

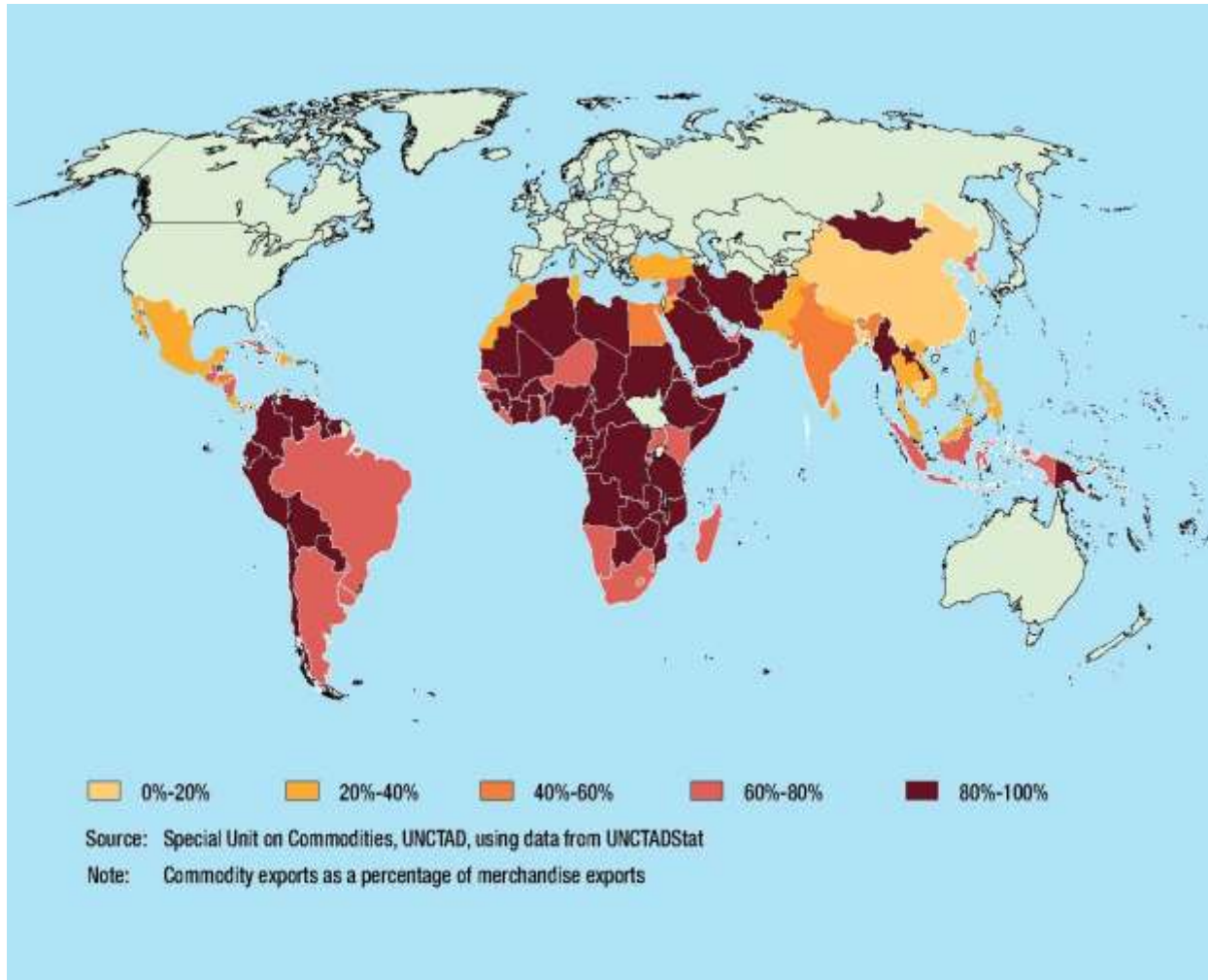
The CFTA and Industrial Policy: Minerals and the AMV

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Colloquium on the Continental Free Trade Area:
Internal Coherence and External Threats

29th February – 3rd March Accra

DEVELOPING COUNTRY DEPENDENCY ON COMMODITIES 2011-2013 (UNCTAD)

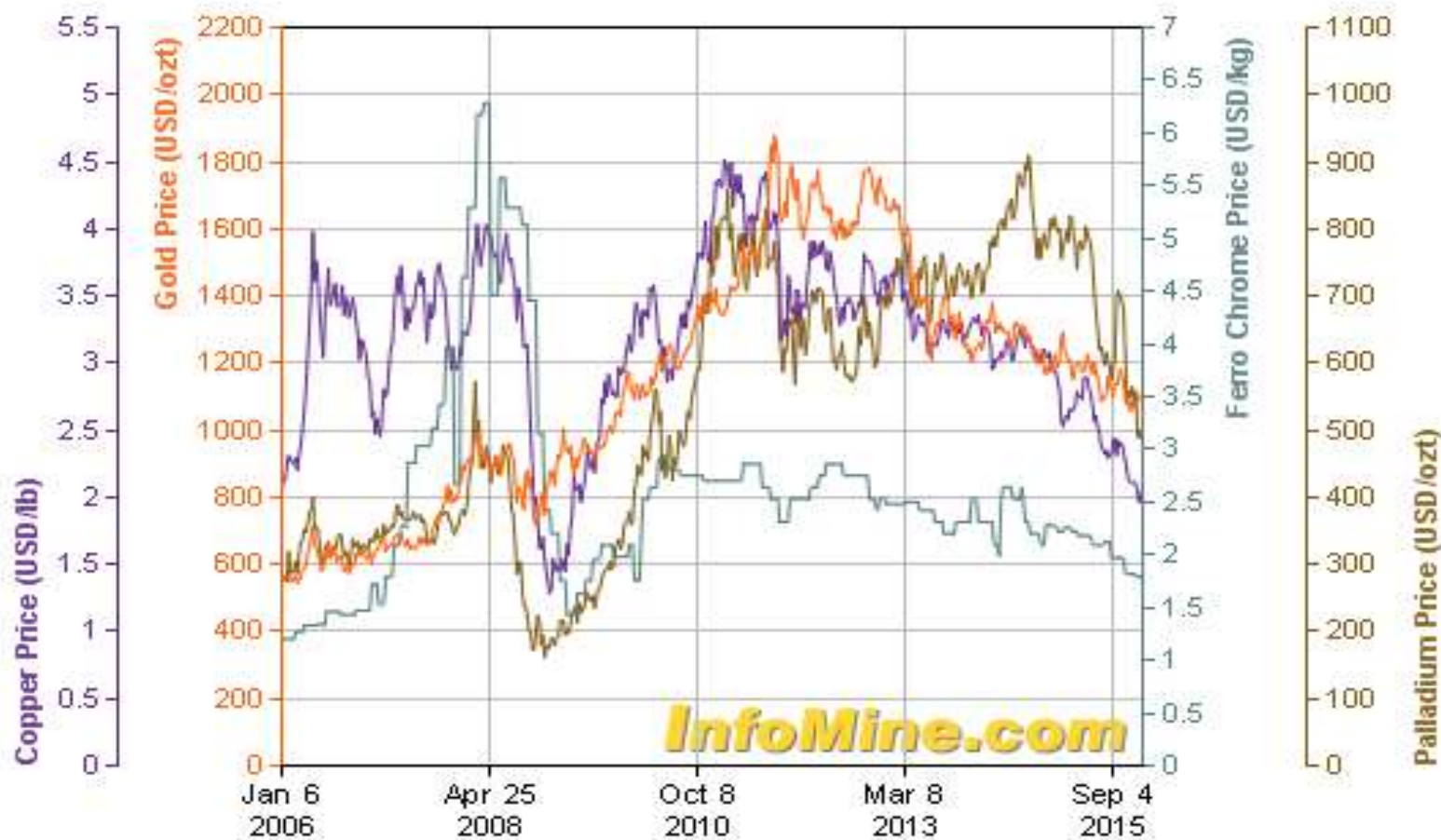


Commodities and “Africa Rising”

Taking together agricultural commodities, timber, metals and minerals, and hydrocarbons, natural resources have accounted for roughly 35% of Africa’s growth since 2000. Resource-based raw and semi-processed goods accounted for about 80% of African export products in 2011, compared with 60% in Brazil, 40% in India and 14% in China. Similarly, most greenfield foreign direct investment (FDI) in Africa went to resource-related activities.

The Boom is Over

GOLD PRICE - FERRO CHROME PRICE - COPPER PRICE - PALLADIUM PRICE
Jan 6, 2006 - Jan 29, 2016



Changes in African production of selected minerals 2000 and 2010

	2000			2010			Real output growth 2000-10 in %
	Africa's share of global production in %	Value of Africa's production (2010 USD million)	Number of countries 2000	Africa's share of global production in %	Value of Africa's production (2010 USD million)	Number of countries 2000	
PGMs	55	10 588	2	74	14 191	4	34
Cobalt	43	490	6	62	1 775	8	262
Diamonds	45	4 265	16	54	4 967	17	16
Chromite	51	1 578	4	42	2 442	4	55
Manganese	32	493	4	30	3 131	8	535
Phosphates	28	4 607	10	26	5 662	10	23
Gold	24	25 568	36	19	19 947	39	-22
Uranium	17	111	3	19	1 013	4	813
Copper	3	2 871	11	8	7 806	12	172
Nickel	5	1 225	5	5	1 535	5	25
Iron ore	5	4 637	10	4	6 404	9	38
Mining total	14	59 592	44	12	73 286	44	23
Oil	10	216 001	18	11	284 875	19	32
Gas	5	39 036	14	7	68 423	18	75
Coal	6	21 266	15	4	23 759	13	12
Energy total	10	276 303	11	377 056		36	
Food	8	195 082	54	9	260 910	54	34
Non food	8	5 618	54	6	5 729	54	2
Agriculture total	8	200 675	54	9	266 605	54	33
Timber	12%	77 267	46	13%	87 229	54	13%

Industry in Africa 1970-2008

.Contribution of industry to GDP, 1970–2008

	% share of GDP	1970	1980	1990	2000	2005	2008
Eastern Africa	Industry	3.1	7.8	20.6	18.6	20.6	20.3
	Manufacturing	1.7	4.9	13.4	10.4	10.3	9.7
	Mining & utilities	0.8	1.5	3.3	3.1	3.6	3.7
Middle Africa	Industry	34.2	38.4	34.1	50.4	57.9	59.8
	Manufacturing	10.3	11.8	11.2	8.2	7.3	6.4
	Mining & utilities	19.1	21.2	18.9	39.3	47.9	50.5
Northern Africa	Industry	34.2	50.0	37.4	37.8	45.0	46.0
	Manufacturing	13.6	9.7	13.4	12.8	11.3	10.7
	Mining & utilities	15.7	33.0	17.2	19.5	28.2	29.8
Southern Africa	Industry	38.2	48.2	40.6	32.7	31.7	34.5
	Manufacturing	22.0	20.9	22.9	18.4	17.9	18.2
	Mining & utilities	12.0	24.0	14.3	11.7	11.2	13.1
Western Africa	Industry	26.7	43.3	34.5	39.8	36.7	37.4
	Manufacturing	13.3	16.8	13.1	7.8	6.0	5.0
	Mining & utilities	7.7	21.3	18.8	29.3	27.7	29.6

Source: UNCTAD/UNIDO.

Action Plan for Accelerated Industrial Development in Africa (AIDA)

- Adopted in September 2007 by Africa's Ministers of Industry
- "Industrialization is a critical engine of economic growth and development . Indeed industrialization is the essence of development"
- Does not use the framework of SET, but meeting MDGs and taking advantage of globalisation
- Sets out steps (policies and actions) at national, regional and continental levels for industrialisation

AIDA's Six priorities for the Africa's industrialization

1. Policy on Product and export Diversification, Natural Resources Management and Development
2. Infrastructure Development
3. Human Capital Development and sustainability, Innovation, Science and Technology
4. Development of Standards and compliance
5. Development of Legal, Institutional and Regulatory Framework
6. Resource Mobilization for Industrial Development

Africa Mining Vision

- Adopted in 2009 by AU Summit
- Action Plan with nine programme clusters to be implemented at national, regional and levels approved by Ministers in December 2011
- Report: Minerals and Africa's Development published December 2011
- Implementation/coordination centre AMDC based at the UNECA
- Marks paradigm shift

Africa Mining Vision and Industrialisation

- A mining sector that has become a key component of a **diversified**, vibrant and globally competitive **industrializing** African economy
- A knowledge-driven **African mining sector that catalyses & contributes to the broad-based growth & development** of, and is fully integrated into, a single African market through:
 - **Down-stream linkages** into mineral beneficiation and manufacturing;
 - **Up-stream linkages** into mining capital goods, consumables & services industries;
 - **Side-stream linkages** into infrastructure (power, logistics; communications, water) and skills & technology development (HRD and R&D);
- A mining sector that optimises and husbands Africa's finite mineral resource endowments and that is diversified, **incorporating both high value metals and lower value industrial minerals** at both commercial and small-scale levels

AMV Action Plan Programme

Cluster 8 – Linkages and Diversification

- **Goal** - To create a mining sector that catalyses and contributes to broad-based growth and development through upstream, downstream, sidestream and infrastructure linkages
- **Expected accomplishment** - Enhanced Mineral Based industrialisation and diversification of African economies

Cluster 8-National level actions

- Identify and promote development of minerals to enhance economic linkages
- Develop value addition policies and strategies (based on supply-chain analyses) including local content and beneficiation
- Investigate the judicious use of export taxes to encourage beneficiation
- Identify and promote viable beneficiation projects
- Review and align international agreements to create space for mineral resource based industrialization and development;
- Create a database on tariff and non-tariff barriers to mineral-based value added products and expand their access to regional and global markets
- Promote holistic and multi-sectoral approaches to mineral development policy
- Develop institutional arrangements that combine the minerals, industry, trade and STI complexes.

Sub regional/regional level actions

- Review best practice in state equity participation and develop guidelines and toolkits for RECs and member states
- Cooperate in the formulation and implementation of trade and investment policies that facilitate linkages development
- Ensure that WTO, EPAs, FTAs, BITs and other bilateral, regional and/or international agreements do not constrain policy space for mineral resource based industrialisation and value addition.
- Develop regional strategies to eliminate tariff and non-tariff barriers to mineral-based value added products and expand their access to regional and global markets.
- Develop a framework for mineral value addition in Africa for RECs and member states
- Develop best practice guidelines for holistic and sector-wide and multi-sectoral approaches to mineral development policy for RECs and member states
- Develop best practice on new institutional arrangements combining the minerals, industry, trade and STI complexes for RECs & member states
- Review best practice in linkages promotion and develop guidelines and toolkits for RECs & member states

Linkages and Diversification in other Plans and Reports

- ECOWAS Mineral Development Policy
- EAC (draft) Regional Frameworks for Development of Extractive Industries, Mineral Value Addition
- South Africa (2011) A Beneficiation Strategy for the Mineral Industry
- World Bank (2012) – Increasing Local Procurement by the Mining Industry in West Africa (report no. 66585-AFR)
- Morris, Kaplinsky & Kaplan (2012) One Thing Leads to Another - Promoting Industrialisation by Making the Most of the Commodity Boom in Sub-aharan Africa
- Economic Report on Africa (2013)- Making the Most of Africa's Commodities
- African Economic Outlook (2013)
- Africa Progress Panel Report (2013)
- Economic Report on Africa (2014) – Dynamic Industrial Policy in Africa

a matrix of (overall) linkages

- Fiscal Linkages
 - (Government) revenue from mining and its use within economy
- Consumption Linkages
 - Incomes from and related to mining employment, etc and consumption and economic wide demand-creation
- Production Linkages
 - productive activities induced by mining along chain

(a matrix of) production linkages

- Up-stream/Backward Linkages:
 - mining supply chain: capital goods, consumables & services industries
- Down-stream/Forward Linkages
 - mineral beneficiation and manufacturing
- Side-stream/Horizontal Linkages
 - infrastructure (power, logistics; communications, water) and skills & technology development (HRD and R&D);
- Migratory Linkages
 - to other (unrelated) sectors; technology originating in mining applied in medicine, or agric

ordering of linkage nodes

- Fiscal (Enablers)
 - Capturing and investing resource rents to support linkages.
 - Taxation Regime: A resource rents tax?
- Knowledge (Enablers)
 - Science Technology Engineering Mathematics, RDI new clusters
- BACKWARD (directly implicated)
 - Capital goods, consumable and services, (and also export)
- FORWARD (directly implicated)
 - Beneficiation, domestic use, (also export of finished products)
- Spatial/Migratory (Induced)
 - critical infrastructure to enable clustering of other economic activities, local enterprise development. (Development Corridors)

The Principal Mineral-Based Feedstocks for G&D (downstream linkages)

Critical feedstocks into the economy-

<i>Manufacturing:</i>	<u>Steel/alloys, polymers</u> (from coal, HCs), base metals (Cu, Zn, et al)
<i>Energy (electricity):</i>	<u>Coal, oil & natural gas</u> (and CBM, shale gas), radioactive minerals, limestone (emissions)
<i>Infrastructure:</i>	<u>Steel</u> , copper, cement (from limestone, gypsum, coal)
<i>Agriculture:</i>	<u>Nitrogen</u> (from coal, gas), phosphate, potassium (NPK) and conditioners (e.g. limestone, sulphides)

Spatial Linkages – Collateral impacts of resources infrastructure

The concept of Spatial Development Initiatives (SDIs, also known as “Development Corridors”) was developed in southern Africa and is based on using high-rent resource exploitation projects as “anchors” for the development of infrastructure that can then underpin the development of other sustainable economic potential (***collateral impacts***) such as:

- agriculture (and agro-processing),
- forestry (and processing),
- tourism,
- manufacturing, etc. and
- other related and ancillary industries in the area.

The promotion of such integrated Spatial Development Initiatives, to unleash the full growth and development potential, could form an important feature of ECOWAS state’s resources development policy.

crucial element

- Domestic
 - Procurement for the mining supply chain
 - Processing: of the products of mining:
 - within and without the 'value chain'
- *Domestic: domestic - local, national and regional
- *Value addition v. Beneficiation

a step-wise approach (ECA)

- Low Hanging Fruit
 - Can be done with existing domestic capabilities
- Blossoms
 - prospects for local producers with reasonable support
- Seedlings
 - Not feasible in short term; but long term investment and innovative strategies.

basic challenges

- Generic issues, including: sector policy, cross-sectoral policy, domestic capital and finance, and role of the state
- Illustrate with mining based domestic procurement
- Based on a 2012 World Bank study of local procurement in West Africa

domestic procurement: product types and examples

- Capital Goods and Machinery

Machinery for excavation and loading, crushing and grinding; auxiliary equipment for ventilation, pumps; drills and drilling equipment, electrical equipment; cement for construction and input into e.g. gold leaching

- Consumables

- Explosives, accessories; Lime for processing; Caustic Soda; Steel Balls

- Services

- Corporate Support Services, Core Mining Services; Supply Chain services; Maintenance Services

a case: activated carbon

- **Used for** : Absorbing Gold in Cyanide bleach solution. Wider use: To remove mercury vapour from water and air
- **Total Global Imports:** 2009: US \$1.08 billion: Japan (13%); US (12%) Germany (8%)
- **West Africa imports:** Ghana: (\$3.8m (2008); from Philippines (62%), Netherlands (24%) and India (6%)
 - Burkin Faso \$2.3 million in (2010); from Philippines (76%), India (15%), and Ghana (4.8%)
 - Guinea-\$251,000 (2008); from India (54%); Netherlands (34%) Indonesia (12%)
- **Raw Materials:** Coconut Shell, Palm Kernel, Wood Chips, Sawdust, Corncobs, Seeds

ALL LOCAL MANUFACTURING

EXTENT OF LOCAL VALUE ADDED

<p>SUPPLIER NUMBER 4</p> <p>LOCALLY BASED FOREIGN MANUFACTURER/ SERVICE PROVIDER</p>	<p>SUPPLIER NUMBER 5</p> <p>LOCALLY BASED FOREIGN MANUFACTURER/ PROVIDER</p> <p>WITH SOME LOCAL PARTICIPATION</p>	<p>SUPPLIER NUMBER 6</p> <p>LOCAL MANUFACTURER/ PROVIDER</p>
<p>FOREIGN EXPORTER</p> <p>SUPPLIER NUMBER 1</p>	<p>FOREIGN EXPORTER / WITH SOME LOCAL PARTICIPATION</p> <p>SUPPLIER NUMBER 2</p>	<p>LOCAL IMPORTER</p> <p>SUPPLIER NUMBER 3</p>

NO LOCAL MANUFACTURING

LOCAL PARTICIPATION, OWNERSHIP, MANAGEMENT AND EMPLOYMENT

effective domestic procurement

- Optimal combination of a number of elements, including
 - source of inputs
 - origins of provider
- Process towards attaining this optimum, with requisite policies

related (policy) interventions

- Trade:
 - regulating import and export policy in favour of domestic supply, production
- Technology
 - access to and transfer of technology; local adaptation; and development.
- Investment
 - setting terms for foreign investment to promote productive capacity in local economy; primacy to national investment

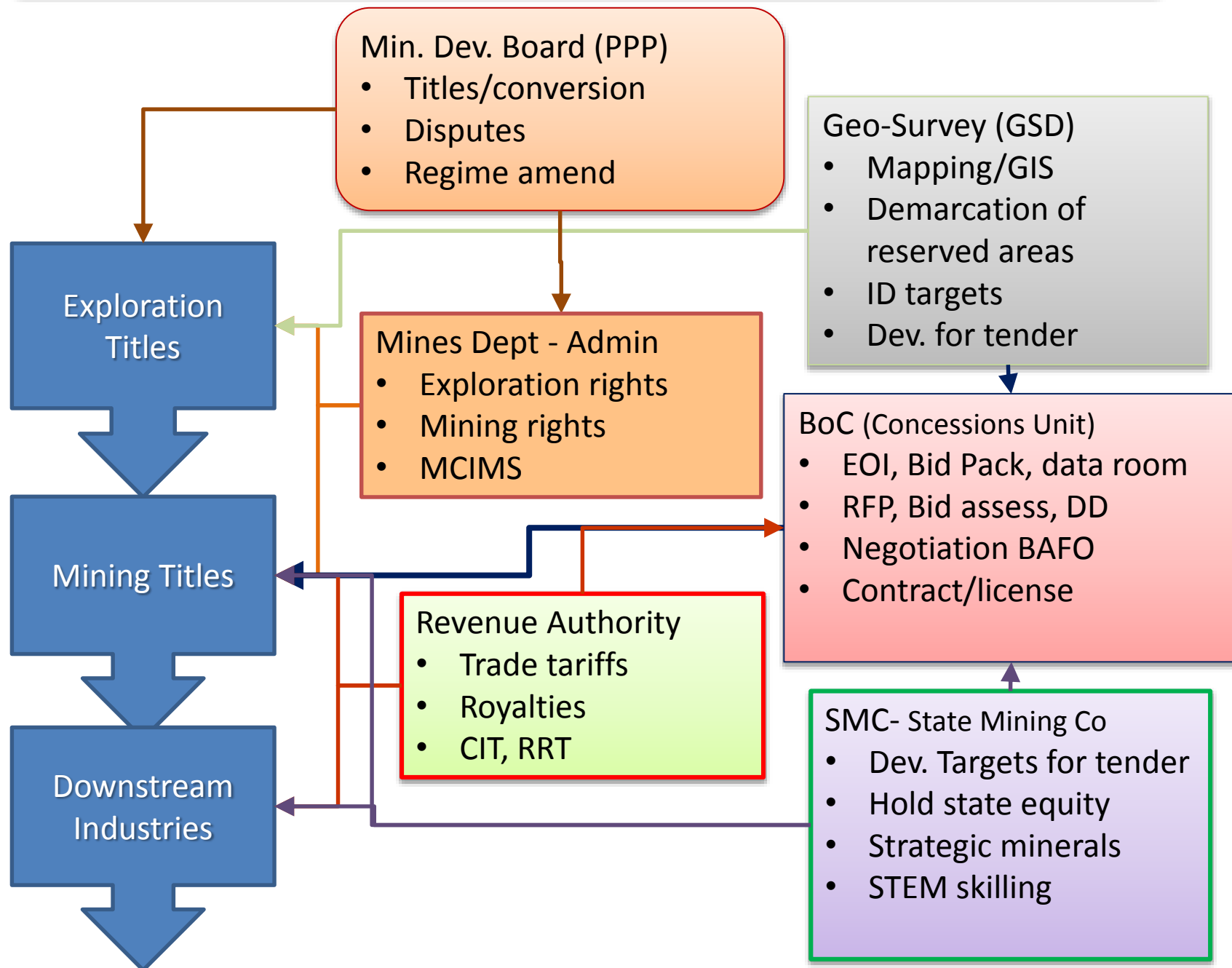
related (policy) interventions -2

- Finance:
 - Mobilising mining revenue in support;
 - developing finance institutions and mechanisms
 - A domestic procurement and processing fund?
- Enterprise Development
 - state support for local enterprises
 - state enterprises (fully, joint with local private...)
- Basically package of industrial policy

summary: a typology

- Economic transformation as
 - better internal integration of productive sectors
 - development of productive capabilities
 - critical role of domestic manufacture
- (Mineral-based) Linkages in all forms as motor/engine
- Levers:
 - domestic procurement, and processing, and development “corridors”
- Necessary “fuels”
 - skills development, finance, domestic enterprise , infrastructure
- Driving Role of State (with, through and ahead of, market)
 - facilitating, co-ordination, participation (direct/indirect)

Key Minerals Governance Institutions



Industrialization and the role of the State

- State conceived here from sub-national through to the continental
- Policies, direct economic engagement and regulatory roles