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Chinese Trade and Investment Activities in Africa

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This briefing note examines the major trends on Chinese trade and investment on the African continent. The note also gives some general political economy context for China's economic engagement with Africa.

1. General Context of Contemporary Chinese-African Relations

1.1 Whereas Chinese-African economic relations span several hundred years, modern economic relations date back to the late 1950s when China signed the first official bilateral trade agreement with Algeria, Egypt, Guinea, Morocco and Sudan. Chinese-African economic relations at that time often reflected China's political geopolitical considerations, and thus its foreign policy.

1.2 Today, China's global economic strategy is largely shaped by its national development objectives and its demand for energy and other resource. Its relations with Africa fall within this context. Indeed, China has been adjusting its policy toward Africa since the 1990s when its own post-Mao economic reforms initiated by the late Deng Xiaoping had matured, and when its leaders decided to usher in a Chinese African relationship based on more comprehensive cooperation than ideology and foreign policy.

1.3 Nonetheless, official Chinese economic engagement with Africa still stresses two key political still stresses two key political considerations: First, a quid pro quo recognition of Taiwan (Chinese Taipei) as an integral part of China; and second, adherence to the official principals of engagement, i.e., equality among partners, mutual benefit, respect for sovereignty, use of interest-free grants and loans, beneficiary capacity building, compliance with obligations, provision of equipment made in China and same living conditions for both Chinese and local experts (Larkin, 1971, Chaponnière, 2009).

1.4 In general, official Chinese economic activities in Africa are structured on a bilateral basis, with discussions being held between China's central government and its African counterparts. It is in this context for example, that several Chinese state-owned banks have devoted their operations to backing China's presence in Africa. However, official China's presence in Africa is not only confined to the Chinese central government's activities. An increasing number of Chinese local governments often act independently of the central government in establishing economic (and other) engagements across Africa; mainly through the firms they own (Chen and Jian, 2009).

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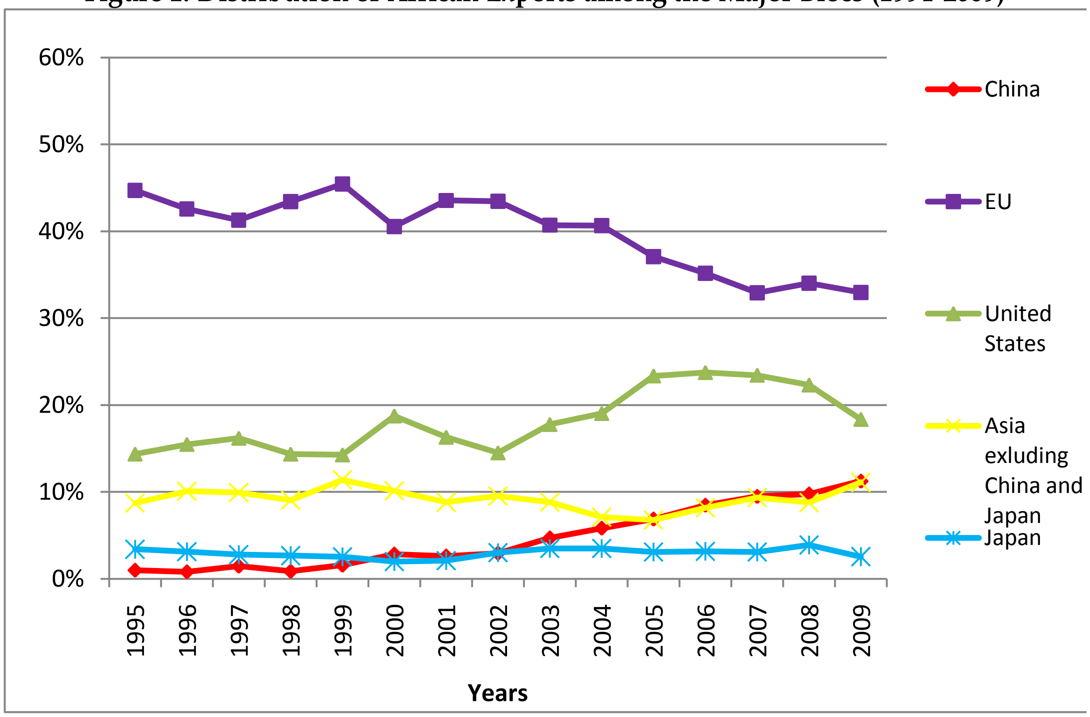
1.5 However, a significant portion of Chinese-African economic activity involves a broad range of other actors, notably, multinationals, small and medium-sized businesses, traders, and even individual Chinese migrants increasingly seeking better economic fortunes on the continent. To be sure, each of these varied state and non-state actors have diverse strategies in their engagements with the African continent.

2. Major Trends in Chinese-African Trade

2.1 China's emergence as a major trading partner for Africa is likely to continue to grow. It is obvious that even though European countries still remain Africa's leading partners, things are gradually changing (see Figures 1 and 2).

Figure 1: Distribution of African Exports among the Major Blocs (1994-2009)



Source: IMF, Dots, different years

Figure 1 indicates that the share of African exports to European countries is on the decline, in spite of a rebound since 2006. China's share, in contrast, continues to grow, partly outpacing some other Asian countries, which was due to the drop in Japan's share.

Figure 2 indicates that with regards to African imports, the weight of the United States continued to grow even as Europe's dropped. It is very likely the growth in imports from China will continue to increase while those from traditional markets in the United States and Europe will remain either stable or decline.

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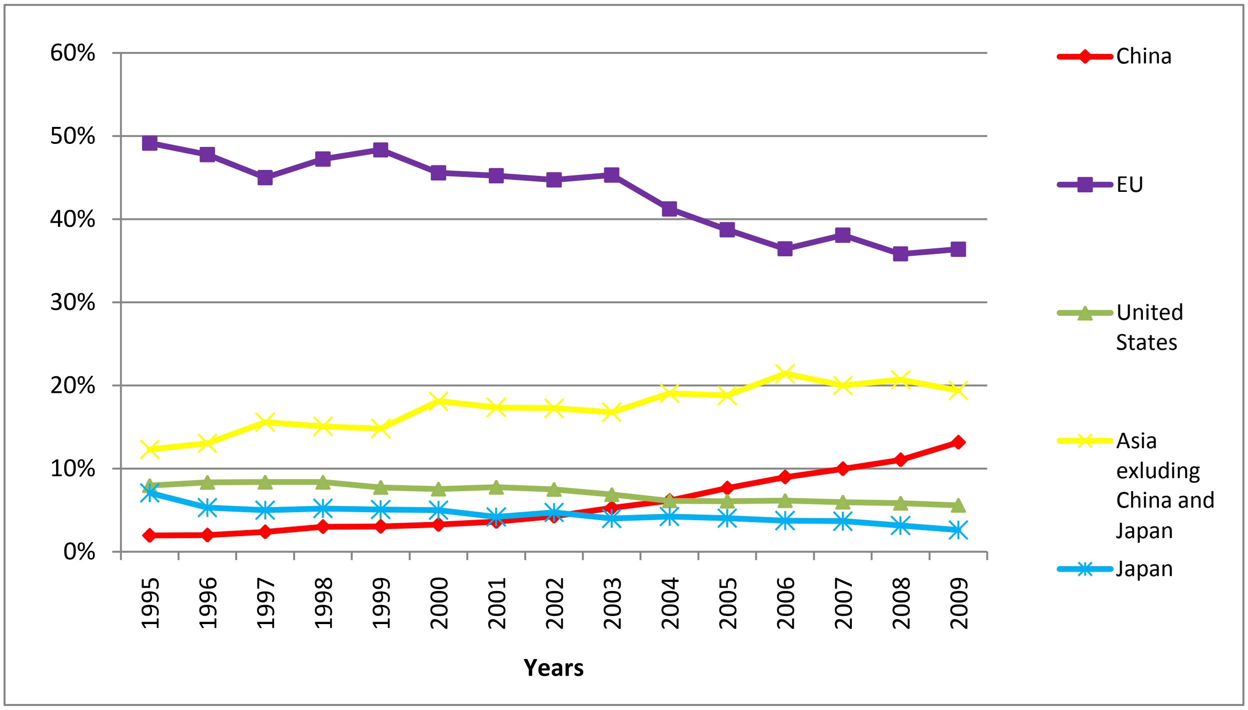
Figure 2: Distribution of African Imports among the Major Blocs (1994-2009)

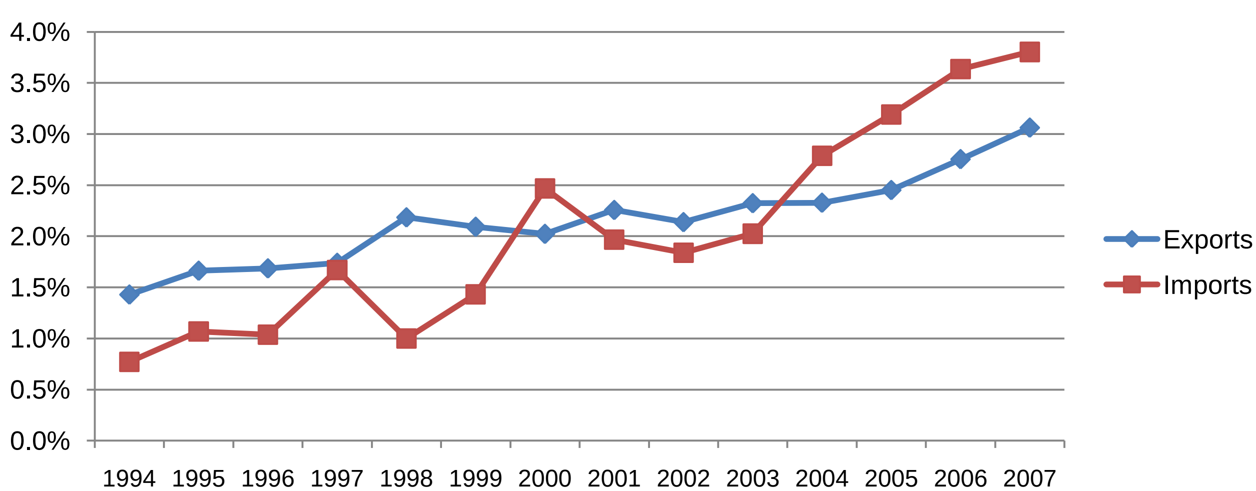


Source: IMF, Dots, different years

2.2 However, it should also be emphasized that from China's perspective, China-Africa trade is still relatively modest (see Figure 3). Indeed, China-Africa trade comprises only 4 percent of the total Chinese imports and exports.

However, the most striking is that from an African perspective China-Africa trade growth is more important as it represents close to 10 percent of the continent's exports and imports.

Figure 3: Africa's Share in Total Chinese Exports and Imports



Source: Statistical Yearbook, different years, NBS.

2.3 Disaggregation of the China-Africa trade reveals that Africa's trade with China is highly concentrated with only a few countries on the continent (see Figures 4 and 5). Both figures indicate that around 60 percent of Chinese exports are destined for just six countries: South Africa (21%), Egypt (12%), Nigeria (10%), Algeria (7%), Morocco (6%) and Benin (5%) while 70 percent of Chinese imports originate from four countries: Angola (34%), South Africa (20%), Sudan (11%) and Republic of Congo (8%).

Figure 4: High Concentration of Chinese Exports to Africa (2007)

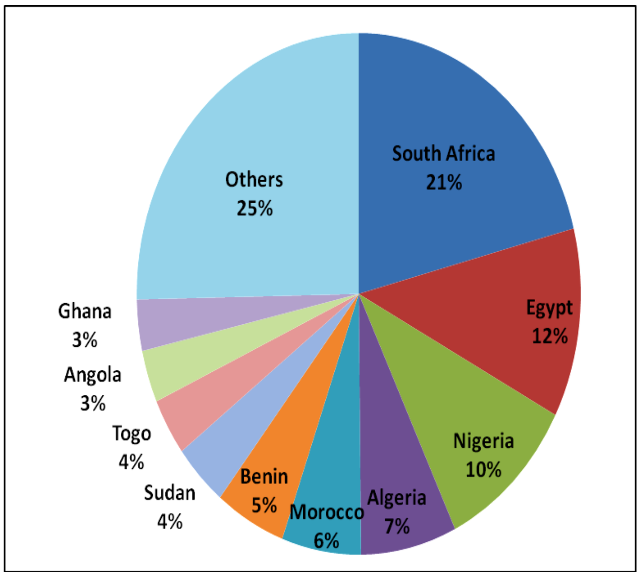
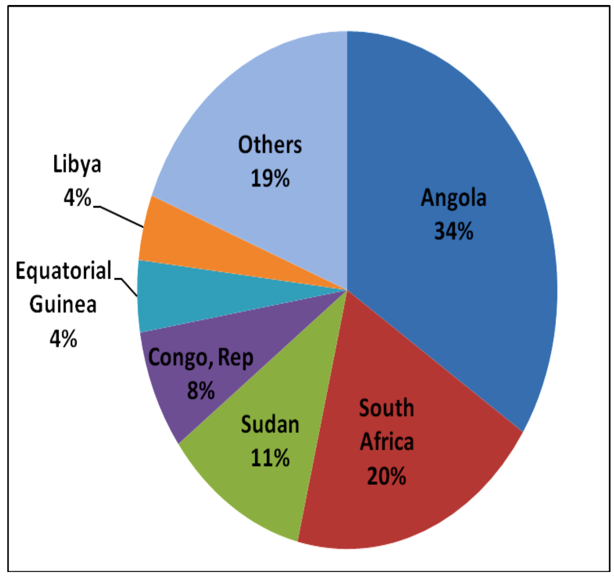


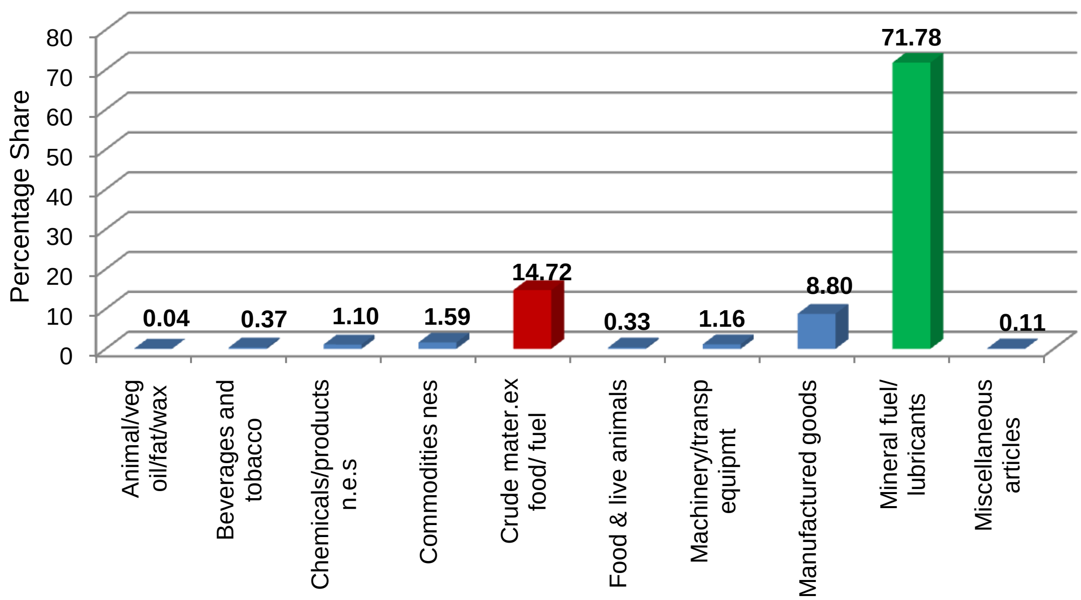
Figure 5: High Concentration of Chinese Imports from Africa (2007)



Source: UN COMTRADE (2008)

2.4 However, the high concentration of China-Africa trade is not just by country, but also by sector (see Figure 6). Approximately 70 percent of registered African exports to China consist of crude oil and 15 percent of raw materials. This specialization is accompanied by a very strong dependence of certain countries, since nearly 100 percent of Angola's and Sudan's exports are made up of crude oil. Compared to these types of major products, agricultural exports have a modest share even though they often constitute the bulk of export of several African countries. This has also been confirmed by research of a number of sub-Saharan African countries which shows that there is an imbalance between Chinese demand and African supply in this sector (Villoria, 2009).

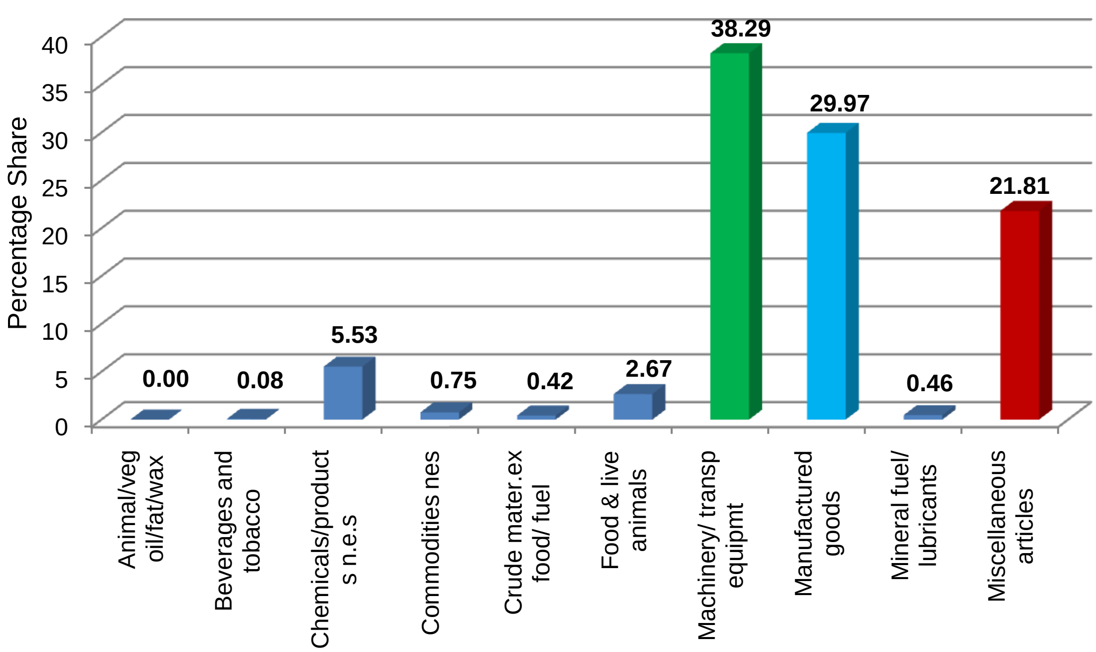
Figure 6: Africa's Exports to China by Product, 2007



Source: UN COMTRADE (2008)

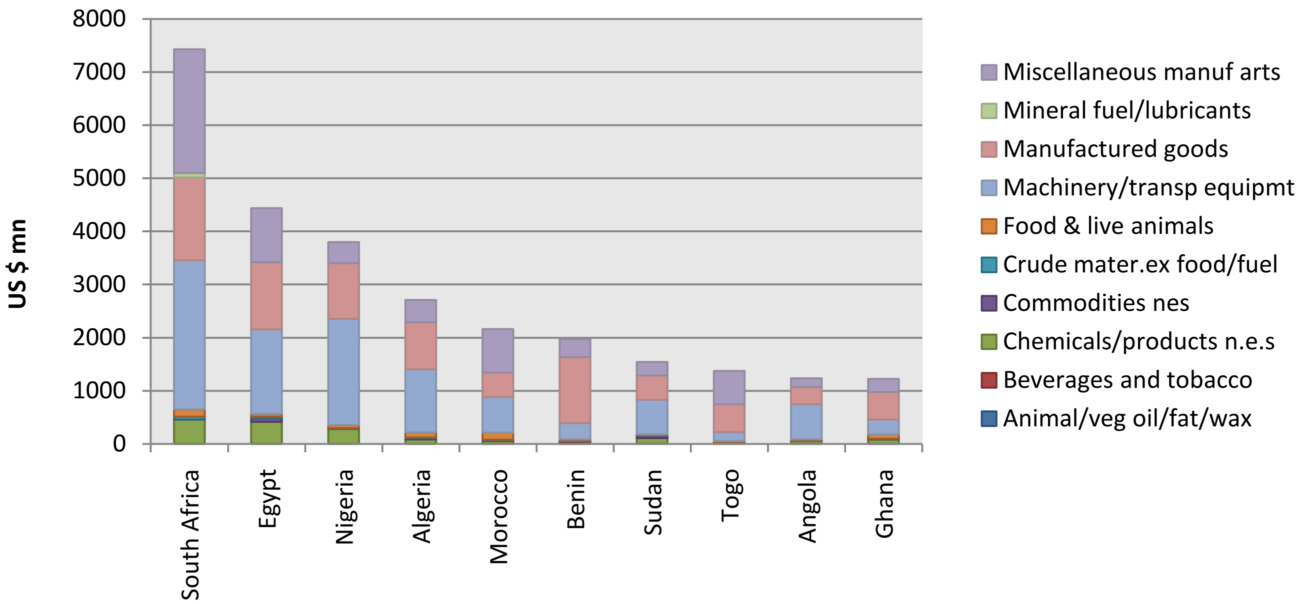
2.5 On the other hand, African imports from China are relatively more diversified although three major types of products are still dominant: machinery and transport equipment, manufactured goods and handicrafts (Figure 7). Chemicals and food products account for less than 10 percent of the total. In general, Chinese products are considered to be well suited to African demand. Manufactured goods imports – electronic toys, textiles, etc – have allowed Africans to expand their range of consumer products. Prices are often relatively low, making the products accessible to a larger number of people. Machinery and transport equipment imports are linked to the strong presence of Chinese firms in the infrastructure sector, specifically in telecommunications, road construction and construction of numerous public buildings.

Figure 7: Africa's Imports from China by Product, 2007



2.6 Africa's imports from and exports to China can further be disaggregated by country (see Figures 8 and 9). Figure 8 suggests that the structure of imports from China is rather similar among leading African trading partners, with machinery, transport equipment as well as manufactured products always carrying significant weight.

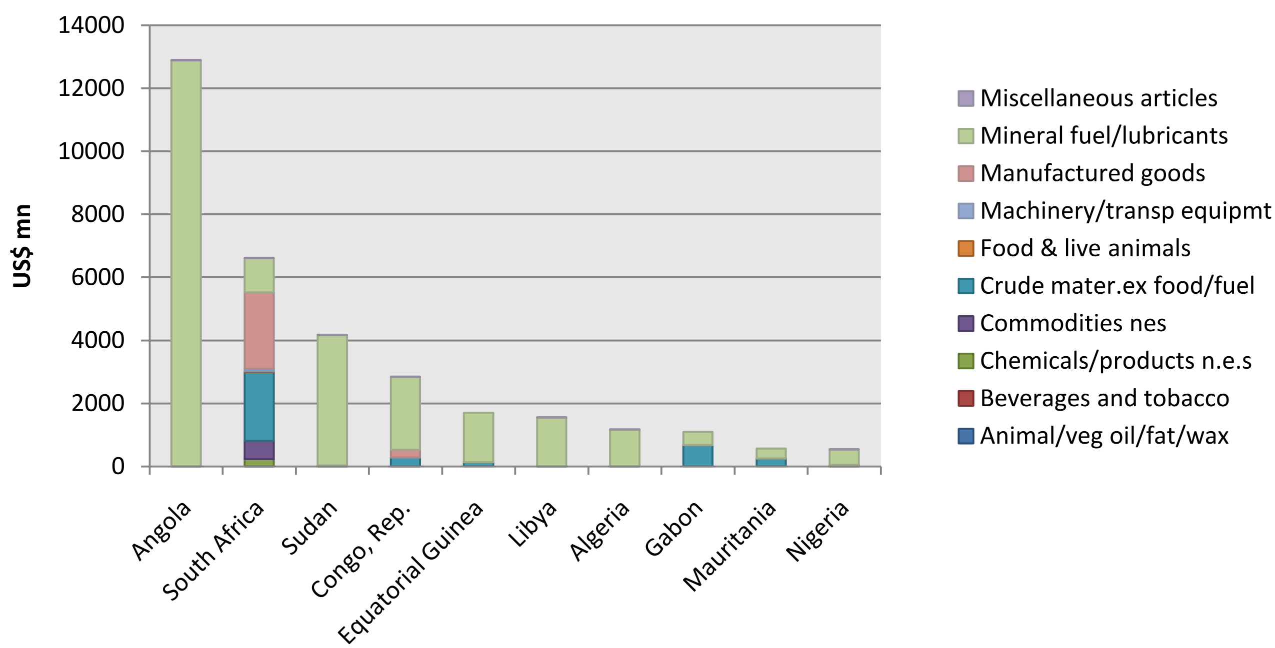
Figure8: Key African Imports from China (by Country and by Product)



Source: UN COMTRADE (2008)

2.7 In addition, Figure 9 indicates that African exports to China are not very diversified, with the exception of South Africa. The most evident are the exports of Angola and Sudan which highlight the importance of commodity exports.

Figure 9: Key African Exports by Country and by Product

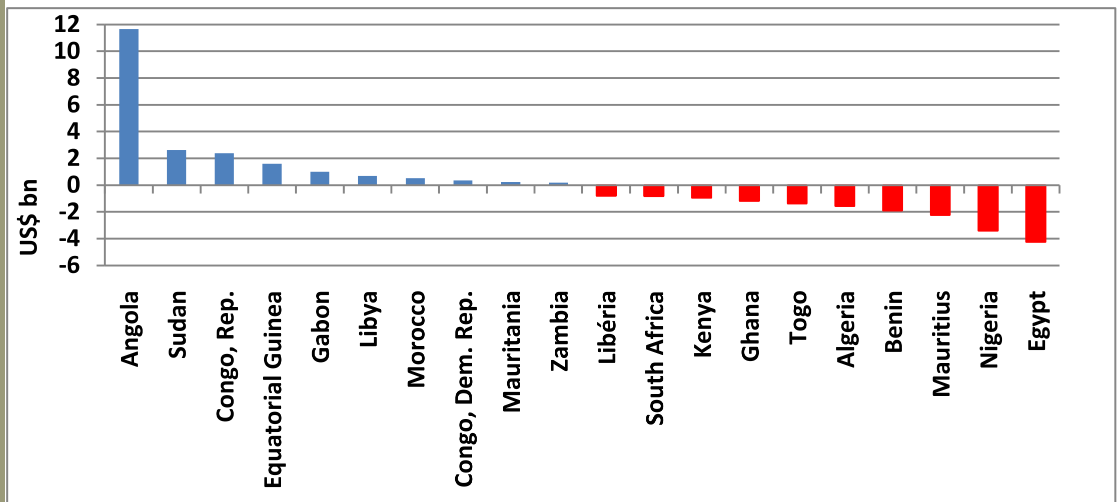


Source: UN COMTRADE (2008)

"Large oil exporters such as Angola and Sudan, have a large surplus, while most non-oil producers have a negative trade balance with China."

2.8 The analysis could also be extended to include the overall trade balance. Figure 10 summarizes the large discrepancy in balance of trade between China and various African countries.

Figure 10: Africa-China Balance of trade (10 leading surpluses and 10 leading deficits)



"Chinese investments are often channeled through off-shore entities registered in places such as Hong Kong, Cayman Island and others."

2.9 Figure 10 shows that in 2008, the total bilateral trade was USD 114 billion of which USD 52 billion consisted of exports by Africa to China and USD 62 billion imports by Africa from China. This means that on a whole Africa has a trade deficit of USD 10 billion. However, there are large discrepancies between African countries. Large oil exporters such as Angola and Sudan, have a large surplus, while most non-oil producers have a negative trade balance. The exceptions are Algeria and Nigeria, which are oil and gas exporting countries but still have a negative trade balance with China.

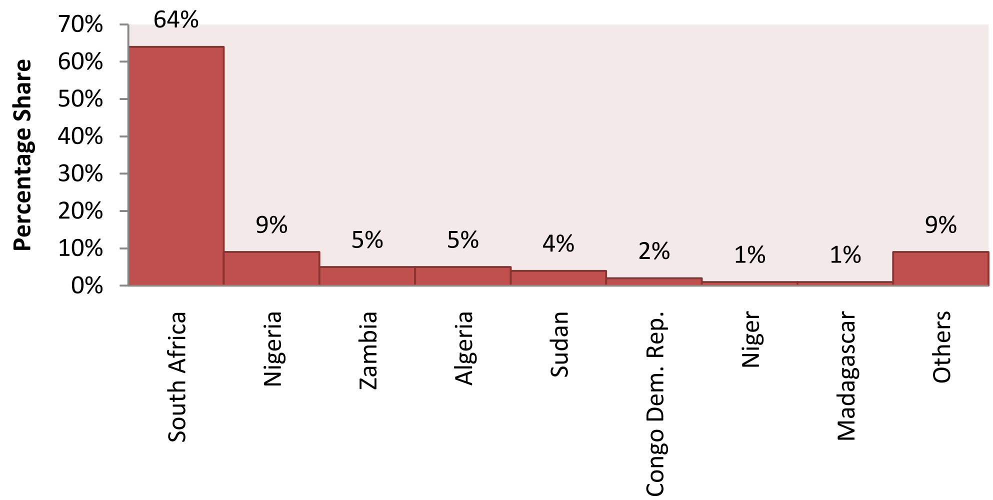
3. Major Trends in China's Investment in Africa

3.1 China's FDI in Africa is closely linked to its trade and development assistance on the continent. Although marginal in terms of China's total outward FDI flows (0.2% in 1991 and 9.8% in 2008) and total FDI received by Africa from the rest of the world (6% in 2008), there have been substantial increases in volume in the last 10 years, coupled with expanded Chinese-African trade (Kaplinsky and Morris, 2009). According to statistics of the Chinese Ministry of Commerce, China's FDI in Africa has increased yearly by an average of 46 percent over the last decade. The stock stood at USD 7.80 billion in 2008 compared to USD 56 million in 1996. During the first three quarters of 2009, Chinese FDI flows into Africa amounted to $875 million, posting an increase of 78.6 percent year-on-year.

3.2 It should be noted however that there are wide discrepancies in the FDI statistics, depending on the source. In addition, Chinese investments are often channeled through off-shore entities registered in places such as Hong Kong, Cayman Island and others. Furthermore, the statistics are relatively scarce at sectoral level. Similar to trade patterns, the destinations of China's outward FDI flows and stock into Africa are dominated by a few resource-rich countries (see Figure 11).

“The main recipients of Chinese investments for the period 2003-2007 were Nigeria (20.2%), South Africa (19.8%), Sudan (12.3%), Algeria (12%) and Zambia.”

Figure 11: Destinations of China’s FDI Flows into Africa (2003-2008)



Source: Chinese Commerce Ministry, 2008

3.3 The main recipients of Chinese investments for the period 2003-2008 were South Africa (64%), Nigeria (9%), Sudan Zambia (5%), Algeria (5%) and Sudan (4%). The position taken by Nigeria, the leading oil producer of sub-Sahara Africa, reflects the Chinese strategy in recent years of seeking energy independence. It weighed much less in 2003. According to the Financial Times, China National Offshore Oil Company (CNOOC), a State-owned enterprise and one of the three major energy players in China, is negotiating with Nigeria, to acquire one sixth of the rights to the latter’s oil reserves.[1]

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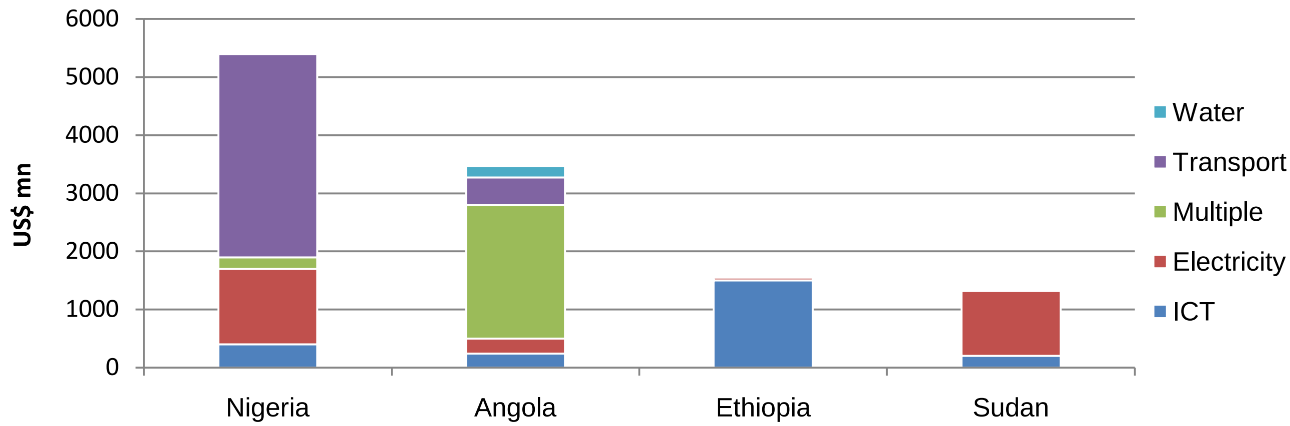
3.4 Chinese enterprises investing in strategic sectors such as oil, ores or infrastructure are mostly state-owned and/or subsidized with Chinese grants or by state-owned banks. These enterprises often manage large investment projects (Kaplinsky and Morris, 2009). For instance, the state-owned China National Petroleum Corp (SNP) is the leading foreign investor in Sudan. SNP is controlled either by the central or local government in China (Chen and Jian, 2009).

3.5 Chinese investments in Africa by medium- to large-sized enterprises are found mainly in the manufactured goods, telecommunications and wholesale trade sectors while small firms are dominant in the light industry and retail sectors. Although the SMEs certainly play an important role and are present in most African countries, they are not properly captured in official statistics.

3.6 In 2006, the main FDI flows involved the mining sector (40.74%), business services (21.58%), finance (16.4%), transport and telecommunications (6.57%), wholesale and retail trade (6.57%) and manufactured goods (4.33%), with the other sectors being only slightly represented. For instance, agriculture, forestry and fisheries attracted less than 1% of Chinese FDI (Kiggundu, 2008). In terms of stocks, the three leading investors in Africa are State-owned oil companies: China Petrochemical Corp., China National Petroleum Corp. and China National Offshore Oil Corp. (Kiggundu, 2008). The case of infrastructure is particularly important because the sector is a key driver of economic growth. Historically, it was one of the first sectors in which China invested in Africa. Over 35 African countries are engaged with China in infrastructure financing arrangements and the largest recipients are Nigeria, Angola, Sudan and Ethiopia (see Figures 12 and 13).

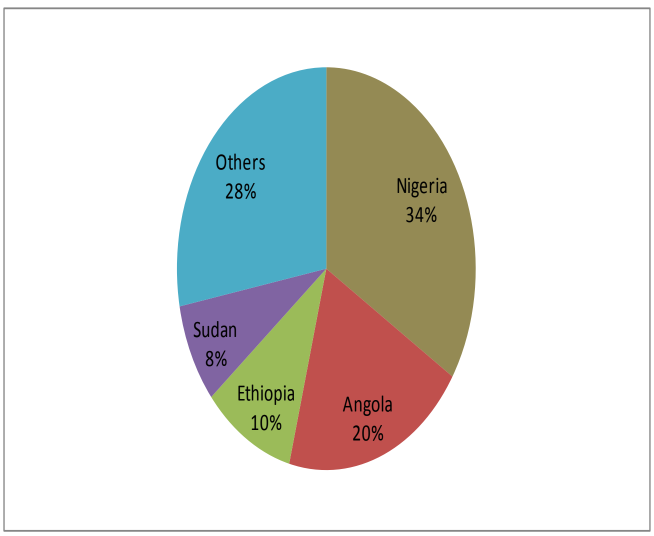
[1] Burgis Tom, “Chinese Seek Huge Stake in Nigeria Oil”, *Financial Times* 29 September 2009.

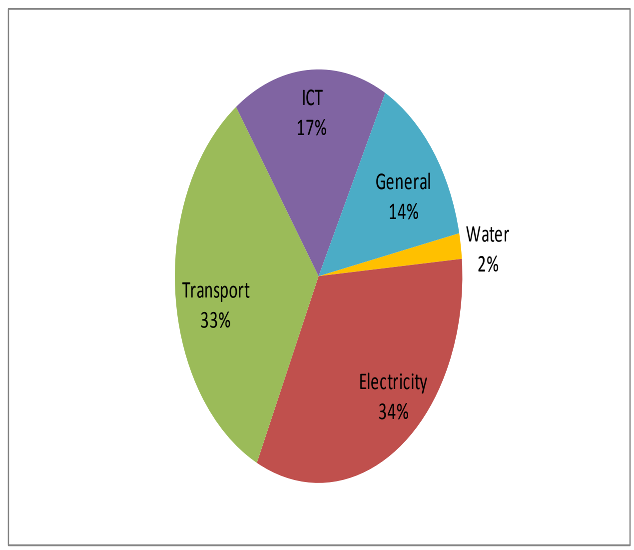
Figure12: China's Financial Commitments in Infrastructure Projects in Major Recipient Countries (2001-2007)



Source: World Bank, 2009

Figure 13: Confirmed Chinese Infrastructure Financing in Sub-Saharan Africa per Country (2001-2007)





Source: World Bank, 2009

3.7 Commitments to Africa rose from USD 1 billion annually between 2001 and 2003 to USD 1.5 billion between 2004 and 2005, and reached USD 7.5 billion in 2006. For instance, China financed 10 hydroelectric power projects in 2007 to the tune of USD 3.3 billion. These projects combined have allowed Africa to increase its hydroelectric power production capacity by 30%. With respect to financing road and railway network projects, China has financed USD 4 billion worth of investments, including the rehabilitation of existing railway lines and the construction of new lines.

3.8 The main beneficiaries of such projects are Nigeria, Gabon and Mauritania. China's role in Africa's infrastructure sector is highly visible; in particular as this sector suffers from a large deficit whereas it is critical to its economic development and African integration, in particular for landlocked countries. The Africa Infrastructure Diagnostic (AICD) study estimated that Africa needs USD 93 billion per year to address the deficit in this sector. China has also developed industries and competitive services with special expertise in the execution of public works, which is based on constructing large infrastructure projects in China.

"China's increasing direct investment in manufacturing in Africa is largely through industrial parks or special economic zones (SEZs)."

"Chinese firms are generally less averse to risk than their Western counterparts. Chinese companies are not necessarily constrained by environmental and social safeguards."

3.9 Besides physical infrastructure, Information and Communication Technologies (ICT) is also part of China's increasing involvement in Africa's infrastructure. China's contribution to this sector in Africa generally takes the form of equipment supply to national firms. Ethiopia, Sudan and Ghana are major beneficiaries and China has supplied nearly USD 3 billion into this sector on the continent.

3.10 China's increasing direct investment in manufacturing in Africa is largely through industrial parks or special economic zones (SEZs). This approach was formally initiated in 2006 when China committed to establish five zones across Africa, and later in 2007, committed to establish a further five zones. A number of projected zones have been announced and are currently at differing stages of progress and are expected to focus on value-added industries (Edinger, 2008), including in Ethiopia, Mauritius, Nigeria (two), Tanzania, Zambia, Botswana, Sierra Leone, and Egypt. The special economic zones are expected to make a significant contribution to industrialization in Africa although their success is by no means guaranteed. Meeting the objectives of both China and African countries will require an active partnership and a framework for collaboration that includes engagement from host governments, processes for phasing-in local control, communication and enforcement of standards, and support for integration with local economies.

3.11 Although close China-Africa trade and investments links will continue for the foreseeable future, several notable trends are emerging. First, there seems to be an increasing emphasis on the private sector as well as on small and medium size enterprises (SMEs) in sectors such as telecommunications, business services and manufactured goods Kapinski and Morris (2009). Kapinski and Morris stress that with the exception of SME in search of quick, short-term profit. Second, Chinese firms are generally less averse to risk than their Western counterparts. Chinese companies are not necessarily constrained by environmental and social safeguards, for example. Third, Chinese firms also use some African countries as a platform for re-exports, particularly in the apparel industry, which is notably relevant for those countries that are part of privileged trade arrangements such as the "Everything but Arms Agreement" of the European Union and the "American Growth and Opportunity Act" of the United States.

3.12 In general, the structure of Chinese FDI seems very different from that of Western countries which mostly involves private investors with notable limits to their risk appetite and which are often not committed to long term presence in Africa (Besada et al., 2008). On the contrary, Chinese investments today suggest the intention of establishing long-term relationships, at least with governments.

3.13 Nonetheless, China's trade does not seem to be geared towards a purely African strategy. Its main features are consistent with China's general policy, which is aimed at lessening its energy and other natural resource constraints and increasing outlets for its manufactured products. Whether in trade or investment, this Chinese presence in Africa is bound to rise. Consequently, the growth in Chinese investments across Africa is of particular interest to policymakers as it will invariably affect the continent's economic growth, poverty reduction, employment, and perhaps even its environment and governance.

4. Raging Debate

4.1 China's increased engagement with Africa has sparked a raging debate in development circles. On the one hand are those who believe that that engagement, particularly, China's rising demand for Africa's natural resources, has not only helped to re-establish Africa as a source of valuable commodities for the global market, but also, has helped to focus

"On one side China's rising demand for Africa's natural resources, has not only helped to re-establish Africa as a source of valuable commodities for the global market, but also, has helped to focus attention on why the continent still remains poor and new possibilities for breaking out of that poverty ."

"On the other side, African countries engaging with a Chinese government that skirts political interference have little incentive to improve governance."

attention on why the continent still remains poor and new possibilities for breaking out of that poverty.

4.2 On the other hand are voices that believe that China's increased engagement with Africa is no different from earlier ones which largely cast Africa as the supplier of cheap but abundant raw materials as well as a market for cheap manufactures. These latter voices—mostly (but not exclusively Western)—also tend to suggest that African countries engaging with a Chinese government that skirts political interference have little incentive to improve governance.

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