized firms.

### *ICT enterprises can benefit from a more skilled workforce*

One of the major challenges for ICT enterprises in the Gambia is the difficulty in finding skilled workers in the following professional categories: application development and testing technicians; software and multimedia developers and analysts; and data specialists and system administrators.

Table 2 shows that 33% of the firms surveyed have found it difficult to hire professionals in these categories in the last two years, while only a few firms struggle to find electronics and telecommunications installers and repairers (5%), tutors (2%), or technicians (2%), for example. This might relate to a low number of graduates or limited qualifications in these more complex technical areas in a relatively incipient ICT industry.

Table 2 Percentage of firms with difficulties in ICT skills recruitment in the Gambia, by job category

ICT job	Percentage of firms with recruitment difficulties
Applications development and testing technicians	12%
Software and multimedia developers and analysts	12%
Database specialists and systems administrators	9%
ICT network and hardware professionals	7%
Electronics and telecommunications installers and repairers	5%
Graphic designers	5%
ICT operators	5%
Information technology and telecommunications directors	5%
Sales and marketing	5%
Shop salespersons	5%
Administrative, clerical and accounting workers	2%
Camera operators	2%
Consultant	2%
Creative designer	2%
Editors	2%
ICT operations and user support technicians	2%
Network specialist	2%
Online support staff	2%
Personal services workers	2%
Street and related sales and services workers	2%
Technicians	2%
Tutors	2%
Web designers	2%
Web technicians	2%

Source: ITC, SME Competitiveness Survey, the Gambia (2017).

The lack of application development technicians and software developers suggests that the current offering from ICT companies focuses on providing maintenance of IT products or related services more than ICT development. Table 3 confirms this interpretation among surveyed companies, as only 13% of the respondents undertake application development and IT consulting while almost a third offer digital marketing services, almost a quarter dedicate their business to selling and repairing ICT hardware and 13% undertake computer training.

Table 3 Services offered by firms in ICT sector in the Gambia

Service offered	Percentage of firms
Digital marketing	27%
Sales and repair of ICT items	23%
IT consulting, applications development	13%
Computer training	13%
Copying and printing	10%
E-commerce	3%
Internet provider	3%
Radio broadcasting	3%
Information technology	3%

Source: ITC, SME Competitiveness Survey, the Gambia (2017).

Foreign investors in ICT might want to consider where professionals are needed for ICT product development, when determining teams that might travel to the Gambia or in discussion with technical and vocational education and training (TVET) institutions. Knowledge transfers from foreign investors will be particularly beneficial in this sector.

#### *Engagement in research, development and intellectual property*

ICT enterprises do not engage much in research and development (R&D) activities, with a third of surveyed companies indicating they commit no or negligible resources to this area. Youth-led enterprises score significantly lower in this regard.

Furthermore, there is low acknowledgement of intellectual property (IP) procedures. This is especially surprising among medium sized firms, who are usually more likely to have a broader offering than micro and small-sized enterprises. These two findings seem to be linked to a product offering that is not strong in software development yet, as shown in Table 3 above.

Interestingly, when analysing the firms' perception of their staff competency level and the resources allocated to R&D activities, there is a positive correlation. This means that the higher the staff level of competency, the more resources a firm allocates to R&D.

Foreign investors could consider how to increase local firms' potential to engage in R&D in order for new and more value-added business to develop, benefiting all parties involved in the investment transaction. The development of software will naturally lead to higher firm engagement in understanding IP procedures, given the need to protect new intangible assets.

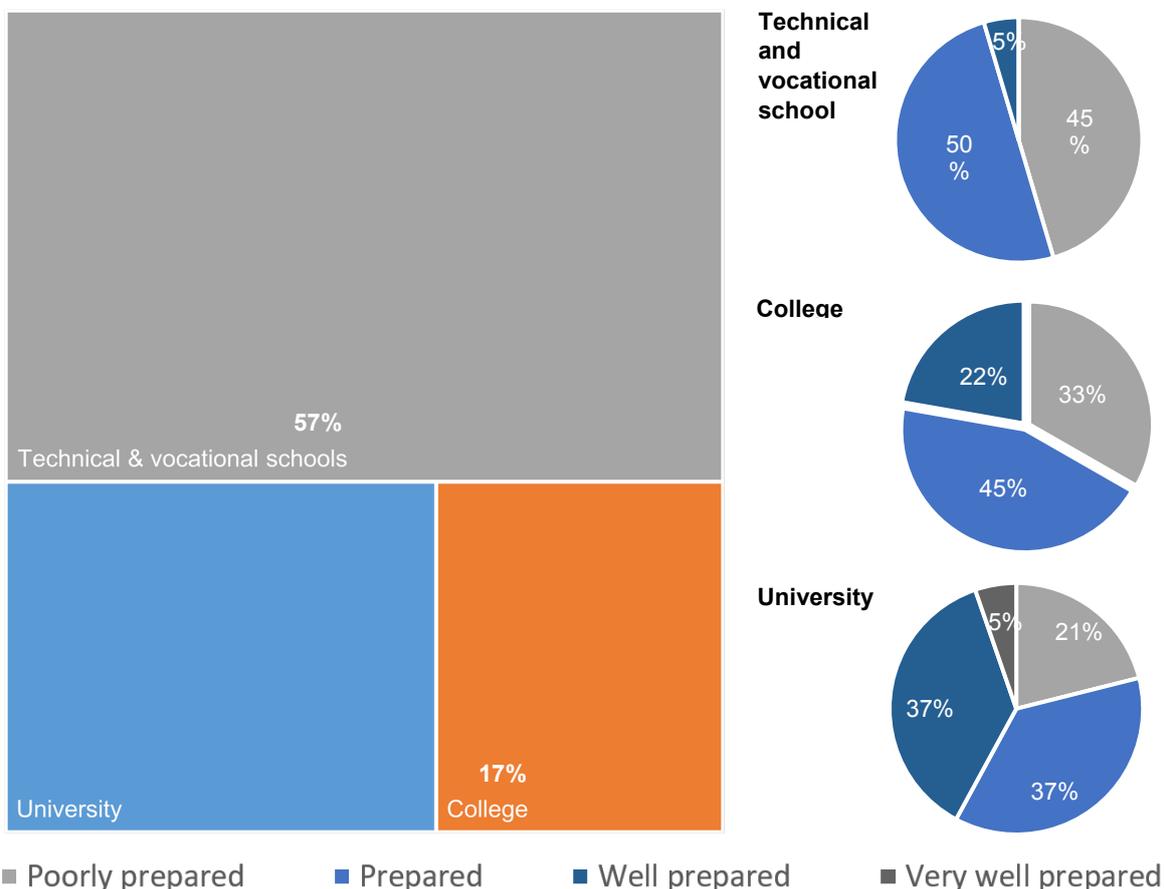
#### *Create stronger linkages between ICT enterprises and technical training institutions*

More than half of the employees working in ICT enterprises have acquired their education in vocational training institutions and colleges. Only a quarter have a university education. However, the perception of the preparedness of staff, especially among the youth, seems to confirm that formal academic programmes result in a better qualification. This reinforces the need to deepen the cooperation between TVET institutions and local companies to meet industry requirements.

Interns could potentially play a role in bringing the market needs back into TVET programmes after a short intern experience on the job. There is room to improve the hiring of interns by ICT companies in

comparison with other sectors. While 56% of ICT enterprises employ interns, the share of firms that do so in tourism and agriculture is much higher, at 57% and 82% respectively.

Figure 13 Share of employees by education categories in the ICT sector and perceived level of preparedness of junior staff in the Gambia

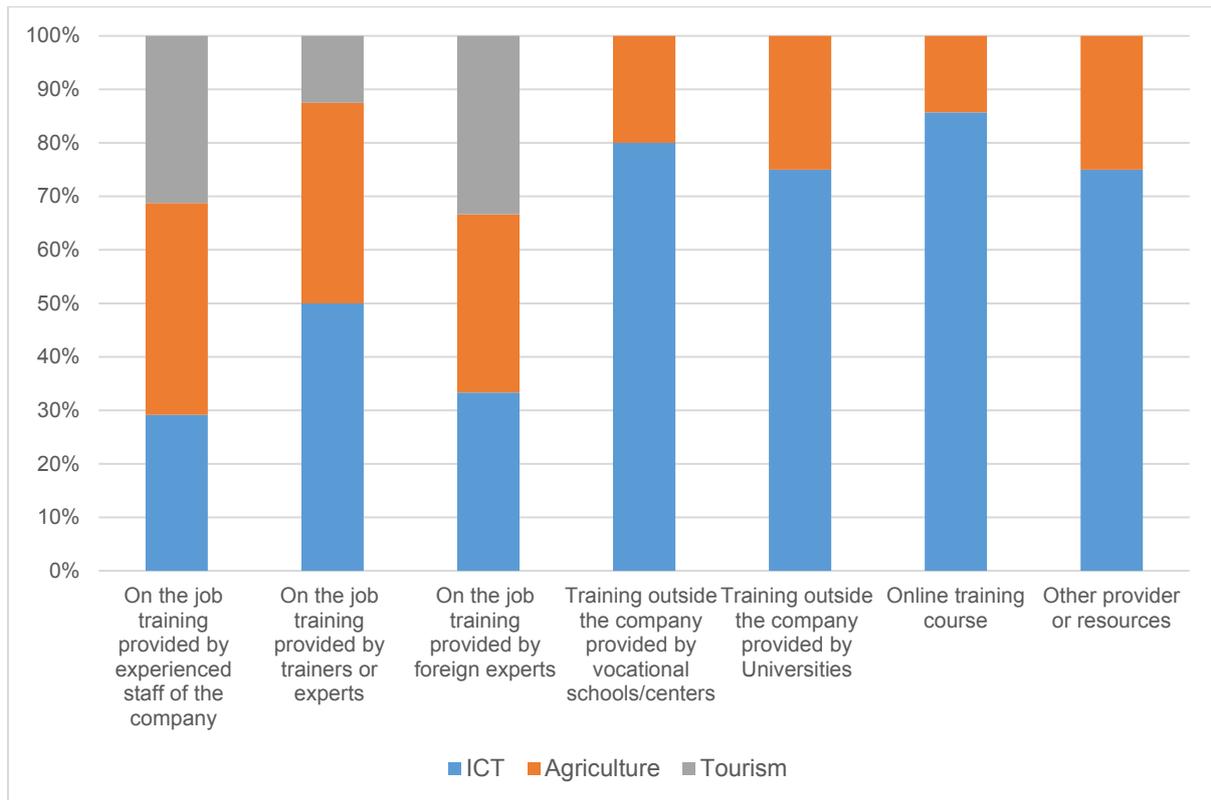


Source: ITC, SME Competitiveness Survey, The Gambia (2017).

The lack of training programmes is still the top challenge in ICT at the firm level. However, ICT enterprises seem to be more reactive than other sectors to solve skill shortages. Forty per cent of surveyed ICT enterprises claim to offer occasional or regular training to their staff, in comparison with 36% of companies in both agriculture and tourism.

As presented in Figure 14, ICT enterprises provide a more diversified training structure than companies in the other two sectors. The role of TVET and universities is significantly higher for ICT, as well as the use of online courses and other resources.

Figure 14 Types of training providers, by sector, in the Gambia



Source: ITC, SME Competitiveness Survey, The Gambia (2017).

## Ghana

Ghana is the 11<sup>th</sup> largest economy in Africa, with a GDP of \$47 billion in 2017 and a GDP per capita of \$1,663.<sup>33</sup> It has been politically stable since its transition to democracy in 1992 and its average annual growth rate was over 7% between 2007 and 2017. Ghana's expected growth for 2018 is 6.3%, making it one of top 20 fastest growing economies in the world.<sup>34</sup>

While services represent 71% of GDP, natural resources are one of the main pillars of the economy. Ghana is the second largest producer of cocoa in the world, its oil and gas production represents 5.6% of GDP, with an increasing number of oil production sites. Ghana is also a relevant actor in the markets for gold, manganese bauxite, industrial diamonds, timber, rubber, silver, salt and limestone, among others.<sup>35</sup>

Because of the abundance of resources, Ghanaian officials have long been concerned about the possibility of over-reliance in resource-based industries and crowding-out of investment in other sectors. The decline in the share of manufacturing in GDP in past decades, today at 5.2%, has further fuelled this concern.<sup>36</sup> A number of policies have sought to address this issue attracting investment into other industries. For example, the 'one district, one factory' initiative launched in 2017 offers investment matching and financial credit in an effort to diversify the economy. Some Chinese firms are already taking advantage of this programme (Box 2).

Additionally, the Ghana Investment Promotion Centre Act was sanctioned in 2013 to offer assurances for foreign investors.<sup>37</sup> The Act prohibits discrimination between national and foreign investors, ensuring the same rights and obligations for both groups. It also provides guarantees against expropriation and ensures transfers of capital, profits, dividends and personal remittances. This law also addresses technology transfer agreements, which need to be registered at the Ghana Investment Promotion Centre. Regarding employment of foreign nationals, automatic expatriate quotas are granted for foreign-invested companies, with higher quotas for larger investments.

Ghana offers several investment incentives, including a tax holiday for a period that goes between 5 and 10 years depending on the sector. There are also location specific incentives for the manufacturing and agro-processing industries, with the highest tax rebate rates offered if establishment takes place in Accra and Tema.<sup>38</sup>

The Ghana Investment Promotion Centre announced a \$10 billion goal for attracting FDI in 2018. The sectors targeted are infrastructural development, railway construction, health and education. In 2017, inward FDI was at \$4.91 billion, while the annual target was \$ 5 billion. The country aims to attract between \$20 billion and \$40 billion in FDI within the next six to ten years.<sup>39</sup>

Ghana takes part in a number of trade agreements: the EU-Ghana FTA, the ACP-EU Partnership Agreement, the Economic Community of West African States (ECOWAS), the African Continental Free Trade Agreement and the Global System of Trade Preferences among Developing Countries (GSTP) notified under the Enabling Clause.<sup>40</sup> Additionally, Ghana is one of the beneficiaries of duty free status granted by the United States under the African Growth and Opportunity Act (AGOA).

Through these agreements investors interested in making a move in this fast growing economy in West Africa can also access regional and developed markets.

<sup>33</sup> Values in current US dollars. International Monetary Fund (2018). World Economic Outlook, October 2018.

<sup>34</sup> Growth rates based on GDP in constant prices, local currency. Source: *World Economic Outlook, October 2018*. International Monetary Fund, 2018.

<sup>35</sup> Mining and quarrying represent 5.9% of GDP and agriculture 18.3%. Ghana Statistical Service, 2018.

<sup>36</sup> MVA 2018, Manufacturing, UNIDO, 2018.

<sup>37</sup> The Ghana Investment Promotion Centre Act, 2013, Act 865, <http://www.gipcghana.com/press-and-media/downloads/promotional-materials/3-gipc-act-2013-act-865/file.html>

<sup>38</sup> Ghana Investment Promotion Centre, Tax regime and investment. Accessed on 11 November 2018.

<http://www.gipcghana.com/invest-in-ghana/why-ghana/tax-regime-and-incentives.html>

<sup>39</sup> Ghana to raise \$10 billion in foreign direct investment. *Ghana Business News*, 28 March 2018. Accessed 11 November 2018. <https://www.ghanabusinessnews.com/2018/03/28/ghana-to-raise-10b-in-foreign-direct-investment/>

<sup>40</sup> WTO, RTA Database, <http://rtais.wto.org/UI/PublicSearchByMemberResult.aspx?MemberCode=288&lang=1&redirect=1>

### Box 2 China invests under 'one district, one factory': new ceramics factory West Ghana

In January 2018, Guangzhou Sunda International Trading Co. Ltd. was reported to have invested over \$77 million in establishing the Twyford ceramic factory at Shama in West Ghana. With a production capacity of 14.4 million square meters per year, the factory is expected to reach \$82.8 million in annual sales. Once in full operation, it will directly create 1,000 jobs and indirectly support 800 jobs. The factory sources 95% of the raw material inputs locally.

Group Chairman of Sunda international Mr Y.C Shen announced that Twyford ceramics was set up in Ghana because of the enabling business environment created by the government through the 'one district, one factory' programme.

This new factory is mainly expected to fulfil the needs of the domestic market with cost-effective local production that reduces prices. It is expected to reduce importation of tiles into Ghana from \$90.66 million to \$7.86 million per year, reducing the demand on foreign currency and therefore stabilising the local currency.

**Source:** <https://www.myjoyonline.com/business/2018/January-14th/twyford-ceramics-factory-receives-akufo-addos-endorsement.php>

## Bilateral trade and investment

China is Ghana's second largest export destination and the largest source of imports, accounting for 15% of Ghana's exports and 33% of Ghana's imports (Table 4).

Table 4 Top 10 export and import markets for Ghana (2017, \$ thousand)

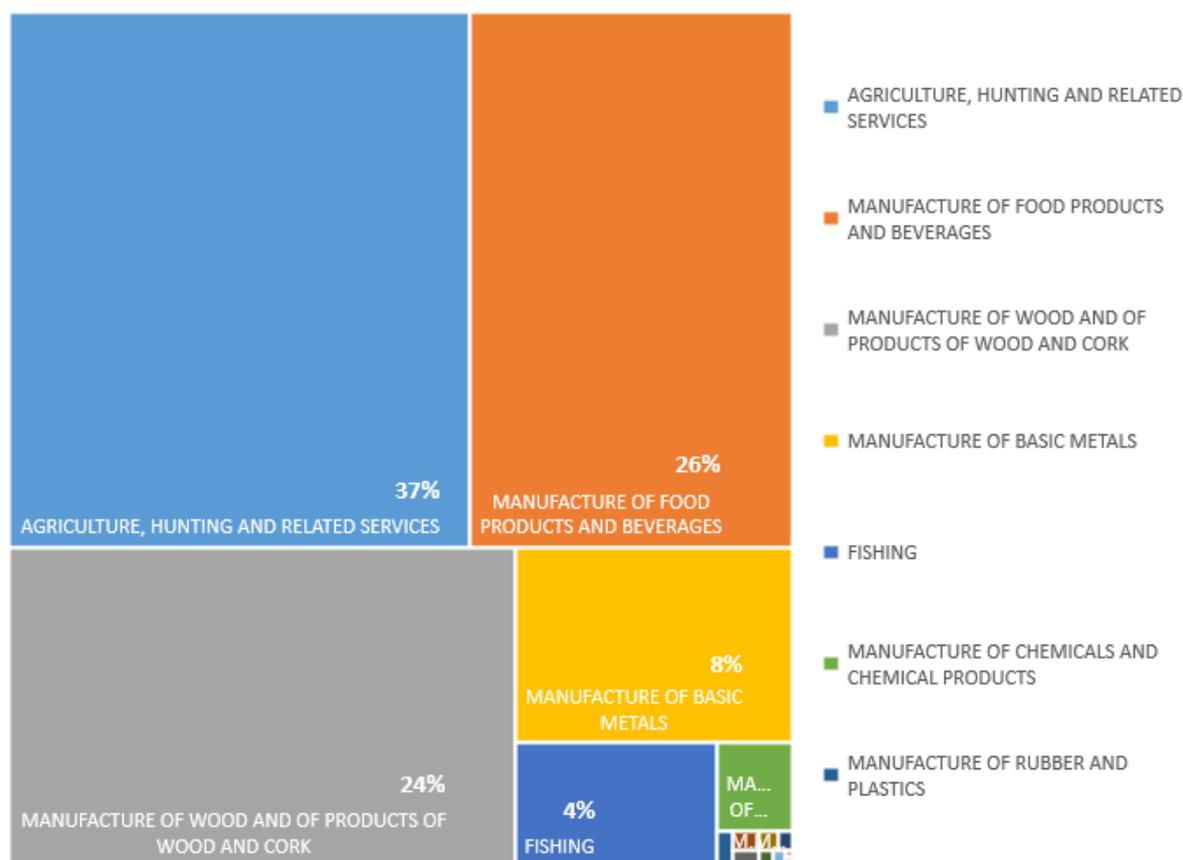
Exports				Imports			
Rank	Country	Value	Share in total exports	Rank	Country	Value	Share in total imports
1	India	2 755 231	22%	1	<b>China</b>	<b>4 824 797</b>	<b>33%</b>
2	<b>China</b>	<b>1 852 939</b>	<b>15%</b>	2	United States	859 971	6%
3	Switzerland	1 824 805	15%	3	Netherlands	759 493	5%
4	Netherlands	935 332	7%	4	India	638 345	4%
5	United Arab Emirates	783 564	6%	5	United Kingdom	488 967	3%
6	United States	781 167	6%	6	Côte d'Ivoire	472 435	3%
7	France	360 768	3%	7	United Arab Emirates	409 303	3%
8	United Kingdom	238 587	2%	8	Belgium	391 936	3%
9	Malaysia	210 141	2%	9	South Africa	352 611	2%
10	Germany	204 251	2%	10	Germany	303 637	2%

**Source:** ITC Trade Map, mirror data

The top three exporting sectors to China are agriculture (37%), manufacture of food products and beverages (26%) and manufacture of wood products (24%). Manufacture of basic metals and fishing also hold relevant shares in exports to China. Together, these top five sectors account for almost 99% of goods exports to China (Figure 15).

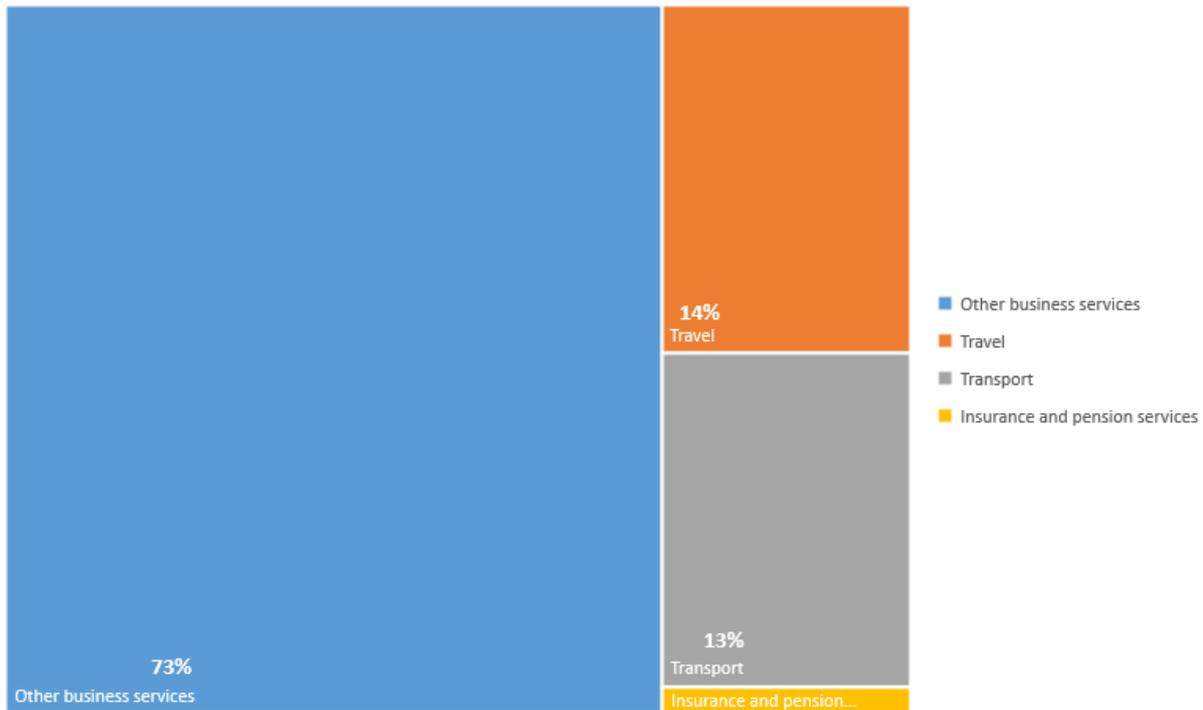
In terms of services exports, other business services (73%), travel and transport are the largest export service sectors (Figure 16). The composition of Ghana's commercial services exports has changed significantly in ten years: other business services accounted for less than a quarter in 2007, and exports were dominated by travel services (56%), then followed by transport (19%).

Figure 15 Ghana's top five exporting goods sectors to China in 2017, by percentage (extractive industries excluded)



Source: UN Comtrade.

Figure 16 Ghana's top three exporting commercial services sectors to the world in 2016, by percentage



Source: WTO trade statistics

From 2007 to March 2018, the estimated Chinese investment into Ghana was around \$9 billion when only considering transactions for over \$100 million.<sup>41</sup> While the bulk of that total was devoted to energy (\$4.5 billion), metals (\$1.2 billion), transport (\$1.1 billion) and utilities (\$1.1 billion), key investment in other sectors is also taking place.

For example, the leading cloud computing company Inspur Group announced an investment to build its West Africa headquarters in Ghana (Box 3) in 2018. This is a testimony to the confidence of Chinese technology companies in the development of the digital economy in Africa.

<sup>41</sup> AEI. China Global Investment Tracker, <http://www.aei.org/china-global-investment-tracker/>

### Box 3 China's leading cloud computing company to establish West African headquarters in Ghana

Inspur Group Co. Ltd. is a leading Chinese company in cloud computing and big data services. The company builds cloud computing infrastructure and offers cloud servers, online storage space, cloud operating systems and advanced information security technologies. It holds the biggest market share for the sale of cloud servers in China and has a 57% share in global sales of servers for artificial intelligence.

In September 2018, Inspur announced a decision to select Ghana as the site of its headquarters in West Africa. According to the company's Chairman and CEO, Peter Sun, Inspur Groups chose Ghana due to its impressive economic outlook, talent resources, potential for market development and a stable political environment.

Inspur also offered traineeships to Ghanaian students at its headquarters and operation sites across West Africa, as well as training for officials from Ghanaian ministries on cloud computing, data management and related technologies. There seems to be an alignment of interest between the company and the government on issues such as sustainable development, mobilization of tax revenues, and development of the ICT sector.

**Source:** <http://dailyguideafrica.com/ghana-to-host-china-it-giant-inspur-groups-w-a-hq/>

## Textiles and apparel in Ghana: A door to new markets

For some years now Chinese textiles and apparel companies have been offshoring production due to rising domestic labour costs. Chosen destinations have not been limited to South East Asia, but have also expanded to qualified industrial zones in Jordan and Egypt (thus gaining duty-free access to the United States market) and even in the United States. In Africa, Ethiopia and South Africa have been part of this trend.

Ghana has not been among the beneficiaries of this shift so far. The textiles and apparel industries in Ghana are quite small: they represented 5.5% of manufacturing output and 9.4% of manufacturing employment in 2003, the latest data available for these sectors.<sup>42,43</sup> Over the last decade, the share of textiles and apparel in goods exports ranged between 0.11% and 0.73%, while the share in imports was between 1.5% and 2.2%. In 2016, the top destinations for exports of textiles and apparel were mostly regional: Benin (20.2%), Niger (15.3%), Togo (13.7%), and only in seventh and tenth place China (7.6%) and the US (2%). Imports originated largely from China (45.7%) and India (23.1%).

Despite the current modest performance of textiles and apparel industries in the Ghanaian economy, a number of reasons make them an appealing potential target for Chinese investors looking to offshore production. Ghana is in the centre of the key cotton production zones in Africa, which might result in reduced transportation cost of raw materials.

Ghana also has a privileged geographic position in terms of shipping output to the United States and Europe, even when compared to other African countries. Existing agreements grant Ghanaian textiles and apparel preferential access to regional markets, the United States and the EU. Lastly, the local government has recently introduced a number of incentive policies directly aimed at supporting the textile and apparel industries.<sup>44</sup>

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<sup>42</sup> The category "Textiles and Apparel" corresponds to industries 17 and 18 of the ISIC Revision 3 classification.

<sup>43</sup> *INDSTAT 2 2018, ISIC Revision 3*, UNIDO, 2018.

<sup>44</sup> Last year the Ghana EXIM Bank granted US\$ 10 million to support the garment industry, one of the industrialization pillars identified by the government. Furthermore, the Association of Ghana Apparel Manufacturers (AGAM) was created in 2017 with the support of the Ghana Export Promotion Authority and the National Board for Small-Scale Industries, to promote advocacy, networking and further industry development.

### *Invest in Ghana for preferential access to markets in the United States and the EU and better access to local and regional markets*

In terms of accessing foreign markets, apparel products from Ghana are eligible for preferential rates when entering the United States through the African Growth and Opportunity Act (AGOA).<sup>45</sup> Although this has been the situation since 2002, firms from Ghana have made little use of this benefit.

Similarly, textile and apparel goods from Ghana have duty- and quota-free access to the EU, through the Economic Partnership Agreement recently ratified in 2016. Operating in Ghana would also facilitate access to regional markets through ECOWAS, with reduced transportation costs.

Africa represents a large and growing market, especially for consumer products for which China is the world's main supplier. Investing in Africa to access the local market can be a way to reduce transportation costs and be more responsive to market demand.

When investing to supply the local market, investors also need to analyse consumer preferences for local and foreign products. Investing in the textiles sector could facilitate local distribution. A survey conducted among textile traders in Ghana shows that 53% of respondents prefer to work with local textiles products, while 40% prefer imported products, with 7% being indifferent. Forty percent of those that prefer local textiles cited their good quality as the reason behind their choice, while the majority of those that prefer imported goods refer to their affordability and higher profitable margin (47%).<sup>46</sup> By investing to supply the local market, investors could address this divide in preferences.

### *Textiles and apparel MSMEs meet cost and time requirements, but struggle to meet certification standards*

In partnership with the Association of Ghana Industries (AGI), ITC deployed its SME Competitiveness Survey in Ghana in 2015 and 2017. Enterprises surveyed in Ghana in 2017 operate in the primary, manufacturing and services sectors. Textile and apparel firms included in the sample are 26% micro, 44% small and 26% medium and 4% large-sized firms.<sup>47</sup>

The information gathered in the survey is organized in three pillars evaluated at the firm, business environment and national levels. The three pillars considered are the capacity to compete, to connect and to change. The combination of the three pillars and three levels of the economy determine the competitiveness of firms, and allow for the identification of their strengths and weaknesses.

Firms in the textile and apparel sectors surveyed in Ghana in 2017 fared relatively well in terms of meeting quantity, cost and time requirements, with 75% of goods delivered on time in the previous year.

Conversely, the performance of apparel and textile firms was relatively weak in terms of meeting quality requirements, as assessed by their possession of international certifications of safety, quality, sustainability and others.

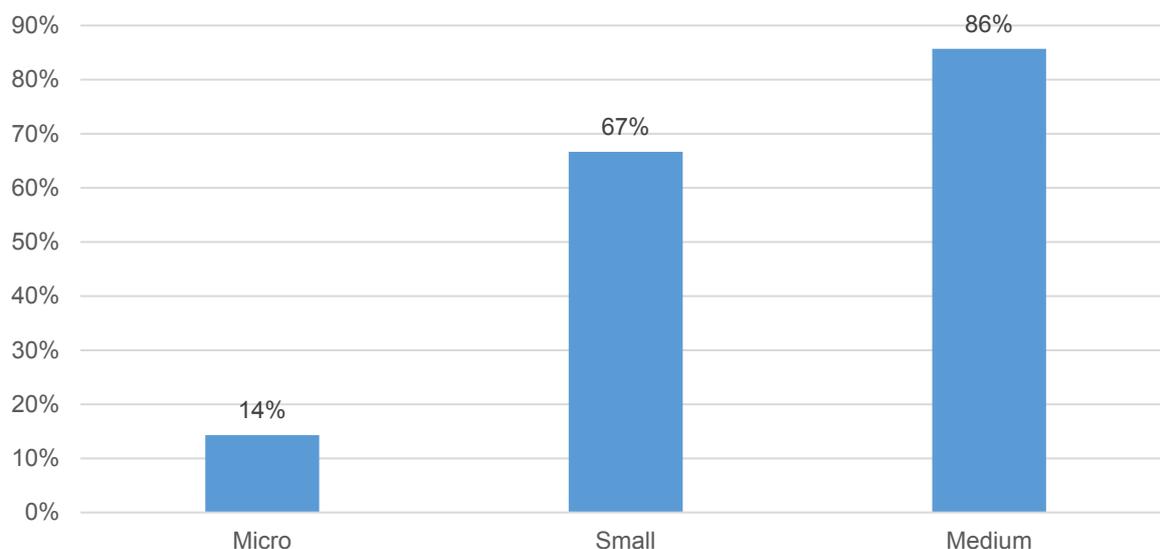
While 86% of medium-sized firms hold at least one international certification of any type, only 14% of micro-sized firms have one (Figure 17). Additionally, micro-sized firms only held certifications in safety. Only 7% of all firms surveyed in the textile and apparel sectors have international sustainability certifications. Even firms that export and firms that are part of a value chain report a lack of sustainability certifications and moderate rates of quality certifications (57% and 50% respectively).

<sup>45</sup> AGOA grants preferential import duties to countries complying with certain eligibility criteria. Unlike most others, this special and differential treatment programme grants duty-free access to textiles and apparel. Effective preferences are concentrated in these products, since they still hold high tariffs in the United States. These allow countries to exploit comparative advantages in low labour costs, requiring simple technology and low start-up costs, where scale economies are not important. Brenton, Paul, and Çağlar Özden. 2009. Trade preferences for apparel and the role of Rules Of Origin: The case of Africa. *Trade Preference Erosion: Measurement and Policy Response*: 401-24.

<sup>46</sup> Quartey, P. & Abor, J. 2011. Do Ghanaians prefer imported textiles to locally manufactured ones? in *Modern Economy*. 2, 54-61 doi:10.4236/me.2011.21009. [https://file.scirp.org/pdf/ME20110100011\\_78578636.pdf](https://file.scirp.org/pdf/ME20110100011_78578636.pdf)

<sup>47</sup> Firm size is defined according to number of employees. Micro sized firms employ 1 to 4 workers, small sized firms 5 to 19 workers, medium sized firms 20 to 99, and large firms employ 100 workers or more.

Figure 17 Textile and apparel firms with at least one international certification, by firm size



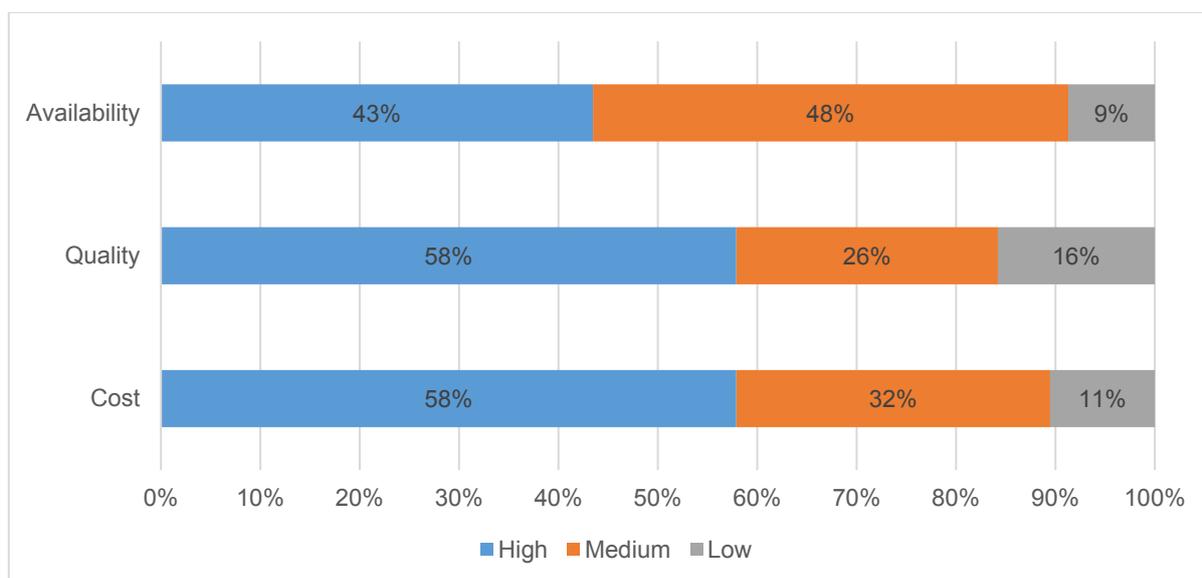
Source: ITC, SME Competitiveness Survey, Ghana (2017).

*High certification cost may hamper access to international markets*

A number of reasons could explain the lower rate of international certifications of smaller firms in the textile and apparel sectors in Ghana. Smaller firms from developing countries might find it challenging to obtain information regarding certifications or to afford the services of certification agencies. In the case of Ghana, surveyed firms do have information available on certification, and they find the services provided by testing, certification and inspection authorities to be of high quality.

Only 9% of surveyed firms qualified the availability of information on this regards as low, and 58% of them rated its quality as high. However, firms also report this information to be expensive: 58% rated its cost as high (Figure 18). The high cost of information may play a determinant role in the low certification rate of smaller firms.

Figure 18 Availability of information, quality and cost of services relating to international certifications in the apparel sector



Source: SME Competitiveness Survey, Ghana (2017).

In turn, the difficulties faced by smaller firms to attain certifications can affect their ability to enter international markets. For instance, the US mandates specific flammability requirements for its textile imports and the EU has certain safety standards for imports of children's clothing.<sup>48,49</sup>

As explored in detail in the ITC *SME Competitiveness Outlook 2016* report, smaller firms find it harder to cover fixed costs to comply with standards and regulations.<sup>50</sup> If the cost of services related to testing, certification or inspection are too high for smaller firms in Ghana to bear, they may not be able to take advantage of the preferential access status the country has in these markets.

The combination of diversification policies supported by the government, the existing preferential access agreements Ghana has, and the positive results of local textile and apparel firms in terms of their capacity to compete, suggests that this sector should be considered by investors. They may in turn help unleash the potential of the industry by, for example, investing in certification and standard compliance.

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<sup>48</sup> US Customs and Border Protection, Regulations for importing textiles, [https://help.cbp.gov/app/answers/detail/a\\_id/205/~regulations-for-importing-textiles](https://help.cbp.gov/app/answers/detail/a_id/205/~regulations-for-importing-textiles)

<sup>49</sup> European Committee for Standardization, CEN/TC 248/WG 20 - Safety of children's clothing, [https://standards.cen.eu/dyn/www/f?p=204:110:0:::FSP\\_PROJECT:38018&cs=126634B2579836B2B9B2B7A8DBED0F3BB](https://standards.cen.eu/dyn/www/f?p=204:110:0:::FSP_PROJECT:38018&cs=126634B2579836B2B9B2B7A8DBED0F3BB)

<sup>50</sup> ITC. *SME Competitiveness Outlook 2016. Meeting the standard for trade.* International Trade Centre, 2016.

## Kenya

Kenya is a geographically diverse country that extends from the shores of Lake Victoria, Africa's largest lake, to the Indian Ocean. It is a founding member of the East African Community (EAC), and hosts the community's largest economy, valued at roughly \$75 billion. It also has one of the region's highest per capita GDP (\$1,400), as well as a diversified economy.

The country is well connected in East Africa, with a leading regional airline and a major regional shipping hub. Major institutional reforms in information and telecommunications technology (ICT) have strengthened competition, driving down prices and there is a very high Global System for Mobile Communications (GSM) coverage.

Kenya offers several fiscal and non-fiscal incentives for investment. Tax incentives are mainly in the form of capital deductions. Industrial deductions apply over capital expenditure for the construction of an industrial business and they vary depending on the type of business. For instance, while hotel and educational buildings have a 50% capital deduction for the first two years of operation, industrial buildings have a 2.5% capital deduction within the first 40 years of operations and there is a 100% capital deduction for buildings used for training of film producers, actors or crew, among others.<sup>51</sup>

The Income Tax Act grants extra tax incentives for export processing zones (EPZ). These include a 10-year corporate income tax holiday and a 25% tax rate for a further 10-year period, excluding EPZ commercial enterprises. There is also perpetual exemption from value-added tax and customs duties on inputs, with the value-added tax exemption applying also to domestic purchases. Licensed EPZ projects are also permanently exempted from payment of stamp duty on legal instruments, and there is a 100% investment deduction on new investment in EPZ buildings and machinery for 20 years.<sup>52</sup>

Nairobi, Kenya's capital city, is widely considered the region's economic and financial centre, and hosts many major international companies and organizations. Investment in Kenya has expanded rapidly over the last 10 years, having increased its inward investment stock more than four times.<sup>53</sup> A significant amount of this investment has gone to the real estate, manufacturing, ICT, and IT-enabled services sectors. Other sectors, including transport, storage and financial services, are steadily increasing their share of FDI. Investment mostly comes from India, the United Kingdom, Mauritius, the United States and France.<sup>54</sup>

The Kenyan economy has grown strongly over the last five years, averaging 5.5% per annum.<sup>55</sup> Given this strong growth, there are opportunities for new players to enter the investment market and serve consumers both within the region and outside.

### Bilateral trade and investment

China is Kenya's 10<sup>th</sup> largest export destination and the largest source of imports, accounting for 3% of Kenya's exports and 28% of Kenya imports. (Table 5). The bilateral trade imbalance has been a concern for the Government of Kenya. Although the increase of imports from China in recent years might be partly due to the import of equipment and inputs for the Chinese-invested Mombasa - Nairobi railway, identifying products for increased export to China has been a focus for balancing the bilateral trade.

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<sup>51</sup> Investment Incentives. KenInvest website. Accessed 12 October 2018. <http://invest.go.ke/starting-a-business-in-kenya/investment-incentives/>

<sup>52</sup> *Ibid.*

<sup>53</sup> Based on data from UNCTAD Stat Database, Kenya, 2008-2017.

<sup>54</sup> UNCTAD. 2012. *An investment guide to Kenya: opportunities and conditions.*

<sup>55</sup> Based on data from the International Monetary Fund, World Economic Outlook Database, Kenya, 2018.

Table 5 Top 10 export and import markets for Kenya (2017, \$ thousand)

Exports				Imports			
Rank	Country	Value	Share in total exports	Rank	Country	Value	Share in total imports
1	United States	587 803	11%	1	<b>China</b>	<b>5 034 650</b>	<b>28%</b>
2	Netherlands	471 823	9%	2	United Arab Emirates	1 833 982	10%
3	Pakistan	468 258	9%	3	India	1 821 003	10%
4	Uganda	457 233	9%	4	Japan	763 481	4%
5	United Kingdom	405 575	8%	5	South Africa	712 840	4%
6	United Arab Emirates	300 918	6%	6	Uganda	552 001	3%
7	Egypt	263 412	5%	7	United States	454 453	3%
8	Tanzania, United Republic of	201 322	4%	8	United Kingdom	443 130	3%
9	Germany	169 712	3%	9	Germany	353 382	2%
10	<b>China</b>	<b>166 820</b>	<b>3%</b>	10	Netherlands	344 721	2%

Source: ITC Trade Map, mirror data.

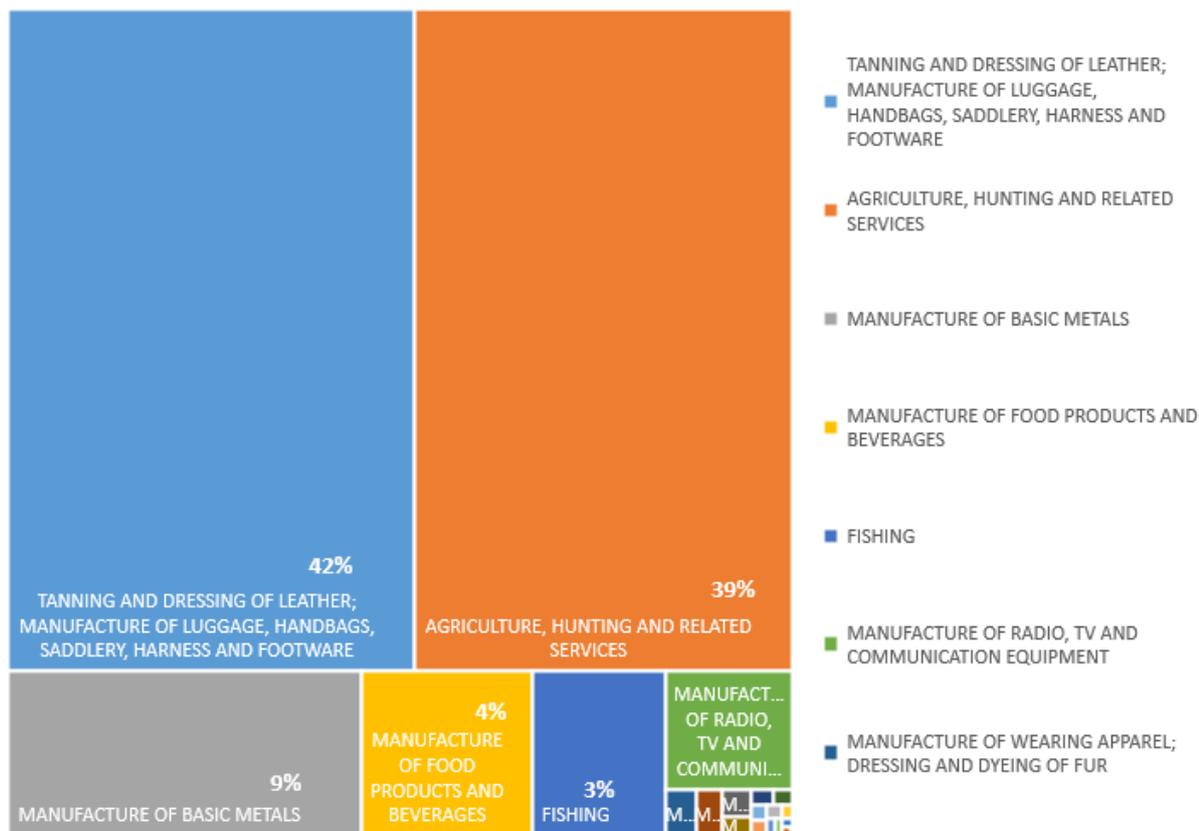
Kenya's goods exports to China are concentrated in leather (42%), agriculture (39%), manufacture of basic metals (9%), manufacture of foods products and beverages (4%) and fishing (3%), as Figure 19 shows.

Bilateral trade imbalance is partly offset by China's investment in Kenya to build the Mombasa - Nairobi railway, connecting the two economic centres in Kenya. According to the Chinese embassy, the \$3.6 billion railway project has created 46,000 jobs for Kenya and reduced the logistics cost from Mombasa to Nairobi by 40%, contributing to 1.5% of Kenya's GDP.<sup>56</sup>

Apart from the railway project, there are also numerous Chinese-funded projects and enterprises in this country, in sectors ranging from agriculture, manufacturing to real estate, finance, telecommunication and other services.

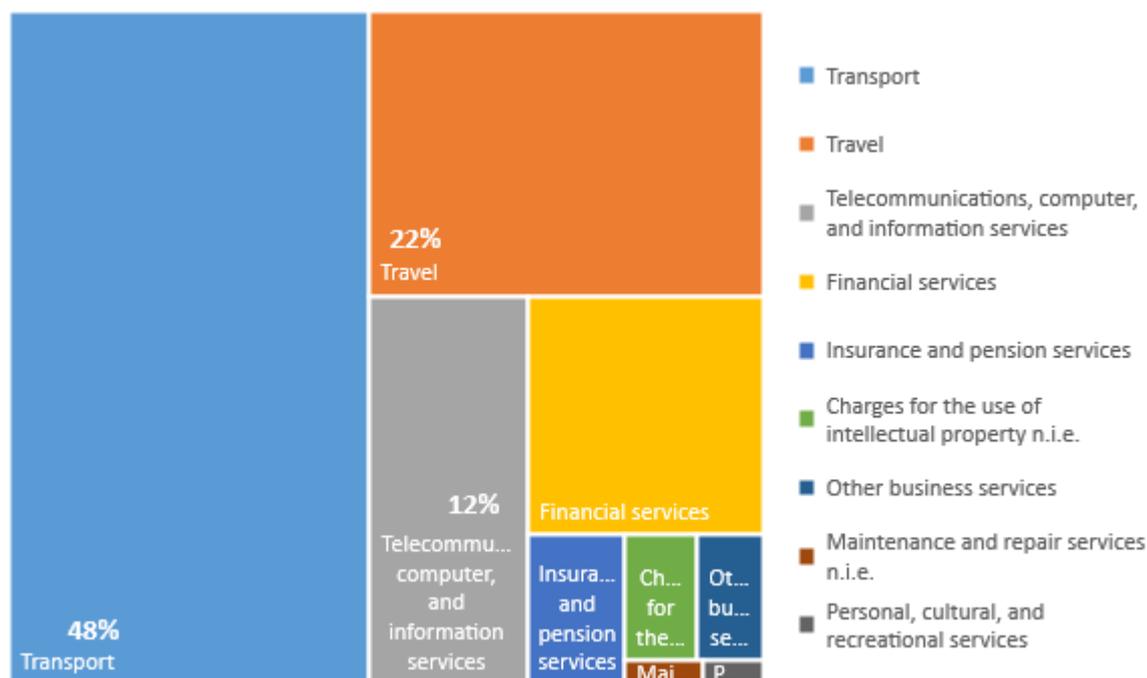
<sup>56</sup> [https://www.guanqia.cn/global-news/2018\\_03\\_21\\_451024.shtml](https://www.guanqia.cn/global-news/2018_03_21_451024.shtml)

Figure 19 Kenya's top five exporting goods sectors to China in 2017, by percentage (extractive industries excluded)



Source: UN Comtrade.

Figure 20 Kenya's top three exporting commercial services sectors to the world in 2016, by percentage



Source: WTO Trade Statistics.

The two top performing sectors in services exports also rely on transport infrastructure, being transport (48%) and travel (22%), then followed by telecommunication, computer and information services (12%), as Figure 20 shows. Tourism is a key sector of Kenya's services export.

According to the Kenya Tourism Board (KTB), China is among the top five source markets of tourists arriving in the country. With 69,000 Chinese tourists visiting Kenya annually, China accounts for about 6% of the traffic in 2017. Kenya is targeting 100,000 Chinese tourists per year in the medium term, as it embarks on a campaign to sell its safari and beach offerings to Chinese consumers. KTB projections estimate that China will be the top source market by 2020.<sup>57</sup>

#### Box 4 African-based Chinese tour operator promotes Kenyan tourism

Bobu Africa is a travel business founded by three Chinese young entrepreneurs. The company aims to introduce Chinese tourists to authentic African cultural trips, through actively promoting the beauty of the Africa continent on major Chinese social media platforms.

Starting from simple translations of journals, magazines and broadcasts on Africa into Chinese, Bobu Africa gradually developed into a business chain of cultural experiences, fashion and innovation, animal conservation and charity, which in return cultivates business opportunities and development in the local communities. Chinese tourists are among the largest tourist groups visiting Africa.

Source: [http://www.sohu.com/a/123699771\\_374748](http://www.sohu.com/a/123699771_374748)

<sup>57</sup> [http://www.xinhuanet.com/english/2018-03/08/c\\_137022819.htm](http://www.xinhuanet.com/english/2018-03/08/c_137022819.htm)

## Agriculture and food processing: Increasing Kenyan exports to China

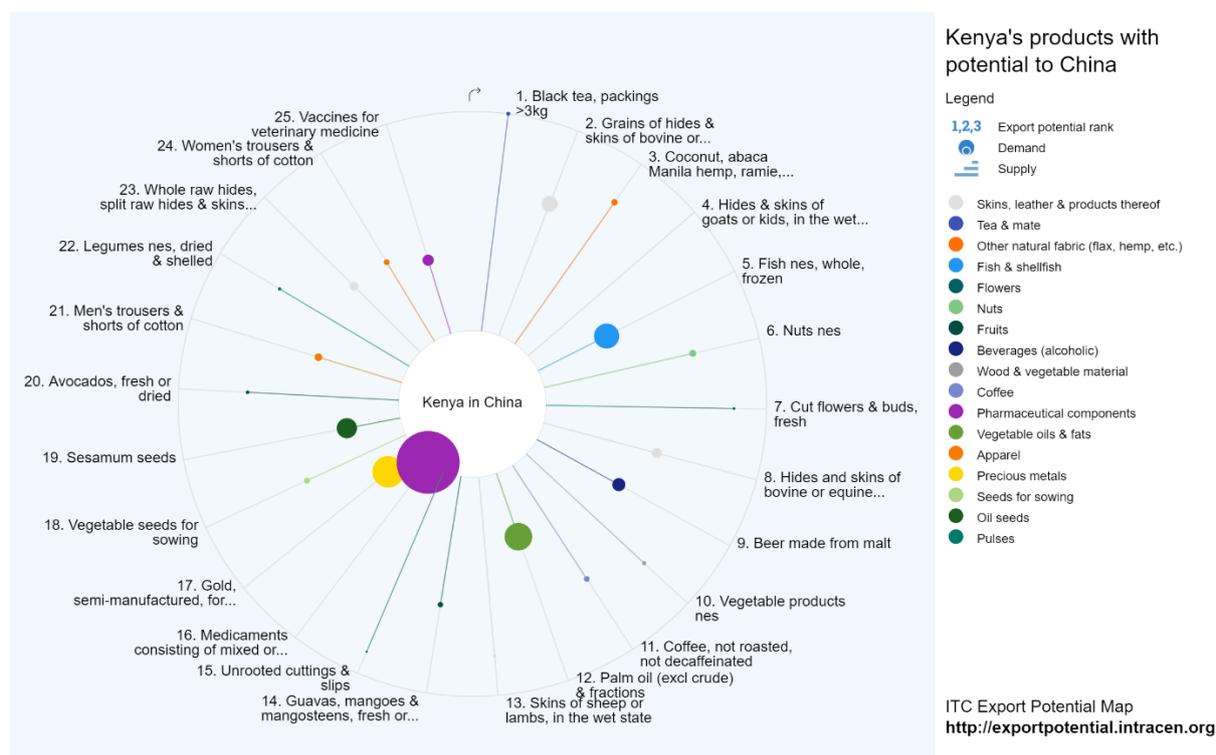
Agriculture and manufacture of food products and beverages together represent 43% of current Kenyan exports to China, and there is room for Kenya to export more in agriculture to China.

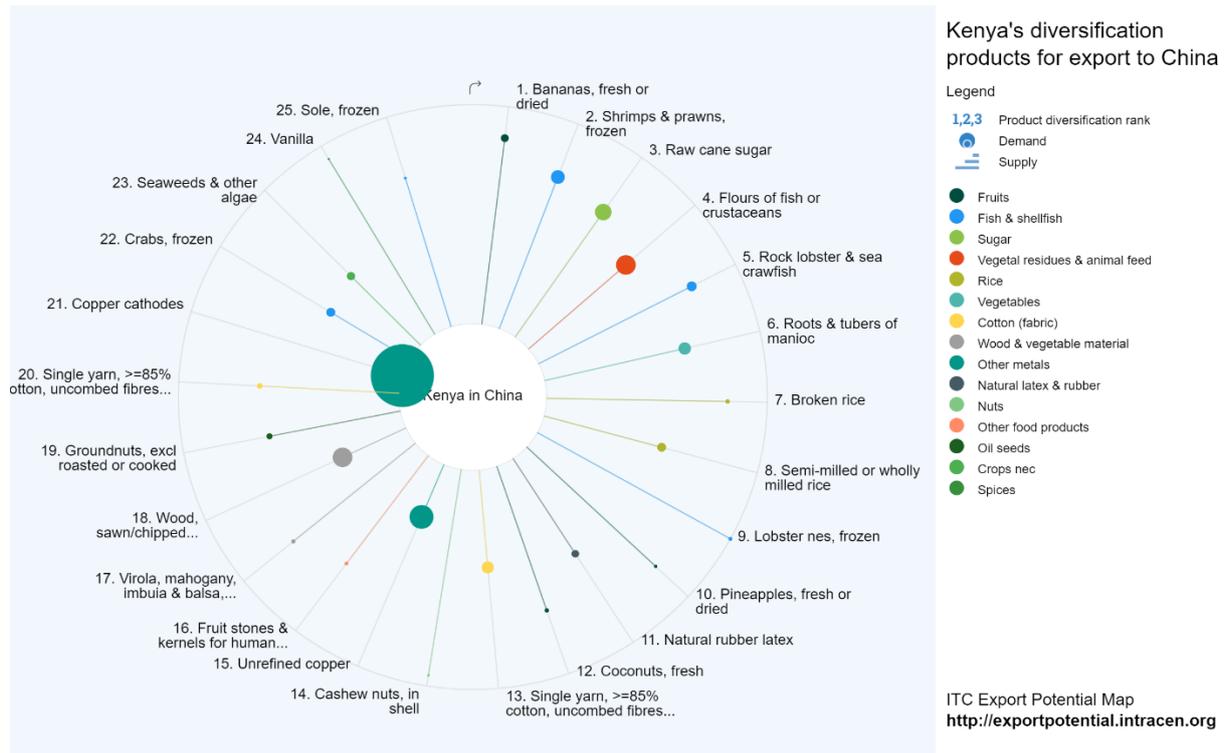
ITC export potential maps assess the products that could be traded more bilaterally, taking into account the country's current export structure. Kenyan products with the highest export potential into China are mainly agricultural products and include black tea, grains, hides and skins of bovine or equine animals, coconut, hides and skins of goats, frozen fish, nuts, cut flowers and buds, beer made from malt, and vegetable products (Figure 21). The export potential rank considers supply capacity as well as demand and market access conditions for those products in China.

Black tea is the product where Kenya holds the highest supply capacity (the longest supply line in the chart). Considering the large size of the Chinese market, import demand for black tea from Kenya could imply an export potential of \$11.8 million, but actual exports are only \$2.6 million. Currently, China is the 22<sup>nd</sup> market destination for Kenyan black tea.

Among the products not yet traded with China that offer room to diversify exports, many are also agricultural products (second graph in Figure 21). These include bananas, shrimps and prawns, and raw cane sugar, among other agricultural products. Kenya will find it easier to diversify their exports towards frozen lobster, cashew nuts, vanilla, and then bananas, based on current supply capacity (products with the longest line in the chart).

Figure 21 Export potential and product diversification opportunities from Kenya into China





**Notes:**

**Export potential and product diversification ranks** are based on: potential (or standard) export value based on supply, demand and market access conditions.

**Bubble size:** Projected import value (considering product-specific tariff and distance advantages)

**Line:** Projected market share (corrected for global tariff advantages and re-exports). The longer the line, the easier it is for the country to export such product.

n.e.s. not elsewhere specified

**Source:** ITC Export Potential Map

ITC conducted the SME Competitiveness Survey in Kenya in 2018, in partnership with the Kenya National Chamber of Commerce and Industry and the Kenyan Ministry of Industry, Trade and Cooperatives. Preliminary analysis of the survey data points to the following findings.

Agriculture has traditionally been the backbone of the Kenyan economy, and it currently contributes one-third of its GDP. About 38% of the Kenyan population is employed in the agricultural sector<sup>58</sup>, which includes livestock and pastoral activities. Over 75% of agricultural output is from small-scale rain-fed farming or livestock production.<sup>59</sup>

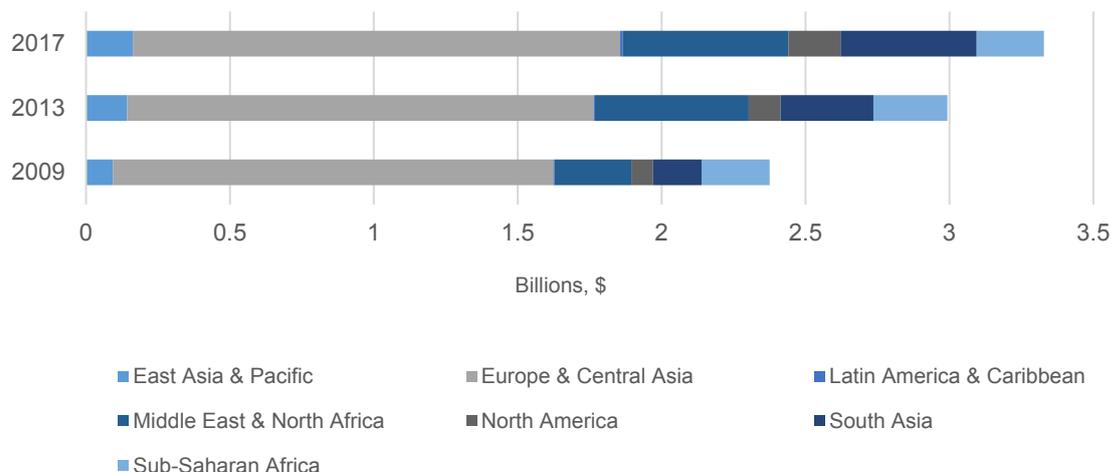
In 2017, Kenyan exports of agriculture and processed food products accounted for 64% of total exports, mostly going to Europe and Central Asia. Key exported products of the country include black tea, coffee, and fresh-cut roses and buds. The exports of these products have grown steadily in recent years (Figure 22)<sup>60</sup>.

<sup>58</sup> Based on data from the World Bank, World Development Indicators Database, Kenya, 2017.

<sup>59</sup> Central Intelligence Agency. *The World Factbook*, Kenya.

<sup>60</sup> ITC Trade Map, Kenya, 2008-2017.

Figure 22 Growth of Kenyan exports from 2009 to 2017



Source: ITC Trade Map, mirror data.

The agriculture and food processing sectors have changed rapidly over the last several decades. These changes have been driven by market liberalization and privatization, which have increased the incentives for both small- and large-scale investments by the private sector.<sup>61</sup>

In particular, Kenya's accession to the World Trade Organization (WTO) in 1995 lowered tariffs in a number of key export markets, and encouraged the agriculture and food processing sectors to adapt to global sanitary and phytosanitary requirements, boosting their competitiveness.

Kenya's agriculture sector can be broken down into six broad categories: food crops (e.g. cereals, pulses, and roots), cash crops (e.g. tea), coffee, sugar, livestock and fisheries. The Kenya Agricultural Commodity Exchange (KACE), a private company, provides price information on a host of agriculture commodities, and has direct links to farmers. As a result, this information may be a good starting point for investors seeking to enter Kenya's agriculture sector.

Kenya is also a large manufacturer of food products. The food-processing sector enjoys relatively high mark-ups compared to other subsectors. However, according to Kenya's latest Trade Policy Review, the sector attracts less FDI than other sectors such as chemicals or clothing.

In addition, firms operating in the agriculture and food processing industry may make for attractive investment targets, given that birth rates in Africa are generally high (but especially so in neighbouring countries such as Uganda and Ethiopia).

<sup>61</sup> WTO, Trade Policy Review, Kenya

### *Kenya has some of the region's best infrastructure*

Kenya performs well compared to its East African neighbours in terms of infrastructure.<sup>62</sup> The Northern Corridor, a trade route that connects the northern parts of East Africa to the Indian Ocean, has seen heavy investment in recent years and is opening up a consumer market of 38 million people. Under the China's Belt and Road Initiative (BRI), Kenya is upgrading its railway infrastructure, which promises to increase the flow of goods between key East African urban centres and the Indian Ocean.

For agriculture products that rely on fast and predictable supply chains, this new infrastructure could greatly expand the potential for the sector.

#### Box 5 Huawei Digital Railway Solution for the Mombasa-Nairobi Railway

Huawei Technologies Co. Ltd, a Chinese multinational networking, telecommunications and service company and the world's second largest smartphone manufacturer, provides technology and system support to the Mombasa-Nairobi Railway, the first modern line constructed in Kenya since independence. Their customized solution allows for train dispatch, emergency communications, secure transmission, and stable power supply, among other services, to ensure safety in train operations.

While the original railway could operate at an average speed of 30 km/h and manage a freight volume of 1.5 million tons, the new one offers a train speed of 120 km/h and has a freight capacity of 25 million tons. In the long run, this railway will be part of a network to connect Kenya, Tanzania, Uganda, Rwanda, Burundi and South Sudan.

**Source:** Huawei Digital Railway Solution helps Mombasa-Nairobi Railway spur new growth, 26 September 2017. <https://partners.wsj.com/huawei/news/huawei-digital-railway-solution-helps-mombasa-nairobi-railway-spur-new-growth/>

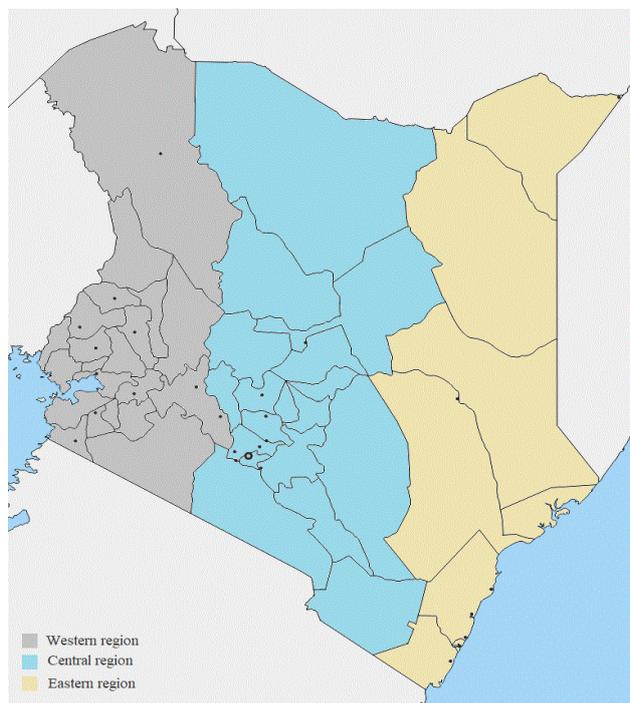
### *Smaller firms struggle to deliver their goods efficiently*

Fulfilling delivery expectations is key to retaining clients and building an agriculture business. In 2017, respondents report that, on average, 76% of goods dispatched to clients arrived on time. On this metric, the central region of Kenya performed best, followed by the western and eastern regions (Figure 23 shows the determination of regions).

Enterprises reported that poor roads, traffic congestion, and problems maintaining the cold chain as some of the reasons they were unable deliver their goods on time. In general, the larger firms delivered a higher proportion of their goods on time, indicating that enterprise capacity issues may play a role in limiting the efficiencies of delivery. Strategic investments designed to boost firm capacities could therefore help facilitate more logistics that are efficient.

<sup>62</sup> Based on data from the World Bank, Logistics Performance Index, Kenya, 2018.

Figure 23 Central, eastern and western regions of Kenya



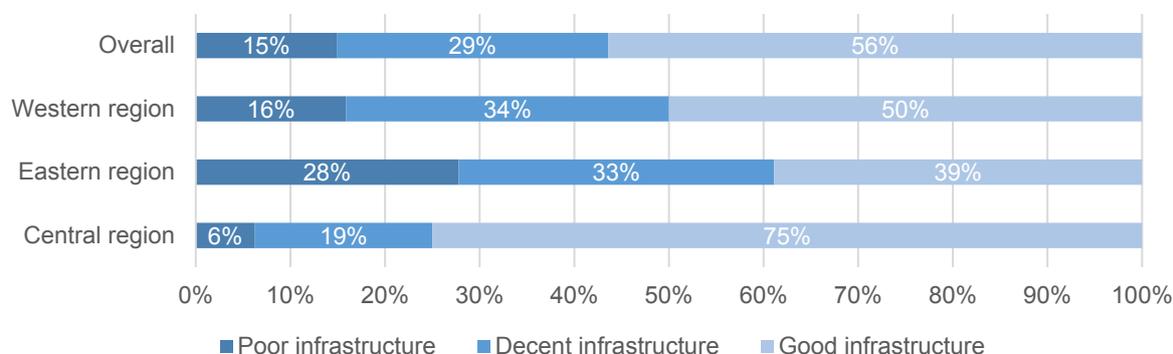
Source: ITC.

*Food processing firms rate their local transport infrastructure more highly than agriculture firms do*

Enterprises were asked to rate the quality of their local transport infrastructure (Figure 24). Around 75% of enterprises in the central region rated their local infrastructure as good, compared to 50% of enterprises in the western region, and 38% of firms in the eastern region.

Interestingly, the food processing industry rated the quality of their local infrastructure highly irrespective of the region they were based in, however, agriculture firms in the eastern region rated their local transport infrastructure poorly. Investors seeking to invest in agriculture firms in the eastern part of the country would be well advised to assess the country’s infrastructure development plans for that region.

Figure 24 Rating the quality of transport infrastructure in Kenya



Source: ITC SME Competitiveness Surveys (data collected in partnership with Kenya National Chamber of Commerce and Industry).

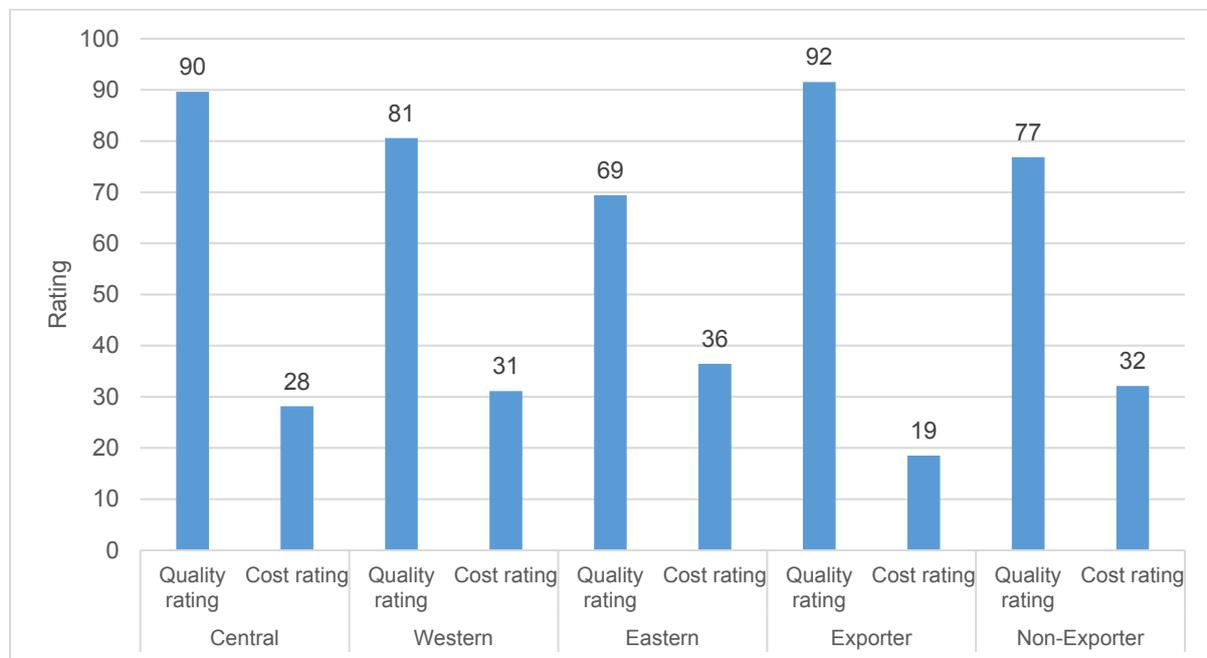
*Logistics services are expensive, but of high quality*

Efficient logistics services are crucial when shipping agricultural products, particularly fresh foods that rely on predictable transport services. In addition, some food products require the cold chain to be maintained, for example, to prevent early ripening of fruit. Kenya has a logistics performance index higher than average among the sub-Saharan African countries which indicates a comparatively good logistics performance of its economy. This facilitates Kenyan export and import, reducing SMEs’ transportation costs and a delivery time, especially in remote areas.

Nearly 35% of the firms surveyed export at least 10% of their sales, and 38% of the firms import goods. According to the survey, these firms are more or less equally distributed around the country, meaning that all of the regions have strong trade links abroad.

The firms surveyed reported that the quality of services offered by the logistics companies they used was generally high, however, so was the cost of using their services. This trend is observed in all the regions surveyed. The same trend is observed when the sample is split into agriculture-only firms and the food processing-only firms.

Figure 25 Cost and quality of logistics services in Kenya



**Source:** ITC SME Competitiveness Surveys (data collected in partnership with Kenya National Chamber of Commerce and Industry). Cost and quality of logistics services are rated from 0 (low) to 100 (high). Thus, for the cost rating, the higher the score, the cheaper the use of logistics services.

The role of the logistics service providers is a key determinant of transport costs because their level of efficiency determines the reliability of the supply chain. Almost 55% of the firms surveyed indicated that the price of using such services was quite high, especially for the medium- and large-sized firms and those firms, who trade internationally. It reveals a demand for logistics services that are affordable and reliable at the same time.

Launching incentive programmes to attract new market players providing logistics services could be a key enabler in the agriculture and food industries as well as in many other sectors.

## Morocco

With a GDP of \$109.1 billion in 2017<sup>63</sup>, Morocco is the fifth largest economy in Africa in purchasing power parity (PPP).<sup>64</sup> Services account for 56% of GDP, followed by industry (29.1%) and agriculture (14.8%).<sup>65</sup> Morocco's annual output growth has been higher since 2000, around 4.4% compared with 3% average growth between 1990 and 2000. Since 2000, services and agriculture have driven growth, with a respective annual growth rate of 5% and 4.5%, compared with an industry annual growth of 3.4%.<sup>66</sup>

Its location between the Mediterranean Sea and the Atlantic Ocean as well as proximity with Europe has contributed in making Morocco a regional trade hub for North, West and sub-Saharan Africa for logistics, assembly, and production. Its infrastructural development has facilitated the country's connection to global supply chains, notably in the case of automotive and aeronautic products.,

Morocco's infrastructure ranks first in the continent, according to the World Economic Forum Global Competitiveness Index.<sup>67</sup> Morocco has invested more than \$15 billion in transportation infrastructure between 2010 and 2015. Ports and maritime infrastructure prove to be key for the country's connection to the world, with 95% of trade going through waterways.<sup>68</sup> To strengthen the country's ability to trade, the government plans to invest EUR 500 million in the maritime infrastructure.<sup>69</sup> In terms of logistic performance, Morocco ranks 21<sup>st</sup> out of 50 countries in the 2018 emerging markets logistics index.<sup>70</sup>

Morocco's new investment initiatives, financial reforms, improving infrastructure and focus on sustainable economic development are expected to attract more international investment. In 2016, the Government of Morocco launched an initiative to establish special economic zones (SEZs) across the country.

These zones provide incentives including tax breaks, trade facilitation, recognition of indirect exporter status, as well as measures to encourage export-oriented and industrial companies.<sup>71</sup> The SEZs allow companies to enjoy lower tax rates in exchange for exporting at least 85% of their production.<sup>72</sup> The SEZs are expected to create clusters of industries, as they will be sector-focused so that firms operating in the same areas can create interdependent systems to strengthen manufacturing capabilities.

Morocco's participation in several regional trade agreements also opens up market opportunities for interested investors. Morocco holds trade agreements with Persian Gulf, Mediterranean and African countries as well as with the EU, the European Free Trade Association, and the United States, with this

<sup>63</sup> The World Bank Group, World Development Indicators: Structure of output, <http://wdi.worldbank.org/table/4.2>

<sup>64</sup> List of African countries by GDP (PPP). Wikipedia. Accessed on 12 October. [https://en.wikipedia.org/wiki/List\\_of\\_African\\_countries\\_by\\_GDP\\_\(PPP\)](https://en.wikipedia.org/wiki/List_of_African_countries_by_GDP_(PPP))

<sup>65</sup> Morocco. The World Factbook, Central Intelligence Agency. <https://www.cia.gov/library/publications/the-world-factbook/fields/2012.html>

<sup>66</sup> The World Bank Group. World Development Indicators: Growth of output, <http://wdi.worldbank.org/table/4.1>

<sup>67</sup> World Economic Forum. The Global Competitiveness Report 2017-2018. <http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf> cited in ITC. 2018, *Promoting SME competitiveness in Africa: Data for de-risking investment*, <http://www.intracen.org/publication/SME-Competitiveness-in-Africa/>

<sup>68</sup> Ministère de l'Équipement, du Transport et de la Logistique et de l'Eau. Marine Marchande en chiffres. Ministère de l'Équipement, du Transport et de la Logistique et de l'Eau. <http://www.equipement.gov.ma/maritime/Chiffes-cles/Pages/Marine-Marchande-en-Chiffres.aspx> cited in ITC. 2018. *Promoting SME competitiveness in Africa: Data for de-risking investment*. <http://www.intracen.org/publication/SME-Competitiveness-in-Africa/>

<sup>69</sup> *Ibid.*

<sup>70</sup> Agility. 2018. Agility Emerging Markets Logistics Index 2018. <https://www.agility.com/wp-content/uploads/2018/03/Agility-Emerging-Markets-Logistics-Index-2018.pdf>, cited in ITC. 2018. *Promoting SME competitiveness in Africa: Data for de-risking investment*. <http://www.intracen.org/publication/SME-Competitiveness-in-Africa/>

<sup>71</sup> Official news of the Ministry of Culture and Communication of the Kingdom of Morocco.

<http://www.maroc.ma/en/news/moroccos-investment-incentives-boost-economic-development-obg>

<sup>72</sup> Official release of US export strategy. <https://www.export.gov/article?id=Morocco-Industrial-Policies>

last agreement also covering trade in services.<sup>73</sup> The country has duty-free access to 55 countries representing more than 1 billion consumers and 60% of the world's GDP.<sup>74</sup>

The Moroccan Investment Development Agency administers a number of fiscal and non-fiscal incentives for investors. Main incentives fall under four pillars: public contributions to certain investment expenses through the Investment Promotion Fund; public contributions to certain expenses for the promotion of investment in specific industrial sectors and for the development of new technologies under the Hassan II Fund for Economic and Social Development; exemption from customs duties; and exemption from import value-added tax. A single investment project can benefit from these four advantages.<sup>75</sup>

### Bilateral trade and investment

China is Morocco's 10<sup>th</sup> largest export destination and the third largest source of imports, accounting for 2% of Morocco's exports and 8% of Morocco's imports. (Table 6).

Table 6 Top 10 export and import markets for Morocco (2017, \$ thousand)

Exports				Imports			
Rank	Country	Value	Share in total exports	Rank	Country	Value	Share in total Imports
1	Spain	7 091 796	25%	1	Spain	9 049 812	23%
2	France	5 624 473	20%	2	France	4 751 933	12%
3	United States	1 287 677	5%	<b>3</b>	<b>China</b>	<b>3 176 226</b>	<b>8%</b>
4	Germany	1 172 479	4%	4	Germany	2 400 920	6%
5	Italy	1 133 728	4%	5	United States	2 219 662	6%
6	Turkey	924 062	3%	6	Italy	2 110 690	5%
7	Brazil	867 653	3%	7	Turkey	1 660 587	4%
8	United Kingdom	849 800	3%	8	Netherlands	1 092 111	3%
9	India	774 104	3%	9	Belgium	1 003 953	3%
<b>10</b>	<b>China</b>	<b>650 597</b>	<b>2%</b>	10	United Kingdom	993 958	3%

Source: ITC Trade Map, mirror data.

Goods exported to China comprise radios, television and communication materials (almost 47%), apparel (29%), electrical machinery (9%), food and beverages (7%) and basic metals (2%).

Three sectors account for 75% of commercial services exports from Morocco to the world. These are travel (45%), transport (18%) and other business services (12%). Manufacturing services on physical inputs owned by others has been the third contributing sector in 2007, 2009 and 2010, representing between 15% and 17% of total commercial services exports.

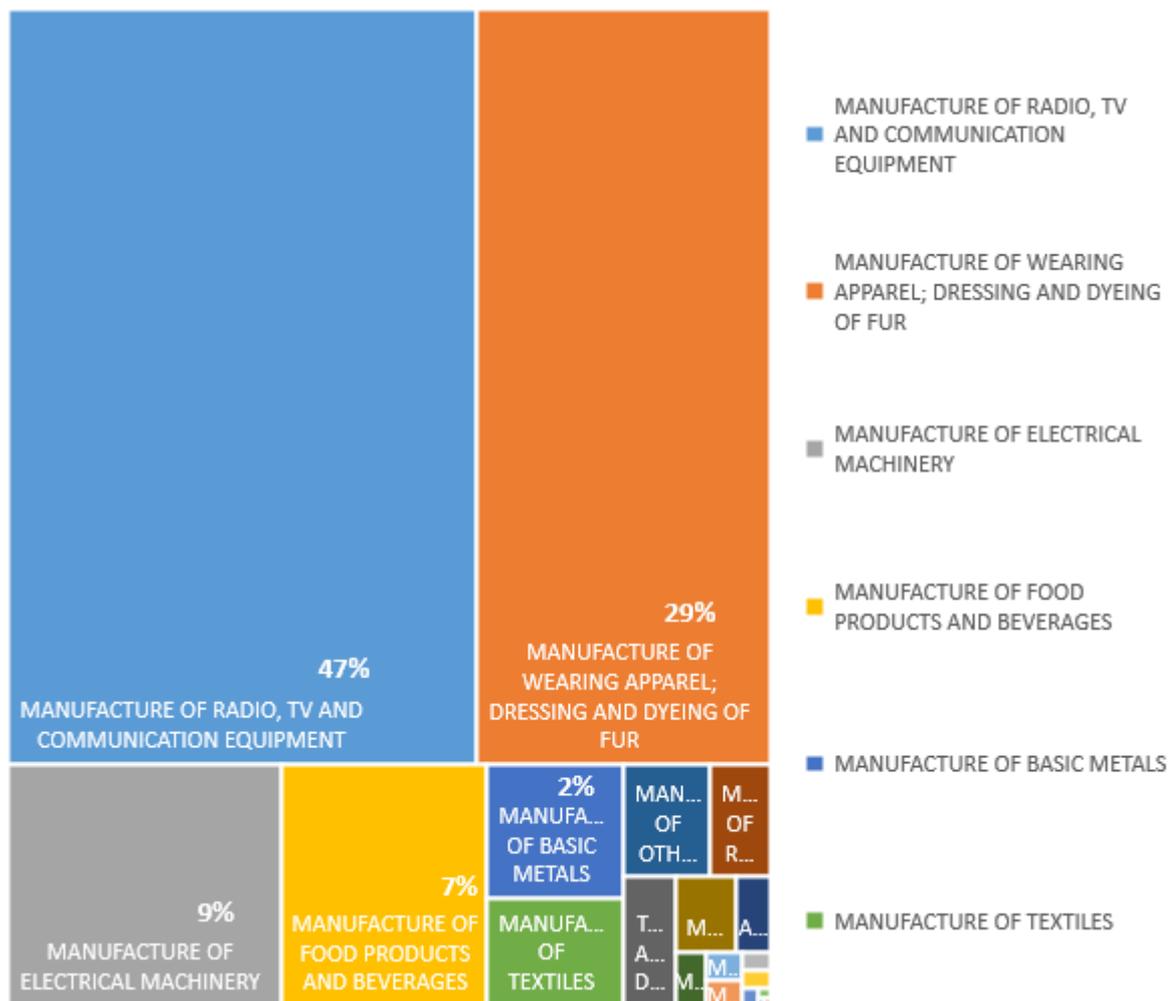
This might reflect Morocco's participation in value chains, with foreign inputs been further manufactured locally. Similarly, telecommunications, computer and information services have also been in the third place in 2014 and 2015, accounting for 10% of commercial services exports.

<sup>73</sup> WTO. RTA Database, <http://rtais.wto.org/UI/PublicAllRTAList.aspx>

<sup>74</sup> Morocco – Market entry strategy. <https://www.export.gov/article?id=Morocco-Market-Entry-Strategy> cited in ITC. 2018. *Promoting SME competitiveness in Africa: Data for de-risking investment*. <http://www.intracen.org/publication/SME-Competitiveness-in-Africa/>

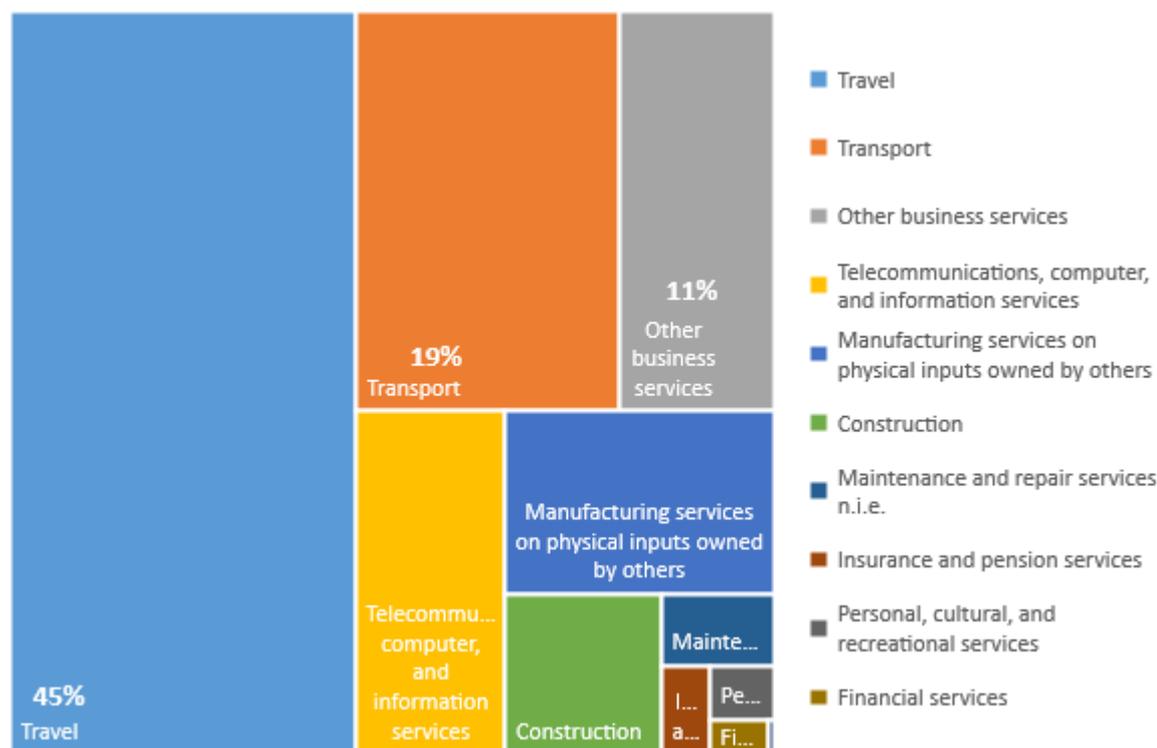
<sup>75</sup> Investment incentives, Invest in Morocco, sharing success. Accessed on 11 October 2018. <http://www.invest.gov.ma/?lang=en&id=20>

Figure 26 Morocco's top five exporting goods sectors to China in 2017, by percentage (extractive industries excluded)



Source: UN Comtrade.

Figure 27 Morocco's top three exporting services sectors to the world in 2017, by percentage



Source: WTO Trade Statistics.

Bilateral economic cooperation between China and Morocco has been growing steadily, especially after the establishment of a strategic partnership during the Moroccan king's visit to China in May 2016. The following month, Morocco launched visa initiatives, resulting in an increase of arrivals of Chinese tourists and business visitors.

Considering Morocco's strategic position along the New Silk Road Economic Belt, efforts have been made to increase the partnership even more. The American Enterprise Institute (AEI) estimates that Morocco has received \$1,910 million of investment from China and construction contracts worth over \$100 million since 2008. These are mainly in three sectors: transport, real estate and energy.<sup>76</sup> However, smaller investment operations, often led by private companies, also play a role and have implications for the host economy.

In 2016, Morocco and China signed an initial memorandum of understanding for building a new 2,000 hectare tech city near the northern city of Tangiers. The Mohammed VI Tangier Tech City is expected to provide 100,000 jobs and house 300,000 inhabitants. It will contain multiple industrial zones specializing in high-tech sectors including aeronautics, automobiles, telecommunications, renewable energy, and transport equipment. The \$10 billion project will be jointly financed by China's HAITE Group and Morocco's Banque Marocaine du Commerce Extérieur.<sup>77</sup>

Morocco Industry Minister Moulay Hafid El Alamy said the project is expected to attract investment from 200 multinational corporations. It is expected to be a major attraction for Chinese manufacturers, which are estimated to bring an additional \$10 billion worth of investments after the initial set-up costs.<sup>78</sup>

<sup>76</sup> AEI. China Global Investment Tracker. <http://www.aei.org/china-global-investment-tracker/>

<sup>77</sup> <https://www.reuters.com/article/us-morocco-economy-china/morocco-signs-preliminary-financing-agreement-for-10-billion-tech-city-idUSKBN16R2LN>

<sup>78</sup> <https://oxfordbusinessgroup.com/analysis/welcoming-environment-special-economic-zones-and-industrial-parks-are-attracting-more-sector>

Box 6 Chinese auto component maker to produce aluminium car wheels in Morocco

In July 2018, CITIC Dicastal, China's largest supplier for aluminium wheel and chassis components, concluded an EUR 350 million agreement to invest in building two factories in north Morocco. The first factory situated in the Atlantic Free Zone in Kenitra is planned to be in operation by 2019, constructed by the local corporation SGTM Maroc. It is estimated to generate 650 jobs locally. The second factory will be set in the Tangier Tech city at a later stage. The two factories aim to produce 6 million units annually, most of which will be exported, according to Morocco's industry, trade and investments ministry.

Investment incentives in industrial free zones and proximity to Europe as well as African markets are the main incentives for global car component makers to invest in Morocco. French carmakers Renault and Peugeot have set up factories in Tangier and Kenitra. The Republic of Korea's Hands Corporation invested to build an aluminium wheel plant in Tangier with an annual production capacity of 8 million units. The automotive sector is Morocco's largest industrial exporting sector.

**Source:** Chinese embassy in Morocco. News. Speech published.

<http://ma.chineseembassy.org/chn/xwdts/t1589827.htm>.

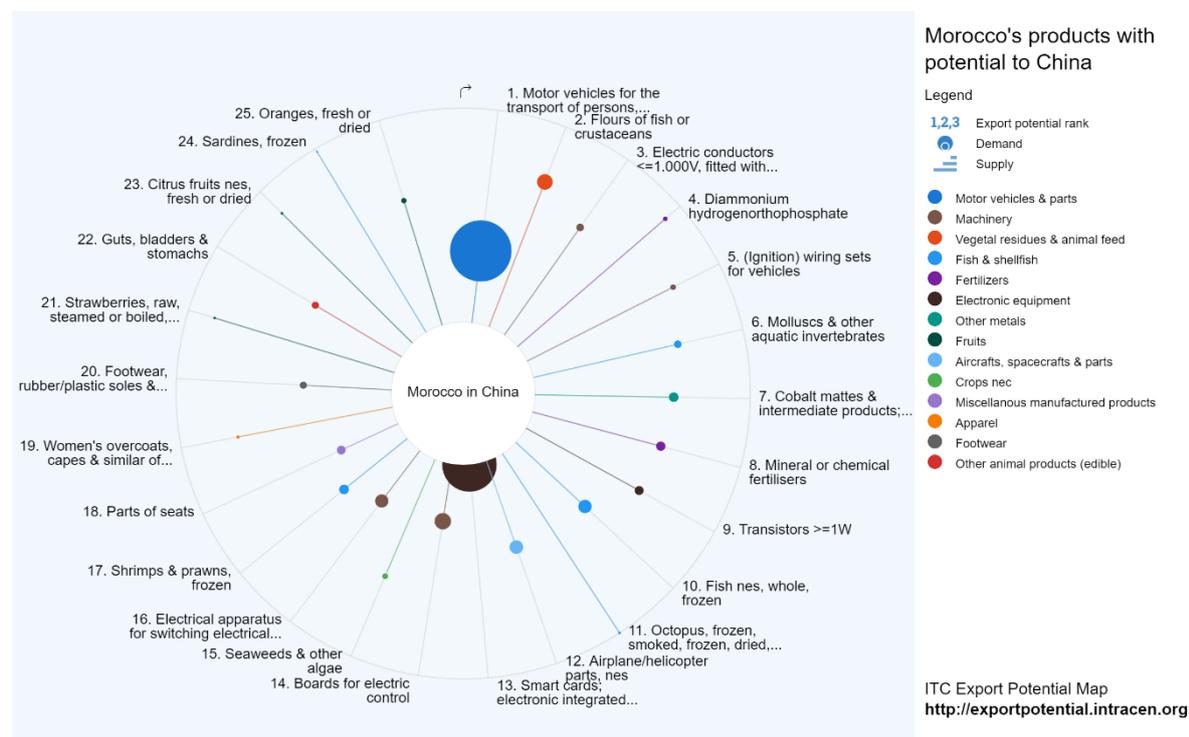
MOCOM news release. <http://ma.mofcom.gov.cn/article/jmxw/201809/20180902786494.shtml>.

Reuters Chinese news. <https://cn.reuters.com/article/citic-dicastal-morocco-plants-0727-idCNKBS1KH07Z>

The ITC Export Potential Map shows that motor vehicles represent the product with greatest export potential from Morocco to China, followed by flours of fish and electric conductors (Figure 28). This corresponds to increasing Chinese investment in car component production in Morocco.

Although it is not yet clear whether the newly established car wheel plants by CITIC Dicastal in Morocco will export also to the Chinese market, the rapid increase in Chinese investment into the sector suggest potential for future increases in exports.

Figure 28 Export potential opportunities from Morocco to China

**Notes:**

**Export potential and product diversification ranks** are based on: potential (or standard) export value based on supply, demand and market access conditions.

**Bubble size:** Projected import value (considering product-specific tariff and distance advantages)

**Line:** Projected market share (corrected for global tariff advantages and re-exports). The longer the line, the easier it is for the country to export such product.

**Source:** ITC Export Potential Map

### Electronics and metals: A new engine for Morocco's export growth

The manufacturing sector generates 30% of Moroccan GDP and 20% of employment.<sup>79</sup> As shown in trade flow analysis, Morocco's exports to China focus on metallic, electronic and electric products (MEE)<sup>80</sup>, a category featured in SME Competitiveness Survey data at the firm level.

The Association Marocaine des Conseillers à l'Export, under the umbrella of the Morocco Ministry of Industry, Trade, Investment and Digital Economy, carried out an ITC SME Competitiveness Survey in 2017. Enterprises were surveyed in five administrative regions of Morocco: Casablanca-Settat, Tangier-Tetouan-Al Hoceima, Souss-Massa, Rabat-Salé-Kénitra and Fes-Meknes.

The combined MEE sector accounts for 57.6% of all exported goods to China and includes the aeronautic and automotive sectors, which employ more than 100,000 people in Morocco. Being a fast-growing sector, sales have indeed increased by 25% for the aeronautic sector and 17% for the automotive sector between 2010 and 2016.<sup>81</sup> Motor vehicles also have great potential in terms of exports to China and the rest of the world, leaving room to realize additional exports worth \$1 billion.<sup>82</sup>

<sup>79</sup> World Bank: World Development Indicators

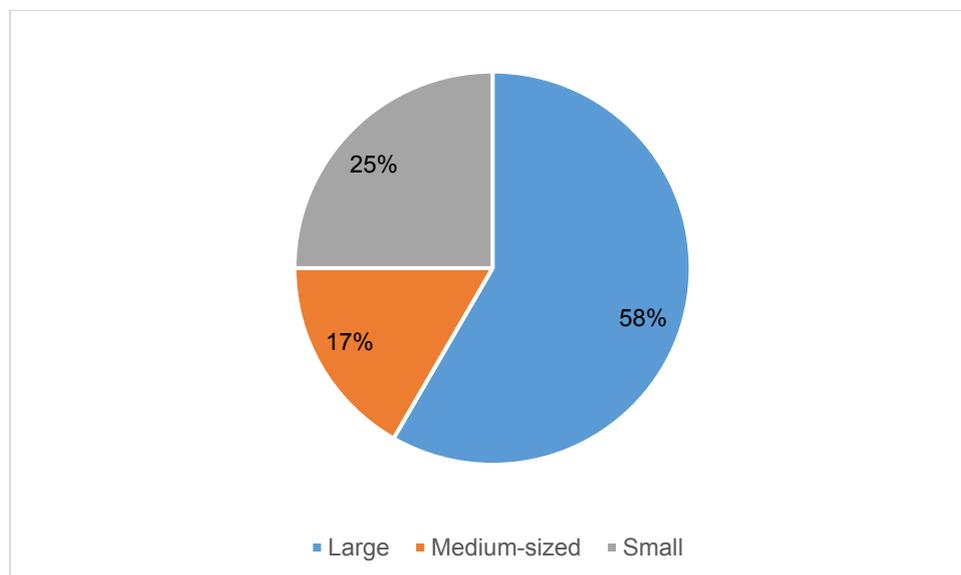
<sup>80</sup> ISIC 24-30

<sup>81</sup> MCINET. Accessed 3 May 2018 at <http://www.mcinet.gov.ma/fr/content/plan-d%E2%80%99acceleration-industrielle>

<sup>82</sup> ITC Export Potential Map

A majority of firms (58%) in the survey sample employ more than 250 workers and are thus large firms (Figure 29). However, a quarter of firms are small (17%) and 25% are medium in size. Half of sales income in MEE comes from foreign markets.

Figure 29 Size of surveyed firms in the MEE sector in Morocco



Source: ITC, SME Competitiveness Survey, Morocco (2017).

#### *The MEE sector performs well compared to other manufacturing subsectors*

Up to 92% of firms in the MEE sector report that their production exactly matches the demand in terms of quantity. Furthermore, 87% of goods are delivered on time and only 1% is lost during transit or storage. Most firms do not complain about the transportation networks and do not consider transport as an obstacle in their daily operations.

Fifty-eight per cent of MEE firms are members of sectoral associations, with 75% being large and medium in size.

Accessing skilled workers is not an obstacle for a majority of firms. Only 30% of the surveyed companies report having difficulties in this regard. Furthermore, firms are well organized to counter any lack of skills, since 83% offer formal training to their employees.

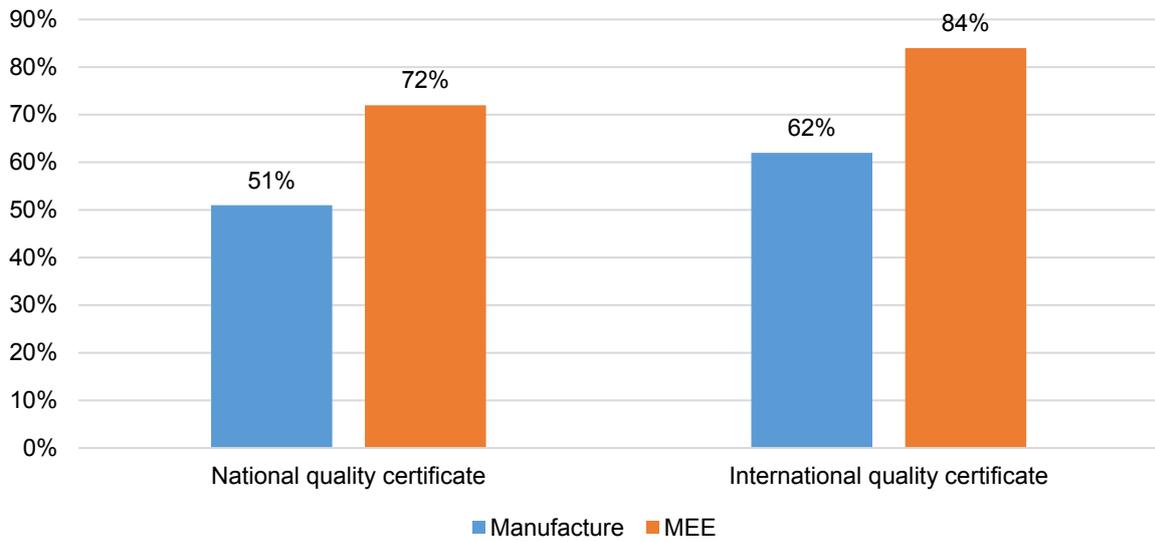
Foreign investors can leverage on a well-functioning and competitive sector that anticipates smooth operations as firms are very good at complying with delivery requirements, well integrated into transportation networks, connected to sectoral associations, and skilled in the MEE sector.

#### *The rate of internationally certified firms is high*

Firms in the MEE sector hold more certificates than other manufacturing sectors. Indeed, 72% of surveyed MEE firms hold a nationally recognized quality certificate (against 51% in other manufacturing sectors) and 84% hold an internationally recognized certificate (against 62%) (Figure 30).

More specifically, 63% of surveyed firms are certified ISO 9001, implying that a quality management system is present. In addition, about a quarter of firms hold an ISO/TS 16949 certificate for quality management emphasizing defect prevention and reduction of variation and waste in the automotive supply chain. Meanwhile, 15% of firms have an ISO 14001 certificate on environmental management system, as they are committed to reduce their environmental impact.

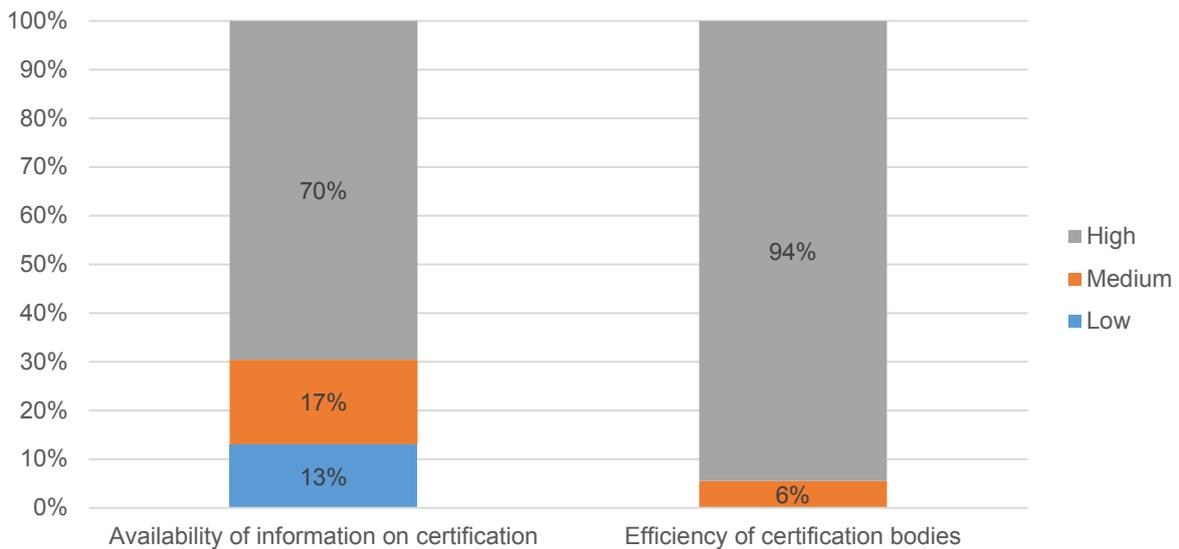
Figure 30 Percentage of Moroccan firms with national and international quality certificates in the MEE sector versus other manufacturers



Source: ITC, SME Competitiveness Survey, Morocco (2017).

The high prevalence of certification can be explained by the importance of high technologies in the sector's activities. Furthermore, the ecosystem appears to foster certification as the availability of information on standards is rated high by 70% of firms in the MEE and 94% find that certification bodies are highly efficient (Figure 31).

Figure 31 Availability of information and quality of certification bodies in the MEE sector in Morocco



Source: ITC, SME Competitiveness Survey, Morocco (2017).

While the MEE sector is the biggest exporter of goods to China and has the greatest potential in terms of untapped exports, the quality of its production is signalled by extensive certification. Foreign investors can rely on Morocco's quality in MEE products and easily assess quality standards by checking for certified firms.

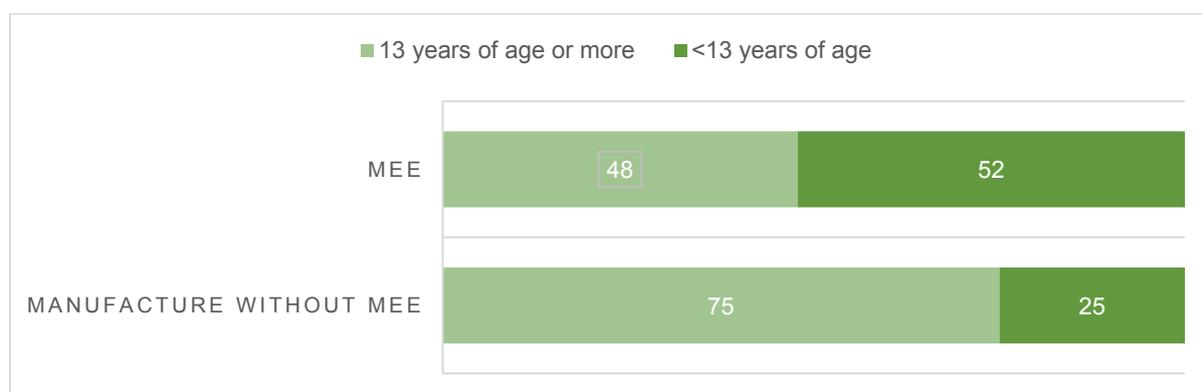
The sector's competitive strategy is to offer high-quality products, rather than high quantities and low-price products. More than two-thirds of surveyed MEE enterprises base their competitive strategy on offering high-quality products. As part of the Industrial Acceleration Plan, the Government of Morocco is pushing the industry to take a bigger proportion of the value chain and to export high value-added goods.<sup>83</sup>

This allows Moroccan MEE firms to have more negotiating power as 40% say they can affect prices to a large extent and 52% claim they can influence non-price components of contracts. However, most of these firms consider the market to be competitive (33%) or very competitive (36%). Businesses whose competitive strategy is to sell high-quality goods apparently face less competition, which gives them more influence over prices than firms supplying large quantities.

*The MEE sector is young and dynamic*

Most MEE surveyed firms (52%) have been established after 2005 and are relatively young. In other manufacturing sectors, this proportion is only 25%. Furthermore, 8% of senior managers are less than 35 years old in MEE, against 4% in other manufacturing sectors. Youth leadership could be an explanation for the sector's dynamism.

Figure 32 Age of firms in the MEE sector versus other manufacturers in Morocco



Source: ITC, SME Competitiveness Survey, Morocco (2017).

<sup>83</sup> <http://www.mcinet.gov.ma/fr/content/plan-d%E2%80%99acc%C3%A9ration-industrielle-2014-2020>. Accessed 24 September 2018

## Zambia

Zambia is strategically positioned at the intersection of the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC), with a combined population of more than 500 million.<sup>84</sup>

Zambia is well-known for its copper, with 1.9 million tons of copper in reserve, accounting for 6% of the global total. Zambia is the fourth largest producer of copper in the world and the second largest in Africa. It is also the world's largest producer of cobalt.

To diversify its economy, the Government of Zambia has made consistent efforts to improve the business environment and attract investment into agriculture, manufacturing and tourism sectors. In 2015, it ranked 7<sup>th</sup> among the African countries in terms of the business environment by the Forbes magazine.

The Zambia Development Agency (ZDA) acts as a one-stop shop for international investors. According to the Zambia Development Act enacted in 2006 and revised in 2014, investment thresholds need to be met to qualify for fiscal and non-fiscal incentives, and they could apply to new or existing expansion projects.<sup>85</sup>

Fiscal incentives are available for investments of \$500,000 and above in a multi-facility economic zone, an industrial park, a priority sector or in a rural enterprise. Fiscal incentives include 0% tax rate on dividends for five years, zero percent tax rate on profits for five years, and exemption from import duties on capital goods, machinery and specialized motor vehicles for five years.

For investments of no less than \$250,000, non-fiscal incentives are provided. These include protection against state nationalization and free facilitation for application of immigration permits, secondary licenses, land acquisition and utilities.<sup>86</sup> As Africa's leading producer of copper and cobalt, there are specific investment incentives in this sector, including a debt to equity ratio reduced from 2:1 to 3:1.<sup>87</sup>

### Bilateral trade and investment

China is Zambia's largest export destination and the second largest source of imports, accounting for 45% of Zambia's exports and 16% of Zambia's imports. (Table 7).

Zambia's goods exports to China are dominated by manufacture of basic metals (98%), notably copper (Figure 33). The sectors that follow in weight in bilateral trade flows from Zambia are agriculture and hunting (2%), manufacture of wood and products of wood and cork (0.1%), tanning and dressing of leather (0.03%), and manufacture of furniture (0.03%).

Three services sectors dominate Zambia's export of commercial services to the world: travel (77%), insurance and pension services (10%), and transport (4%) (Figure 34). The relevance of insurance and pension services in overall services exports is noticeable in relative terms since 2012.

Before that year, the composition of Zambian commercial services exports was dominated by travel with over 80%, then followed by transport (between 4% and 8% depending on the year) and telecommunication, computer and information services (around 4%).

<sup>84</sup> ITC. PIGA Investment Opportunity Study for Ethiopia, Kenya, Mozambique and Zambia, [http://www.intracen.org/uploadedFiles/intracenorg/Content/Redesign/Projects/PIGA/PIGA\\_Investment%20opportunity%20study\\_final.pdf](http://www.intracen.org/uploadedFiles/intracenorg/Content/Redesign/Projects/PIGA/PIGA_Investment%20opportunity%20study_final.pdf)

<sup>85</sup> Investment Incentives, Zambia Investment and Business. Accessed on 11 October 2018. <http://www.zda.org.zm/cost/en/Investment/Investment%20Climate/Investment%20Incentives>

<sup>86</sup> *Ibid.*

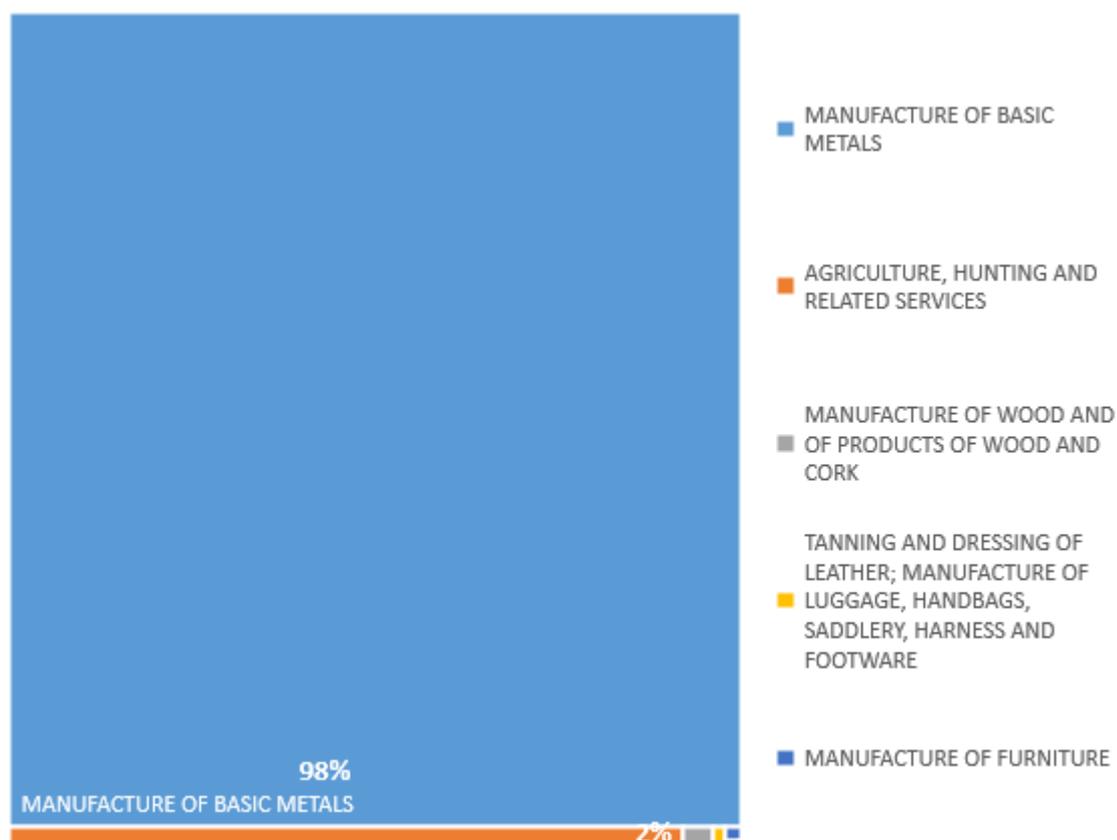
<sup>87</sup> Mining sector, Zambia Development Agency. Accessed on 12 October 2018. <http://www.zda.org.zm/?q=content/mining-sector>

Table 7 Top 10 export and import markets for Zambia (2017, \$ thousand)

Exports				Imports			
Rank	Country	Value	Share in total exports	Rank	Country	Value	Share in total imports
1	<b>China</b>	<b>3 122 754</b>	<b>45%</b>	1	South Africa	2 246 904	51%
2	India	953 308	14%	2	<b>China</b>	<b>709 468</b>	<b>16%</b>
3	United Arab Emirates	463 952	7%	3	India	257 635	6%
4	Namibia	321 461	5%	4	Namibia	191 389	4%
5	South Africa	222 318	3%	5	United Arab Emirates	91 758	2%
6	Korea, Republic of	183 985	3%	6	United States	85 149	2%
7	Japan	179 215	3%	7	United Kingdom	77 216	2%
8	Egypt	171 544	2%	8	Germany	71 235	2%
9	Belgium	157 396	2%	9	Hong Kong, China	61 172	1%
10	Thailand	119 656	2%	10	Netherlands	58 959	1%

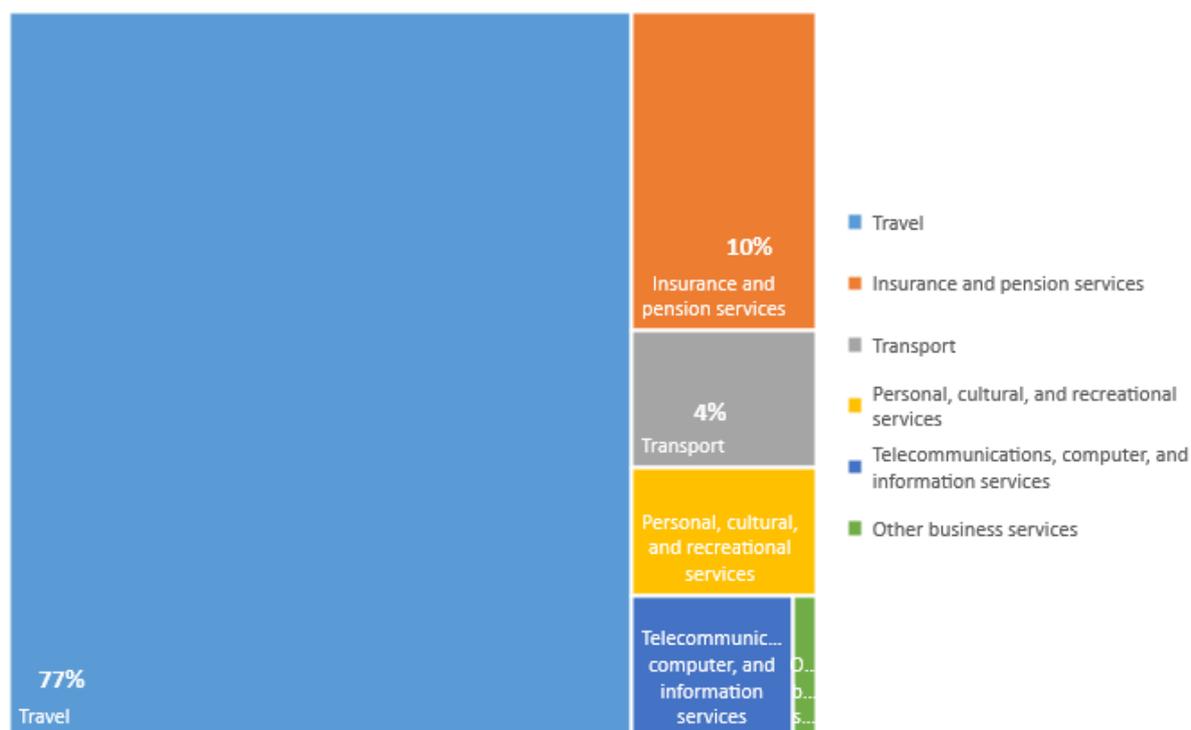
Source: ITC Trade Map, mirror data.

Figure 33 Zambia's top five exporting goods sectors to China in 2017, by percentage (extractive industries excluded)



Source: UN Comtrade.

Figure 34 Zambia's top three exporting commercial services sectors to the world in 2016, by percentage



Source: WTO Trade Statistics.

By the end of 2015, total Chinese investment in Zambia amount to \$3.6 billion. More than 600 Chinese-invested companies operate in Zambia, in a wide range of sectors from mining and construction to manufacturing, tourism, agriculture and services.

Chinese-invested companies are estimated to employ over 50,000 Zambians on a long-term basis. Zambia-China economic and trade cooperation, which used to focus on copper production, is making an effort to shift towards developing a modern air transportation hub, trade and logistics services, manufacturing, agriculture and real-estate.<sup>88</sup>

### Business and logistics in Zambia: Servicing the transformation

Services contribute to around 57% of Zambian GDP and 35% of employment, according to 2016 figures. The tertiary sector is gaining economic relevance, having grown by 8.6% annually during 2000–2017, at a higher rate than the 3% average annual growth of the previous decade. Moreover, services have increased their contribution to employment by 15% compared to 2006.<sup>89</sup>

The Zambian Central Statistical Office, under the supervision of the Zambia Development Agency, carried out the ITC SME Competitiveness Survey in 2018. The survey sample includes firms operating in business and logistics services<sup>90</sup> from Central Zambia (9%), Copperbelt (17%) and Lusaka (74%). Most firms are micro or small-sized (87%), i.e. employing less than 20 people (Figure 35). Surveyed enterprises are mainly active in the domestic market, with only 2.5% of companies exporting.

<sup>88</sup> [http://www.chinainvestment.com.cn/type\\_rdt/6863.html](http://www.chinainvestment.com.cn/type_rdt/6863.html)

<sup>89</sup> World Bank, World Development Indicators

<sup>90</sup> ISIC 49-85

**Box 7** Young entrepreneur develops e-payment solutions in Zambia

Bright Chiyundu, a young entrepreneur from Zambia, started his e-payment company BroadPay in 2015 to provide electronic payment services to those who have no bank accounts. In June 2018, Bright joined Alibaba's eFounders Fellowship. Along with 28 entrepreneurs from 11 African countries, Bright came to Alibaba's headquarter in Hangzhou to learn how the Chinese tech giant is doing e-payment and e-commerce. This joint initiative with UNCTAD aims to provide training for 200 young African entrepreneurs to learn in Alibaba's Hangzhou headquarters.

Bright's first job in Zambia was at Huawei, a Chinese telecommunication company in Africa, as a system engineer. When working at Huawei, he noticed Chinese colleagues used an app called Alipay to transfer money to their family and friends back in China. Bright quickly saw e-payment as a great business opportunity as 60% of Zambia's population don't yet have bank accounts, but over 80% own mobile phones. Telecom companies are already providing transfer services via text messages, but only within their own network. Bright's ambition is to provide an easy solution that can make payment across the networks securely and instantly.

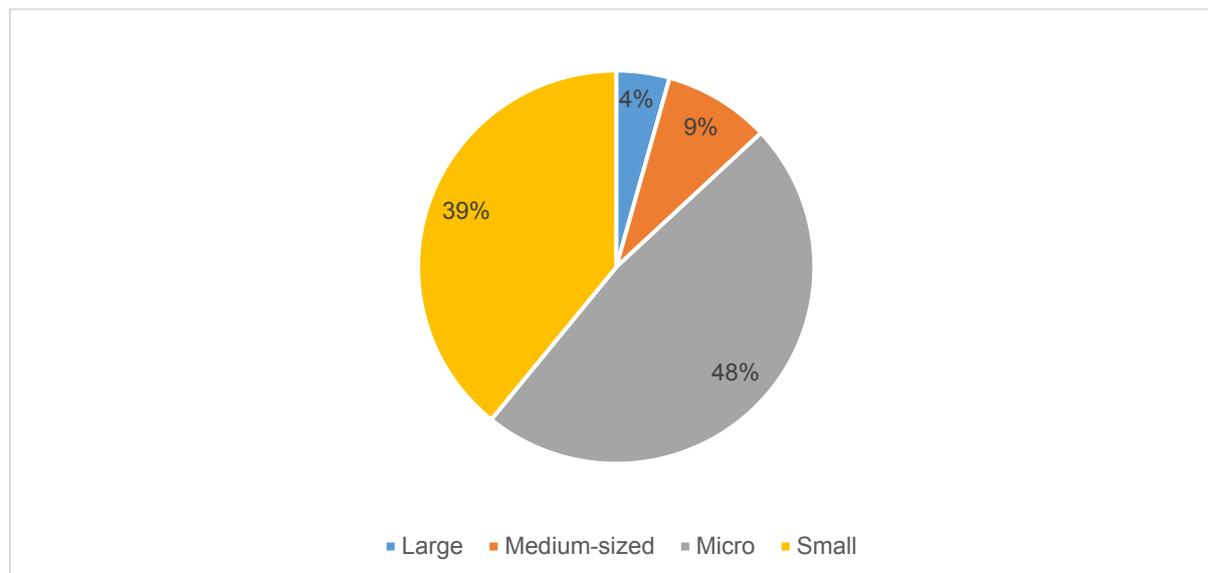
'At first, I just wanted to bring services to those without a bank card. But after I have my app, a new problem popped up: how can people get used to the new way of paying when they are so accustomed to using cash?' Bright found that the rural Zambian grocery stores were the answer. 'Owners of grocery stores are familiar with nearby villagers and know how to sell goods to them'. Bright negotiated with the grocery store owners and granted them a commission after each BroadPay payment. In this way, his company attracted over 2,000 grocery stores to its app, and these owners, in turn, taught the villagers how to use the app, creating 100,000 transactions via BroadPay.

Bright says that the visit to Alibaba inspired him with new ideas. 'I knew about Taobao and Alipay, but only after I actually sat in the Alibaba office building did I realize that behind them is such a huge operation. The company has built a whole ecosystem around it, from e-commerce to logistics to even media and entertainment'.

**Source:**

[http://www.chinatoday.com.cn/ctenglish/2018/tpxw/201808/t20180829\\_800139430.html](http://www.chinatoday.com.cn/ctenglish/2018/tpxw/201808/t20180829_800139430.html)  
<https://www.jianshu.com/p/fee9b6971832>

**Figure 35** Size of surveyed firms in the business and logistic services in Zambia



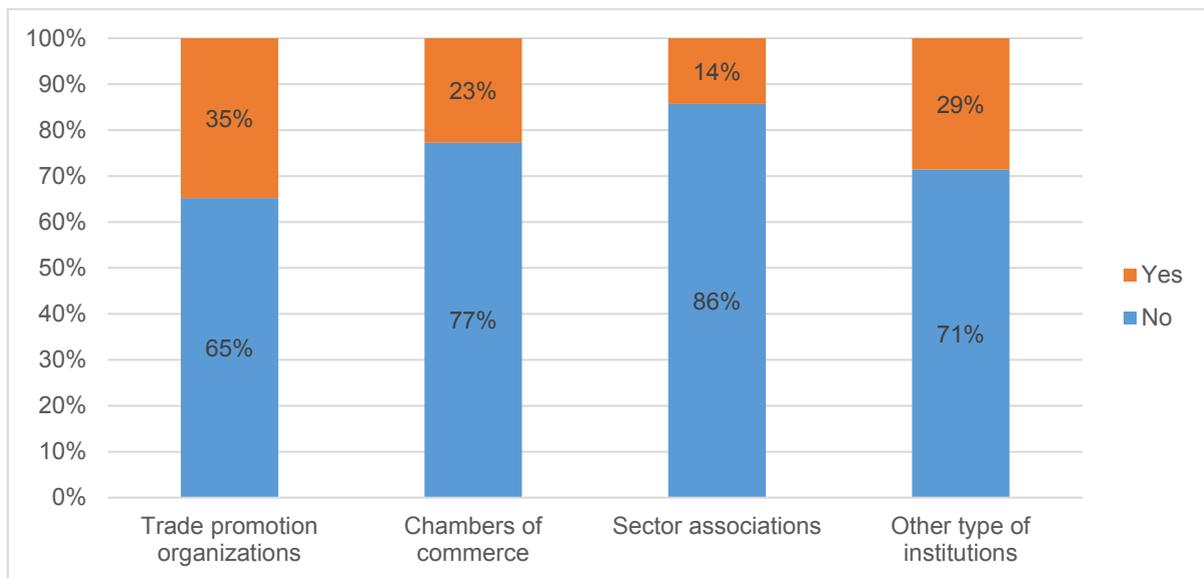
**Source:** ITC, SME Competitiveness Survey, Zambia (2018).

*Firms could benefit from better linkages with business sector institutions*

Zambian firms operating in business and logistics services could benefit from better linkages with institutions. As illustrated in Figure 35, so far only a few engage actively with business support institutions such as trade promotion organizations (35%), chambers of commerce (23%) and sector associations (14%).

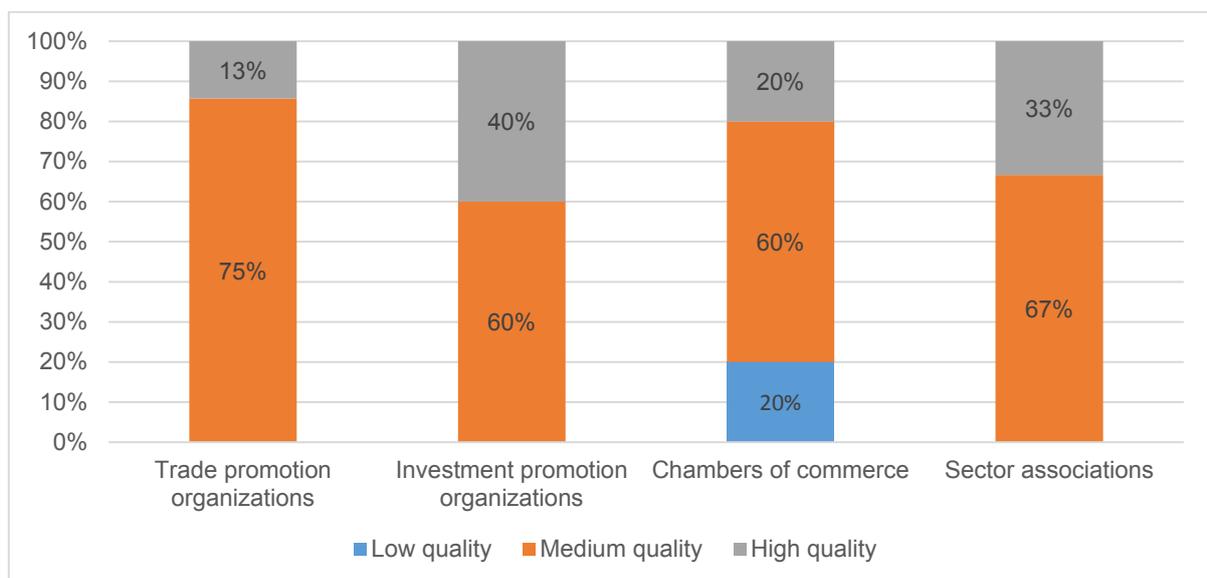
However, most firms consider the quality of these institutions as acceptable (Figure 36), even though some firms report lengthy procedures, unnecessary red tape and lack of information as challenges.

Figure 36 Firms' engagement with business institutions in Zambia



Source: SME Competitiveness Survey, Zambia (2018).

Figure 37 The quality of services provided by institutions in Zambia



Note: The questions were worded as follows: 'Please rate the quality of services provided by the following institutions'

Source: SME Competitiveness Survey, Zambia (2018).

Given the low number of exporters in the sample, the low engagement with institutions is not surprising. Institutions could probably be more involved with existing import/exporting companies, including Chinese-invested trading companies, to which they can provide market intelligence, technical assistance for certification and support to participate in trade fairs, among other activities.

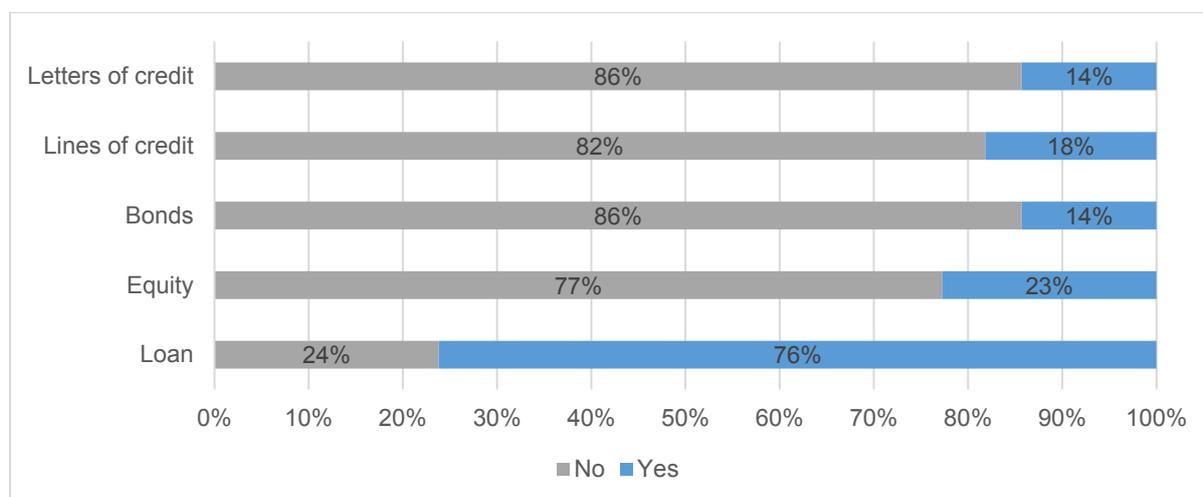
*Firms have the supply capacity to deal with more demand*

Firms hold the potential to expand their production. On average, they report that they could increase their output by 45% without having to increase available resources. Opening trade doors, including through investment, would allow firms to benefit from a larger demand, to which they should be able to adapt quite easily.

This finding is consistent with the fact that firms meet deadlines by delivering most services (82%) on time. Nevertheless, surveyed firms report that it is difficult to get financing, which is an issue when having to meet cost and quantity requirements. More than three-quarters of surveyed firms are in need of a loan (Figure 38), while more sophisticated financing methods are not in high need. They report high interest rates and high collateral requirements, which limit access to credit, notably for SMEs.

Foreign investors, including trading and financing companies from China, could play a role in providing better access to finance to the local business and logistics companies. This could be done by different means, from timely or advance payment for their services, long-term partnership agreements, integrating local firms into the supply chain, or directly investing into the business and logistics companies for the benefit of efficiency of the supply chain.

Figure 38 Financing needs of Zambian firms, by form of financing



Note: Answers correspond to the question “Is this establishment in need of any of the following forms of financing?”

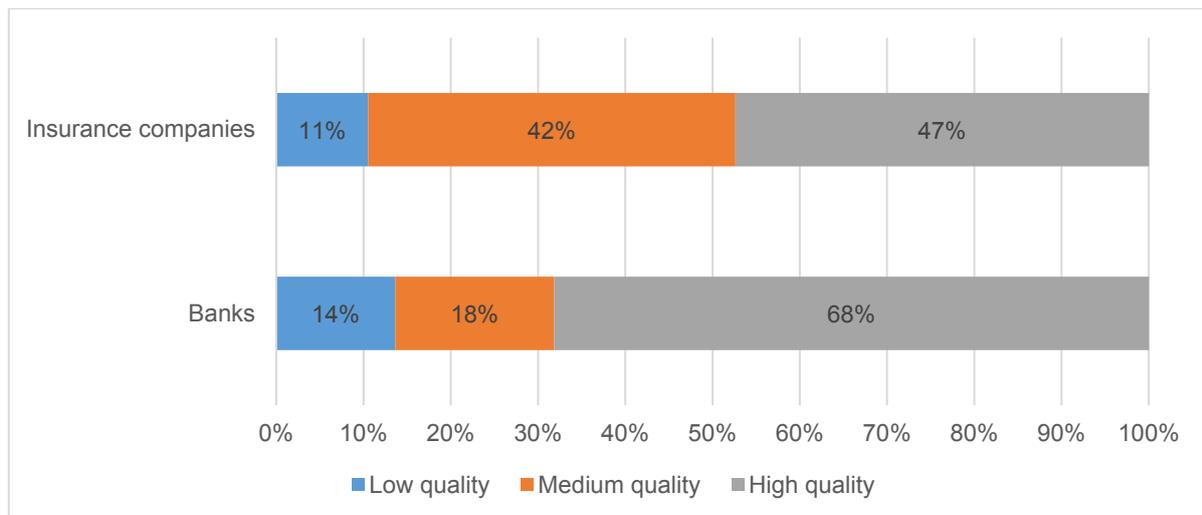
Source: ITC, SME Competitiveness Survey, Zambia (2018).

### Enterprises profit from good access to financial services

Regarding financial requirements, all surveyed firms have a bank account, which is separate from their personal accounts. Most are able to manage their cash flow to reliably execute payments (78%) and are capable to present a fully costed business plan to a bank for the purposes of getting a loan (83%).

This can be demonstrated by the quality of firms' records: 87% keep records of revenues, 91% record expenses, 70% record liabilities and 91% record assets. Moreover, financial institutions provide good quality services. Sixty-eight per cent of firms in the sample rank banks' services as high quality, while 47% do so with respect to insurance companies (Figure 39).

Figure 39 Quality of financial institutions in Zambia



Source: ITC, SME Competitiveness Survey, Zambia (2018).

## CHAPTER 3 RECOMMENDATIONS

### *Africa offers trade and investment opportunities for Chinese investors*

China is among the top ten trade partners for all five countries, and the largest trade partner for Ghana, the Gambia and Zambia, both in term of imports and exports. For Kenya and Morocco, there is an observable trade imbalance with China exporting more to these countries than importing from them.

With improving infrastructure, Kenya has potential to increase trade in agricultural products with China, notably in black tea, leather, coconut, frozen fish, nuts, flowers, beer and vegetable products. Morocco has potential to expand exports of motor vehicle related products and electronic products to China. Increased private investment from China to Africa may strengthen trade ties.

Chinese private investment is already active in Africa, mostly in manufacturing, services, trade and real estate. Offshoring of labour-intensive production such as textiles and electronic manufacturing from China might represent a unique opportunity for Africa to develop its manufacturing capacity. It also offers opportunities to Chinese companies to tap into new markets and benefit from reduced transportation costs by being close to sources of inputs as well as consumer markets.

### *Chinese private firms in Africa need to build more partnerships with local firms and source from local suppliers*

Unlike state-owned companies that focus on infrastructure, energy and resource sectors, private companies engage in a diverse range of sectors and thus require much more interaction with the local firms and business ecosystems. Inadequate sourcing from local firms represent lost business opportunities for both investors and local firms and is a challenge for sustainable business growth. Finding accurate and timely information about the competitiveness and capacity of local firms is a challenge. The ITC SME Competitiveness Survey data can address this challenge through offering insights on firm capabilities and the business ecosystem.

In general, SMEs in the surveyed countries are reliable in terms of meeting delivery deadlines. In most cases, they are well connected to consumers, institutions and the local business ecosystem. Building partnerships and sourcing from local firms will help foreign investors to integrate more easily into the local market and at a lower cost.

### *Transportation and logistics services are improving but more needs to be done*

China's investment in infrastructure, notably through the Belt and Road Initiative, has contributed significantly towards the improvement of infrastructure in the African continent. Transportation and logistics costs are expected to be further reduced, as infrastructure projects are implemented. This will result in more trade and opportunities and contribute to the overall efficiency of the African economies.

Overall, SMEs in the surveyed countries find the quality of infrastructure to be good, although the high cost was seen as a constraint. Reduced transportation costs will improve trade in agricultural products, which rely on transportation. Kenya may benefit from more agricultural trade with China, to address trade imbalances and diversify its export.

### *Investing in Africa may help Chinese firms explore new markets*

Untapped market potential in Africa is an attractive point for investment, as the continent is expected to become a new global growth centre. Companies could benefit from savings on transportation costs by being close to sources of production and market demand. Regional integration processes as well as rapid growth of population and economy of the continent will present increasing local and regional market opportunities to foreign investors.

For certain industries, such as textiles, investing in Africa could open doors to the EU and United States markets through preferential access treatment granted under preferential trade agreements, which remains largely underutilized. Other sectors, such as automobile parts produced in Morocco, could benefit from proximity to the EU market.

### *Addressing SME challenges could help investors gain more opportunities in the long run*

SMEs in Africa still face many challenges, including access to finance, improving international certification rate, developing skills and R&D capacities, among others. Addressing these challenges could help foreign investors secure more competitive local business partners and suppliers. These investments will pay back in the long term, for example, investing in R&D and skills development, meeting international standards, vocational training and helping SMEs to acquire certification will help improve competitiveness of local firms and become more reliable business partners as well as develop the local market.

### *Investing into youth development and entrepreneurship*

The digital economy in Africa is rapidly evolving with the rest of the world. Digital trade transcends geographical restrictions and represent a significant business opportunity for a continent with the youngest population. African SMEs are young and dynamic, especially in sectors such as ICT. Tech firms have more senior managers under 35 years old (as seen in the case of the Gambia), and they are more responsive to new ideas and market developments.

Chinese private firms are already active in the ICT sector, as large tech companies form partnerships to provide telecommunication and cloud computing services. ICT products and services show potential for further expansion, especially in software development and other value-added tasks. Investing in R&D and training of local professionals will provide foreign companies with better access to the local talent pool.

### *Improved access to finance helps scaling up of local firms*

Access to finance is a common challenge for SMEs across the surveyed African countries. Foreign investors, including investors from China, could play a role in providing better access to finance. This could be done through diverse means, from timely or advance payment for their services, long-term partnership agreements, integrating local firms into the supply chain, or directly investing into the business for the benefit of efficiency of the supply chain.

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