April 9th 2013

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**China and Africa: a maturing relationship**

**Africa's place at the heart of China's foreign policy agenda was highlighted in April, when the new Chinese president, Xi Jinping, chose to tour the continent on his inaugural foreign trip. The economic relationship between the two regions continues to develop apace, with rapid growth in trade and strong flows of Chinese financing into Africa. Criticism of China's role in the continent continues. However, as shown by the visit to China (also in April) by the president of Zambia, Michael Sata, to meet Mr Xi, even former detractors are adapting to the reality of the Asian giant's presence in Africa.**

The burgeoning economic relationship between China and Africa is particularly evident from China's official trade data. Between 2007 and 2012 the value of China's annual exports to the continent more than doubled, from US$37.3bn to US$85.3bn. Its imports from Africa meanwhile rose even faster, surging from US$36.3bn in 2007 to US$113.2bn in 2012. Consequently, Africa now boasts a sizeable trade surplus with China.

China is still hungry for commodities

China's imports are dominated by oil and a few other commodities. Five energy exporters—Algeria, Angola, Equatorial Guinea, Libya and Sudan—accounted for 40.3% of Chinese imports from Africa in 2012, with South Africa (a major iron-ore source) accounting for a further 39.4%. A handful of other big commodity exporters, including Zambia, Congo (Brazzaville) and the Democratic Republic of Congo provide the bulk of China's remaining imports from the continent.

China's imports from most African countries have grown impressively in the past five years, with the notable exceptions of Gabon (imports from which fell from US$1.1bn in 2007 to US$618m in 2012) and Sudan (owing to South Sudan's independence in 2011). The story has instead tended to differentiate between those countries that have seen relatively modest growth in exports to China, such as Congo (Brazzaville) and Equatorial Guinea, and those that have achieved a more explosive expansion in sales, such as South Africa, which has seen an increase in exports from US$6.6bn in 2007 to US$44.6bn in 2012. Moreover, some countries, such as Kenya, have yet to tap Chinese demand to a significant extent.

Chinese exports to Africa are closely correlated with the size of the continent's individual markets. Consequently, South Africa remains the most important destination (China's exports to that country reached US$15.3bn in 2012), with Nigeria (US$9.3bn) and Egypt (US$8.2bn) also playing big roles. In addition, countries where Chinese infrastructure companies are heavily engaged in construction work, such as Angola, Algeria, Ghana, Morocco and Tanzania, feature prominently, as these firms tend to import a lot of equipment from China.

These infrastructure-building efforts form the second major element of China's economic relationship with Africa. The country's direct investment in the region remains modest, but its importance with regard to investment is amplified by its role in contract construction work, which is often financed by Chinese sources. Last year China's then president, Hu Jintao, pledged credit lines worth up to US$20bn to African countries, to be focused on supporting the development of infrastructure, agriculture, manufacturing and smaller firms (although the terms under which this credit will be provided remain unclear).

Financial ties are deepening

Economic ties continue to develop. As China seeks to internationalise its currency, the renminbi, it is building a network of swap deals with countries around the world, including African nations. At the BRICS summit in South Africa in April (which brought together Brazil, Russia, India, China and the host nation), China and South Africa announced that the South African Reserve Bank (that country's central bank) would be permitted to invest US$1.5bn in China's bond market, thereby adding renminbi-denominated assets to South Africa's hard-currency holdings for the first time. After the state-owned China Development Bank issued renminbi-denominated bonds in 2012, some sources reported that up to US$500m-worth of the bonds may have been placed with African central banks, possibly including those of Nigeria and Tanzania.

New areas of economic engagement open up

Meanwhile, as incomes in China rise, the country's traditional trade in goods is being broadened to include services, such as tourism. Although Kenya does not export much in the way of merchandise to China, Wei Jianguo, a former vice-minister of commerce in China, declared in April that around 60,000 Chinese nationals had visited the country in 2012. Tourism flows have the potential to increase at a dramatic rate in the next five years.

Other interesting fields to watch will include offshoring. As China's domestic business environment becomes more expensive, its firms are increasingly shifting low-end manufacturing operations to cheaper locations abroad. China has been involved in setting up special economic zones (SEZs) in several African countries, including Egypt, Ethiopia, Mauritius, Nigeria and Zambia. According to the Chinese government, the SEZs are intended to replicate China's own growth experience, whereby a number of export-oriented industrial hubs successfully attracted foreign investment, driving national economic growth. Similarly, both China's authorities and African governments hope that the SEZs in Africa will develop into new growth nodes by creating an enabling environment into which Chinese, foreign and Africa companies can move and gradually form industrial clusters. Each zone will focus on a few key industries, mainly in manufacturing and services, with only one zone concentrating on minerals processing. This lends further support to the argument that Chinese interest in Africa goes beyond the extraction of raw materials. Although most of the existing SEZs have yet to bear fruit, their backers remain hopeful that they will gather momentum in the coming years.

Critics in high places

Although economic ties between China and Africa are deepening, lingering resentments and criticism continues to cast a shadow over the relationship. In March Nigeria's central bank governor, Lamido Sanusi, wrote an article in a UK-based newspaper, the *Financial Times*, which noted that the essence of the bilateral trade relationship was still colonial, with Africa selling China raw materials and China shipping back manufactured goods. Labour unrest has bedevilled Chinese-owned mines in Zambia—in February the government of that country took control of the previously Chinese-owned Collum mine, which has been the focus of many of these disputes. In the same month Botswana's president, Ian Khama, also warned that his government would be careful about awarding future public construction projects to Chinese firms, after his country experienced delays to a power project that Chinese firms were building. He repeated the oft-voiced criticism of Chinese projects that their quality is substandard and that this leads to additional maintenance and repair costs. He also bemoaned high levels of immigration from China, saying that Chinese workers threatened to take jobs from local citizens.

Such complaints are a long-standing feature of Sino-African relations. However, the visit to China in April by the Zambian president, Michael Sata, shows that the political relationship is maturing on both sides. Mr Sata and his Patriotic Front party won the 2011 election in Zambia by tapping into popular grievances regarding widespread corruption and high unemployment, the perception that the country's abundant mineral wealth was largely benefiting the political elite and foreign investors, and poor working conditions and safety standards at Chinese-owned mines and factories. However, in stark contrast to his scathing criticism of Chinese investors before coming to power in September 2011, the president has since done his part to ensure that Zambia's ties with China remain stable.

The fact that China was willing to receive Mr Sata so soon after the Collum mine's licences were revoked illustrates that it, too, is prepared to work with its detractors—in other cases, China has acted with aggressive economic retaliation when its commercial interests overseas have been threatened. While Mr Wei's suggestion that Sino-African trade will eclipse China's trade with the EU looks unlikely to be realised in the near future, the growing maturity of the relationship between the Asian giant and Africa suggests that the outlook for trade and investment flows remains bright.