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Three reasons why Africa's digital future is deeply intertwined with China

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Chinese influence over Africa's digital economy has grown rapidly with no sign of slowing, extending beyond infrastructure investments to reshaping entire business models. LSE Fellow Dr Shirley Yu outlines three reasons why Africa's digital future is intertwined with China and what this means for the continent's industrial development.

This is the first in a new series exploring the deepening economic interconnectedness of Africa and China.

James Kimonyo, the Rwandan ambassador to China, stepped into a social media **livestream studio** for online shopping in Beijing at the height of the COVID-19 crisis in June 2020. He sold 1.5 tons of Rwandan coffee beans in a single second, a record that would normally take a year to breach in China. Kimonyo was an **instant Rwandan sensation** who had discovered a new-found market on the global digital frontier. Other African ambassadors in China subsequently joined the many competing livestream shopping channels on the back of Rwanda's success.

Africa's exports to China **grew 98%** between April 2018 to March 2019, according to e-commerce giant Alibaba. In the first half of 2020, Ethiopia's e-commerce trade with China doubled, and Togo's tripled. For the 33 least developed African countries China has diplomatic relations with, China imposed zero tariffs on 97% of their imports.

Africa is ready to ride the 21st century digital wave to reset the industrial-era development disparity. The continent is inhabited by a population with a median age of **19.7 years** and boasts 300 million middle class citizens. **Nearly half a billion people** have been wired on mobile phone services in sub-Saharan Africa since 2019. Africa's mobile penetration reached 80% in 2018 and remains the world's fastest growing smartphone market.

Yet the continent needs to find untapped global demand for its existing outputs, primarily agricultural and increasingly industrial. With a young and smartphone-empowered generation, digital entrepreneurship has the potential to flourish and bring the world's markets to its shores. This creates not only incremental markets but also jobs, training and learning, followed by more investments – therefore, the cycles of demand-induced economic growth.

But prerequisites are required for these economic conditions, particularly Africa's digital ecosystem and infrastructure, which are intimately intertwined with China. Here's why.

1. Telecom infrastructure

Of all smartphones sold in Africa, **49% were Chinese** at the end of 2019, and of every 10 smartphones sold in Africa, four were from one Chinese company, Transsion. But more than phones themselves, Africa needs a robust telecom infrastructure to enable the ubiquity and reliability of mobile coverage.

China, under its signature Digital Silk Road initiative (digital Belt and Road, or DBAR), is soon to complete the 12,000km **PEACE** (Pakistan East Africa Connecting Europe) submarine cable connecting China across Eurasia and along East Africa. PEACE extends from Pakistan through to Djibouti, Kenya and along the East Africa coast to South Africa. Run by China's Hengtong Group, and constructed by Huawei Marine, PEACE will offer the world's fastest cable network with low-cost transmission, levelling Africa's digital infrastructure in unprecedented ways with its developed Eurasian neighbours.

2. E-commerce ecosystems

Empowered by the growing digital infrastructure, Africa's e-commerce platforms have grown, borrowing a Chinese digital ecosystem experience: e-commerce platforms are increasingly married to mobile payments, a Chinese fintech solution ideal for a continent on which 20th century commercial banking has little presence.

Moreover, Alibaba's **Electronic World Trade Platform** (EWTP), designed to foster a world trade organisation for the digital economy, has established hubs in Rwanda and Ethiopia. Facilitating more than China's vast markets, Alibaba has brought to Africa a unique Chinese model for the digital economy, which includes the integration of e-commerce, digital payments, logistics management and digital entrepreneurship training.

Chinese e-commerce platforms have also migrated to Africa, investing and competing directly in the marketplace. Three e-commerce platforms in Kenya where the PEACE cable is connected – Kilimall, Chinabuy and Amanbo – are all founded by Chinese companies.

Additionally, by partnering with such African companies as Ecobank and Equity Bank, China-based WeChat Pay, Alipay and Union Pay have turned indigenous, supporting the rise of fintech and financial inclusion.

3. Logistics infrastructure

The efficiency of e-commerce requires robust logistics infrastructures for the online sale of physical products or services. Notably, **50-75%** of the current retail sales value is attributable to the continent's logistics.

In a vast continent where many languages are spoken, and where many nations impose tariff and non-tariff barriers to trade, the cost of mobility is clearly high. In the World Bank logistics performance index, sub-Saharan Africa ranked at the bottom of all regional economies in 2018. For this reason, the 54-member AFCFTA free trade area plans to **remove 90% of bilateral tariffs** across member countries by 2030, which is forecast to increase Africa's intra-continental trade by 52%.

Africa's innovators are empowering transportation with smart logistics solutions, thanks to the potential unleashed by the growing telecommunications infrastructure. Inspired by China's vibrant same-city delivery services, Nigeria's Max.ng and Kenya's **Sendy** have launched motorcycle deliveries that match individuals or companies looking to dispatch packages, with the latter engaging tricycles, trucks or any excess transportation capacities.

Drones have also been adopted in deliveries for products ranging from consumer goods to emergency blood. In Kenya, Astral Aerial Solution employs drones for 'last mile' commercial logistics for hard-to-reach remote areas. Dominating the world's commercial drone manufacturing, Chinese company DJI alone takes up 70% of the **global commercial drone market share** and is making inroads into Africa.

While China enables and transforms Africa's digital aspirations, the economic levelling-up experience the continent seeks to achieve is not without concerns. When China stepped into the digital era in the early 2000s, it had completed the second industrial revolution and began to boast itself as the World's Factory for business seeking cheap labour.

Africa, fully embracing what is known as the fourth industrial revolution empowered by digital connectivity, must also create strong industrial and manufacturing capacity. To avoid the hollowing of manufacturing, the continent must move through the second, third and fourth waves of industrial revolutions concurrently. Without owning robust industrial supply chains, the digital economy will be confined to selling primitive and low value-added goods. Africa must ensure it becomes not only rich but also strong.

*This is the first in a new series exploring the deepening economic interconnectedness of Africa and China, based on work at LSE's **Firoz Lalji Centre for Africa**.*

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