

PANORAMA



China-Africa: Will the marriage of convenience last?

Wolf Warrior 2, released in July 2017, became the first non-Hollywood movie to break into the top 100 highest-grossing film of all time at the global box office. The action movie portrays China as Africa's protector. Just four days after the release of the movie, China opened its first overseas military base on the coast of Djibouti, embodying the message of the movie. China has demonstrated a particular interest in Djibouti, a small country in the Horn of Africa, as a gateway to the continent, especially since the first Forum on China-Africa Cooperation (FOCAC).

As its name suggests, FOCAC embodies and oversees Beijing's interest in the entire continent. Since the first Forum was held in 2000, the upturn in economic cooperation between the Middle Kingdom and the African continent has transformed China into a key economic partner for many African countries. However, closer bilateral ties between China and most of its African partners remain centred around China's growing demand for commodities – particularly mineral resources such as oil, metals and precious stones – and has become subject to increasing scrutiny. Nevertheless, almost 20 years after the inception of FOCAC, it has become necessary to reassess the China-Africa relationship. China's economic rebalancing towards more domestic consumption is underway, and the slowdown in economic activity is apparent already, despite some signs

of strength in 2017. This should translate into weaker Chinese demand for mineral resources and lower commodity prices – starting with those of crude oil – both of which are lingering tendencies that will reshape the China-Africa bilateral relationship. Declining trade between the African continent and the Middle Kingdom, as well as the shrinking outward foreign direct investment (ODI) flows in the past two years, further reinforce this trend.

This drop in demand will not affect all countries in the region equally. Those which benefited the most from China's expansion are expected to feel the impact more strongly. For this study, we deployed an export dependency index to identify the main pockets of risk. It is scaled from 0 to 1, where higher scores indicate more exposure to disruptions of trade with China. Our results suggest that dependency on China across the continent has increased significantly between 2006 and 2016. To put this into context, Sub-Saharan Africa's commodity export dependency on China was 0.24; higher than the 0.07 registered in the EU-28 and 0.12 in the United States. Moreover, Sub-Saharan Africa still displays a much higher incidence than its emerging market peers in Asia and South America. Not surprisingly, we found that large exporters of oil (Angola) and metals (Zambia, South Africa) are most at risk to potential shifts in Chinese demand. These countries have also benefited from more inflows of Chinese ODI and lending.



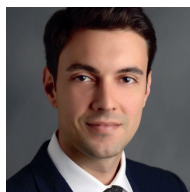
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However, in spite of the overall deterioration in export dependency on China, the latest developments do offer a glimmer of hope. Agricultural commodities (South African oranges, Ethiopian sesame, Senegalese groundnuts or Mozambican tobacco) and wood products (Mozambique, Nigeria, Equatorial Guinea, Cameroon, Ghana) - which could potentially benefit from China's rebalancing of its growth model - have emerged as small, but welcome, additions to Africa's export basket to China. Moreover Chinese ODI and lending has started to diversify away from the extractive sectors, focusing more on manufacturing, utilities

and services. However, like in every good marriage, a healthy dose of scepticism is always warranted. ODI and lending flows do not compare to trade flows in terms of value - in fact, they are one order of magnitude smaller. This means that African countries with high dependency levels on China remain very exposed to a steeper correction in Chinese demand or a return of lower commodity prices. At the same time, talks of relocating «The Factory of the World» to African countries are dampened by the stubbornly low export volumes of manufactured articles to China.



**Carlos
CASANOVA**



**Ruben
NIZARD**

1 FALLING IN LOVE IS EASIER THAN STAYING IN LOVE: A TALE OF UNBALANCED EXCHANGES AND INCREASING DEPENDENCY

1.1 From fringe supporter to largest trading partner: China goes to Africa

The first records of bilateral ties between Africa and China date back to the Middle Ages, with records going as far back as the Tang Dynasty (618–907). During the Song (960–1279) and Ming (1368–1644) Dynasties, the transit of Chinese vessels across all corners of the Indian Ocean intensified remarkably, which explains why Chinese objects from these periods can today be found in the East Coast of Africa. However, the foundation of modern economic relations did not take place until the establishment of the People's Republic of China in 1949. China initially pursued the advancement of communism in the region through the support of various liberation or Maoist movements in Africa. However, Chinese assistance eventually became more technical in nature¹, with Beijing sending medical staff to African countries and funding numerous infrastructure projects across the continent, including the Tanzania-Zambia railway, which is now considered a tribute to China-Africa friendship².

These efforts paid off. The support from African nations was instrumental in granting China accession to the United Nations (UN) General Assembly in 1971. 26 of the 76 votes in favour came from African nations and only three of the 22 countries that maintain full diplomatic relations with Taiwan are in Africa; namely Burkina Faso, São Tomé and Príncipe, and Swaziland. The relationship remained strong over the years, and following the diplomatic vacuum left by the Tiananmen Square Protests of 1989, China turned to its African allies for political and commercial support once again.

This was followed by Jiang Zemin's 1996 'Five Points Proposal' for the development of a long term relationship between China and African nations was a markedly commercial turn, focusing on bilateral trade and moving away from interest rate free loans³. This trend was further reinforced by China's 'going-out policy', an initiative established in 1999 to promote the internationalization of Chinese enterprises. Expanding internationally was seen as a priority for China, as it would enable the country to secure access

1/ Bräutigam, D., 2011. 'Chinese Development Aid in Africa: What, Where, Why and How Much?' in *Rising China: Global Challenges and Opportunities*, Golley J. and Song L., Australia National University Press, Canberra, pp. 203–223.

2/ Yu, G., 2011. 'Working on the Railroad: China and the Tanzania-Zambia Railway,' *Asian Survey*, University of California Press, Volume. 11, No. 11, pp. 1101–1117.

3/ Sithara F., 2007. 'Chronology of China-Africa Relations,' in *China Report*, Volume 43, No.3 pp. 363–373 pp, Sage Journals.

to resources to fuel its investment boom and create new markets for its manufactured goods and services overseas. The development aid that China provided to Africa specifically focused on facilitating bilateral trade links through infrastructure and technological know-how, thereby generating win-win opportunities for African exporters and China.

China's double-digit growth rates and thirst for natural resources drove it into relatively unexplored frontiers; a quest which helped to fuel trade with commodity exporters in Africa and beyond. As a result of this expansion, bilateral trade between China and Africa surged in the last decade, reaching USD 178 billion in 2016, down from a record USD 210 billion in 2013. In the case of Sub-Saharan Africa⁴, this figure was USD 123 billion in 2016, down from USD 193 billion in 2013. Imports have become an increasingly important constituent of bilateral trade flows, despite the fact that exports dominated for the larger part of the last decade (see charts 1 & 2). The

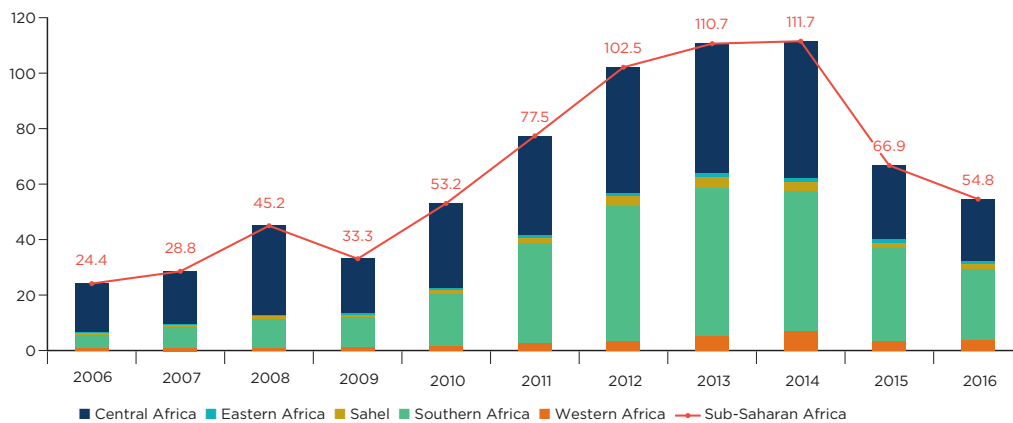


Bilateral trade between China and Sub-Saharan Africa surged to USD 123 billion in 2016.



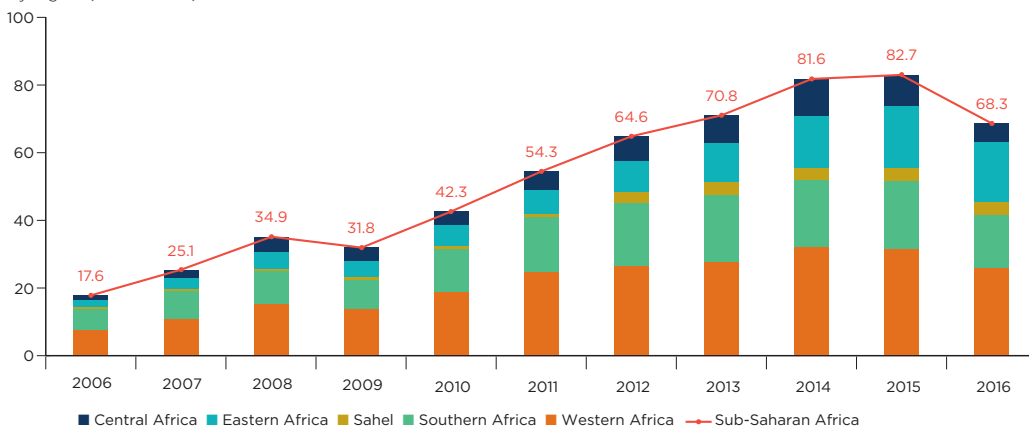
region now has a clear trade deficit with China, with some marked geographical differences. For instance, although Western and Eastern Africa possess trade deficits, both Southern and Central Africa still enjoy surpluses. Unsurprisingly, Southern Africa (led by South Africa) accounts for most of the continent's exports to China, followed by Central Africa (led by Angola); while Western Africa (led by Nigeria) and Eastern Africa (led by Kenya and Tanzania) account for most of the imports.

Chart 1A
Exports to China from Sub-Saharan Africa
By region (2006 - 2016) - In billion US dollars



Source: UNComtrade, Coface

Chart 1B:
Exports from China to Sub-Saharan Africa
By region (2006 - 2016) - In billion US dollars

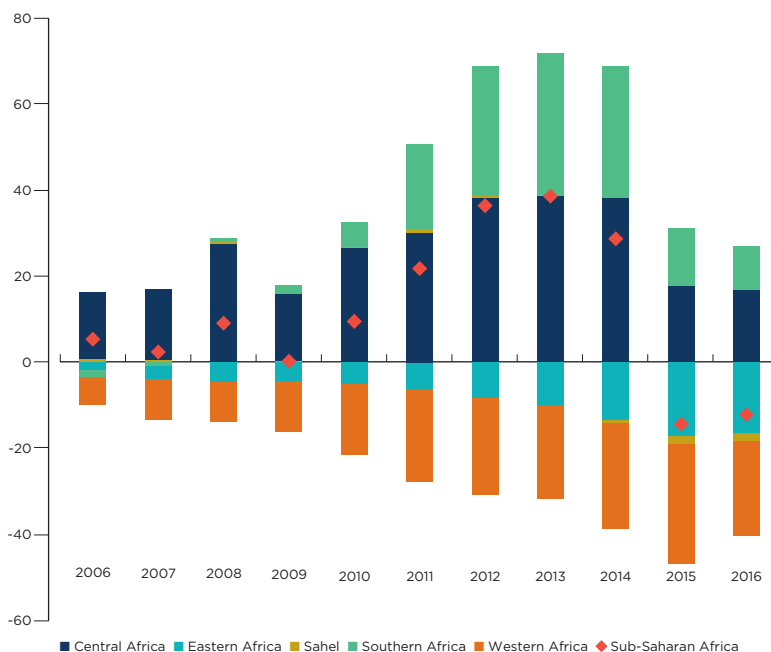


Source: UNComtrade, Coface

4/ Sahel: Chad, Mali, Mauritania, Niger, Sudan; Western Africa: Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Nigeria, Senegal, Sierra Leone, Togo; Central Africa: Angola, Cameroon, Central African Republic, Congo (Brazzaville), Congo (Kinshasa), Equatorial Guinea, Gabon, Sao Tome and Principe, South Sudan; Eastern Africa: Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Mauritius, Rwanda, Seychelles, Somalia, Tanzania, Uganda Southern Africa: Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe.



Chart 2:
Balance of trade in goods for Sub-Saharan Africa with China
By region (2006 - 2016) - In billion US dollars



Source: UNComtrade, Coface

As we can see in Chart 3, the impact of bilateral trade is also important in terms of the region's GDP⁵. Central Africa, being less diversified in terms of its economic structure, is more exposed, with total trade (sum of imports and exports) accounting for roughly 15% of GDP in 2016. Not surprisingly, the other big exporting region - Southern Africa - is also above the average for Sub-Saharan Africa: around 12% of GDP during the same period. Conversely, bilateral trade with China accounts for a much smaller proportion of GDP in the Sahel and Western Africa. The former has not been as engaged in China's economic miracle - relative to other regions in Africa - while the latter encompasses more diversified economies, such as Côte d'Ivoire. Additionally, although Nigeria is the biggest oil producer in Africa, China is not its main export destination: in the past, several Chinese organisations have unsuccessfully attempted to increase their stakes in the Nigerian oil industry.

Some marked differences can also be observed in terms of the composition of these flows. Sub-Saharan African exports to China remain highly concentrated in natural resources. In fact, these account for almost 80% of total exports to China. Fuels (39%), and minerals and metals (36%) overwhelmingly dominate a highly concentrated export basket. Crude petroleum oil is the largest single export⁶ to China (21%), followed by gold⁷ (9%) and diamonds (4%). On the other hand, imports are less concentrated and feature a larger proportion of manufactured goods. Manufactured articles were the largest single import (28%), followed by machinery and transport equipment (23%) and processed minerals and metals (10%) (see charts 5A and 5B). This fact points to potentially unbalanced trade links between Sub-Saharan Africa and China - with the former exporting raw materials and importing manufactured goods from the latter - unfavourable conditions for countries that are trying to augment their manufacturing capacity. It is especially worrisome for resource-rich economies in the South and the West, as it increases the risks of 'Dutch Disease'⁸, a mechanism by which natural resource revenues strengthen an economy's currency, resulting in cheaper imports and a less competitive manufacturing sector. It also increases exposure to commodity price volatility and shifts in demand.



Fuels (39%), and minerals and metals (36%) overwhelmingly dominate a highly concentrated export basket.



5/ Total trade, meaning the sum of imports and exports, expressed in terms of GDP is referred as trade openness. The interpretation of trade openness is, the higher the index, the larger the influence of trade on a given economy.

6/ At the 4-digit level of the 2017 Harmonized Commodity Description and Coding System (HS), which is a multipurpose international product nomenclature developed by the World Customs Organization (WCO).

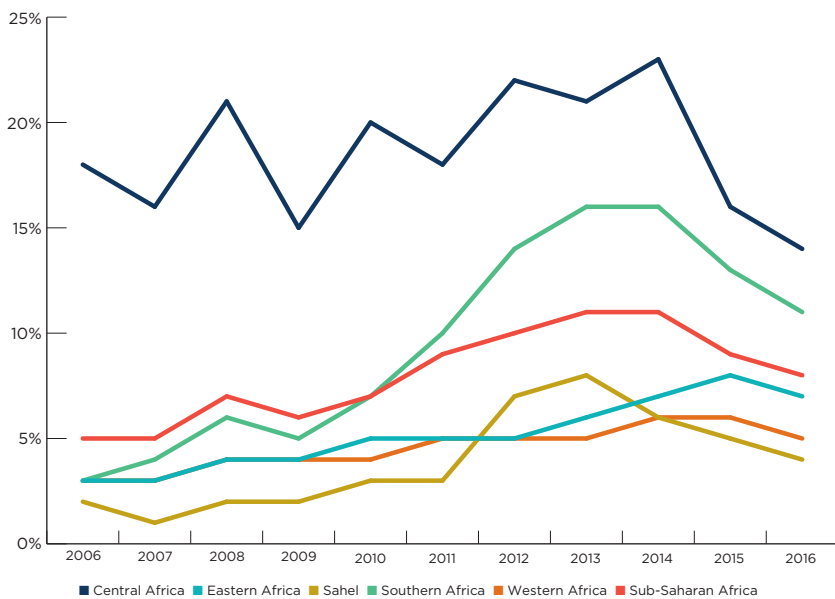
7/ In accordance with the SITC classification and in order to be consistent over time, gold was included in a chapter called 'commodities not elsewhere specified'. Details over African exports of gold to China can be found in inset 2.

8/ 'The Dutch Disease', The Economist, November 26 1977.

The 'Chinese engine of growth', as it has come to be known amongst commodity exporters in the emerging world, provided a much-needed boost when traditional sources of demand faltered. However, Chinese demand has started to slow down, due to its shift in focus from investments and heavy manufacturing towards increased domestic consumption. Sub-Saharan African exports to China have fallen by more than 50% from their peak in 2014. This is in

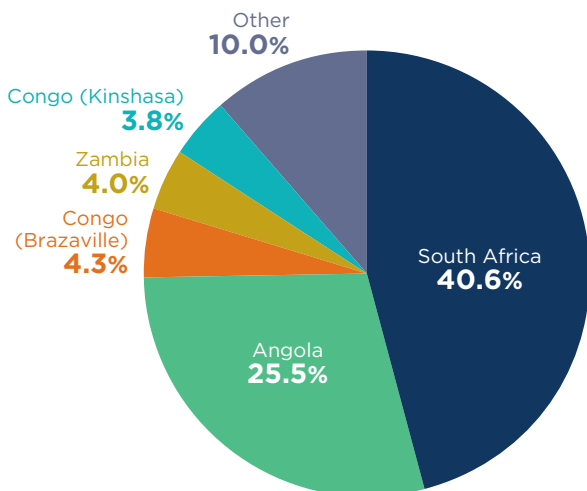
line with a deceleration in China's economy, from an average 10% during 2000-2010, to 6.7% last year. Inevitably, this will have consequences for African exporters: China's gleaming infrastructure and burgeoning housing complexes rely on African commodities such as copper, iron ore and oil - a slowing growth in China would drastically impact the export of these products.

Chart 3:
Bilateral China-Sub-Saharan Africa
Pourcentage of GDP



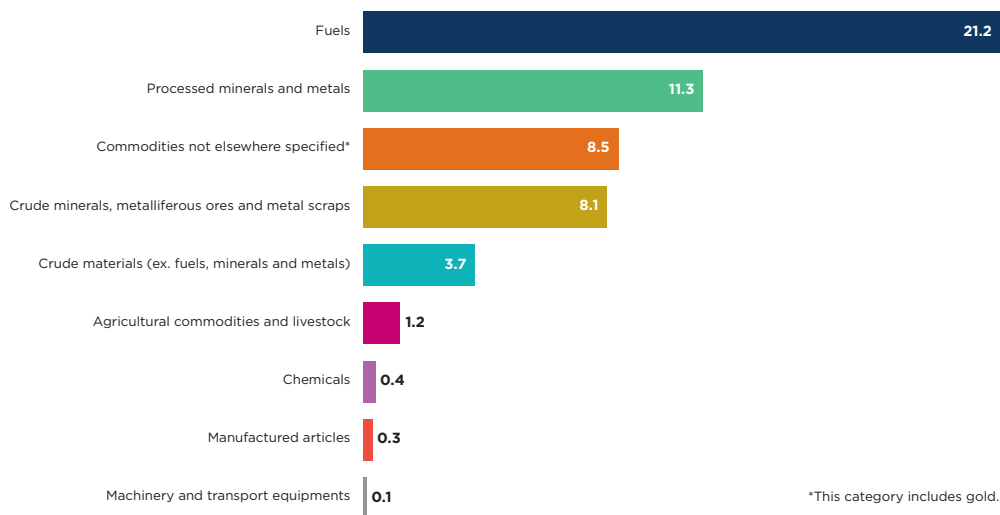
Source: UNComtrade, IMF World Economic Outlook, Coface

Chart 4:
Exporting countries from Sub-Saharan Africa to China
As a share of total Sub-Saharan Africa exports to China (2016)



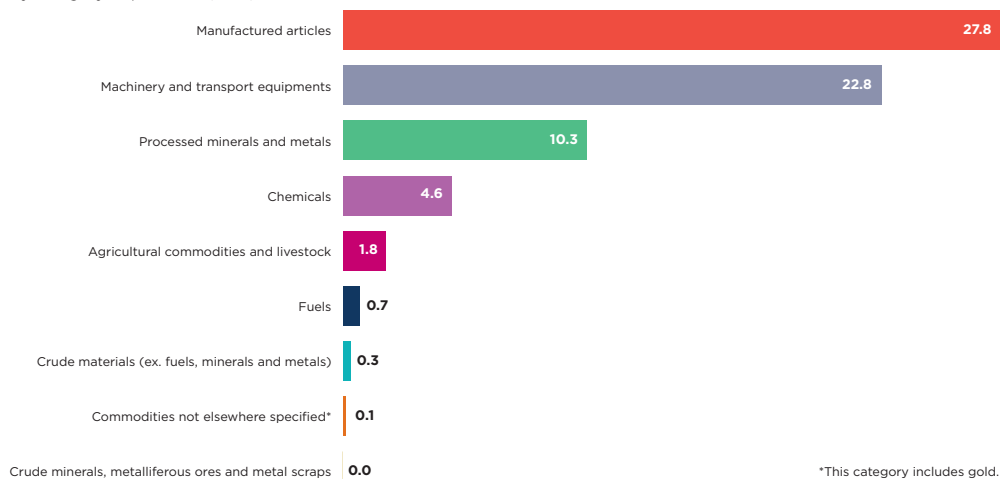
Source: UNComtrade, Coface

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Chart 5A:
Exports from Sub-Saharan Africa to China
By category of products (2016) - In billion US dollars



Source: UNComtrade, Coface

Chart 5B:
Exports from China to Sub-Saharan Africa
By category of products (2016) - In billion US dollars



Source: UNComtrade, Coface

1.2 Africa's mineral fuel and metal exporters: The most at risk from export dependency on China

Will this drop in demand affect all countries in the region equally? Not necessarily: the countries that benefited the most from China's expansion should, logically, feel the impact more strongly, whereas countries which have not increased their trade links with China to the same extent should be less affected. Furthermore, countries that are more dependent on export revenues will be hit harder, whereas those that possess a more diversified economy will feel the impact less. The basis of this relationship may seem obvious, but quantifying this impact is not a straightforward task. In order to prove which countries will be the most affected by a Chinese slowdown, it is important to understand the bilateral trade links in the context of Africa's export dependency on China (see *inset 1*).



**Export dependency
on China is high across
the African continent.**



INSET 1:

Methodology on measuring trade dependency

The extent to which a slowdown in bilateral trade will impact African exports depends on how vulnerable these commodities are to shifts in Chinese demand. To measure this, we will use an export dependency index for the major commodities that all African countries export to China⁹:

$$Index_{x,y} = \sqrt[3]{\frac{EXP_{x,y}}{EXP_y} \times \frac{EXP\ to\ China_{x,y}}{EXP_{x,y}} \times avg \left[\frac{IMP_{x,China}}{IMP_x} \times \left(1 - \frac{EXP_{x,y}}{EXP_x} \right) \right]}$$

The different components of the Index are broken down in Table 1 below:

Component	Description
$\frac{EXP_{x,y}}{EXP_y}$	Refers to country y's exports of commodity x as a share of its total exports. This shows how concentrated a country's exports are into one commodity (x)
$\frac{EXP\ to\ China_{x,y}}{EXP_{x,y}}$	Refers to country y's exports of commodity x to China divided by its total export of that commodity. This shows how dependent the world is on China to sell a particular commodity relative to other export markets
$avg \left[\frac{IMP_{x,China}}{IMP_x} \times \left(1 - \frac{EXP_{x,y}}{EXP_x} \right) \right]$	The average of two components: the first half refers to the share of China's imports of commodity x in the global market, while the second half is 1 minus country y's export market share of commodity x. This provides a measure of China's strength as a buyer or pricing power compared to the exporting country's strength as a seller.

The index measures the relative exposure of African countries to shifts in demand from China for their exported products. This measure is calculated for each country and its particular commodity (see

table 2). It is scaled from 0 to 1, where higher scores indicate more exposure to disruptions of trade with China.

The analysis was undertaken with figures compiled by the United

Nations COMTRADE at the 4-digit level of the 2017 Harmonized Commodity Description and Coding System (HS-4)¹⁰.

As we can see from the map below (see chart 6), export dependency is high across the continent. The aggregate dependency figures for the different African countries was calculated by aggregating export dependency figures for the different export products on a trade-weighted basis. A ranking of the individual products with the highest dependency on China can be found in Table 2. To put this into context, Sub-Saharan Africa's commodity export dependency on China was 0.24 in 2016¹¹; compared to 0.07 in the EU-28 and 0.12 in the United States. Admittedly, while export dependency on China is higher for emerging economies, Sub-Saharan Africa still displays a much

higher incidence than its emerging market peers in other regions. For example, the figure for Southeast Asia¹², one of China's largest trading partners, was only 0.16 during the same period (see table 3).

Moreover, dependency has increased significantly compared to 2006 (see table 2 and chart 6). This is in line with the huge upsurge in trade volumes between China and Africa, which tripled over the 2006-2016 period. Not coincidentally, the most dependent countries are also those that export commodities to China, with most of the dependency being concentrated around crude oil. Since its independence in July 2011,

9/ A. Garcia-Herrero and C. Casanova. 'China's trade relations with the South: what can Africa learn from Latin America?'. 2014. BBVA Research. URL: <https://www.bbva.com/en/publicaciones/chinas-trade-relations-with-the-south-what-can-africa-learn-from-the-latin-american-case/>.

10/ Information and the full 2017 HS classification can be found at the World Customs Organization (WCO) website: <http://www.wcoomd.org/en/topics/nomenclature/instrument-and-tools/hs-nomenclature-2017-edition/hs-nomenclature-2017-edition.aspx>.

11/ The trade weighted export dependency towards China for each region has been calculated using each country groupings top-50 exports to China.

12/ Southeastern Asia includes Brunei Darussalam, Cambodia, East Timor, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.



South Sudan topped the ranking with its oil exports. China has played a pivotal role in the establishment of the country both in terms of its peacekeeping missions, as well as through the financing of critical infrastructure that has allowed the country to better exploit its natural resources. Not surprisingly, most South Sudanese oil exports (99% of recorded exports in 2016) were sent to China, explaining the region's high dependency rate. South Sudan, which holds an estimated 75% of pre-independence Sudan's oil reserves, inherited the export dependency of the former Sudan. Angola is another country that figures high on the ranking given its long and established commercial relationship with China (see inset 2); followed by Congo and Gabon.



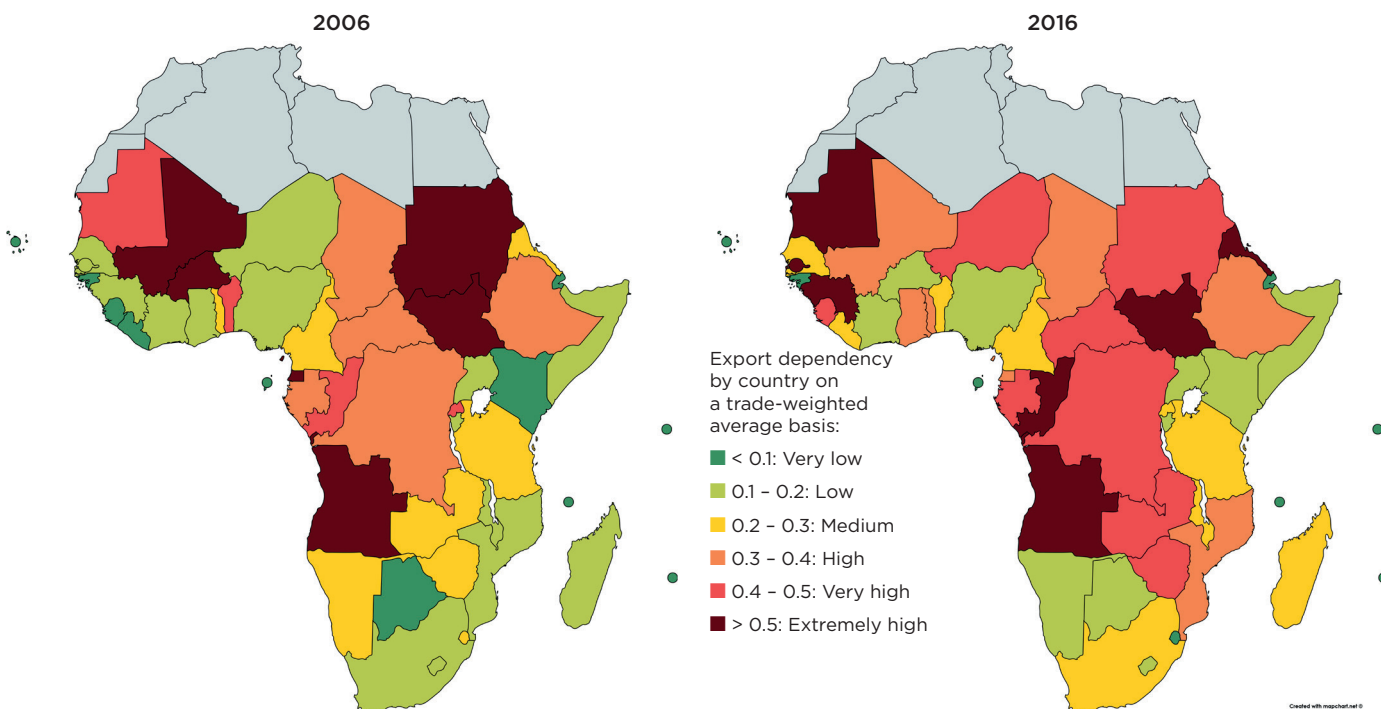
Most of the dependency is concentrated around crude oil and metal ores exports.



Metal ores (including iron, copper and aluminium) came in a tight second place. Eritrea and Gabon appear for the first time in the ranking. While these are not established producers when compared to other countries in the region such as Zambia (see inset 2), the size of China's demand vis-à-vis their volumes of exports of this commodity explains

the high incidence of dependency. Zambia saw significant increases in the dependency for its copper exports between 2006 and 2008 and has remained very dependent ever since. Dependency was also high for less obvious commodity exports such as wood and precious metal ores.

Chart 6:
Export dependency by country on a trade-weighted average basis
index from 0 (no dependence) to 1 (complete dependence), 2006 vs 2016



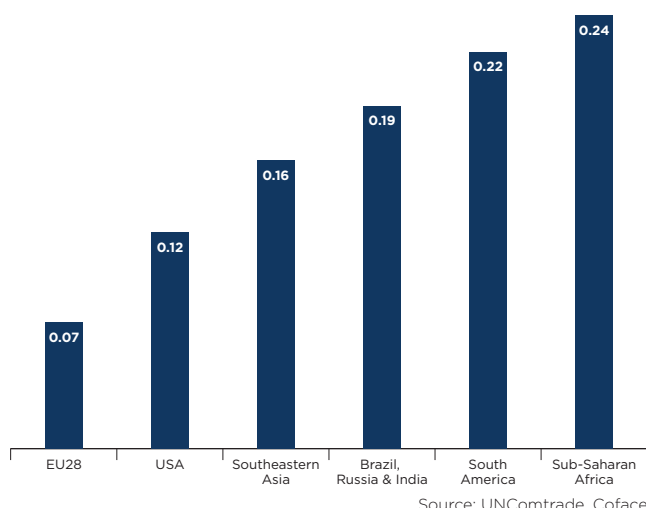
Source: Garcia Herrero & Casanova (2014), UNComtrade, Coface

Table 2:
2016 export dependency ranking by country and by commodity

Rank	Country	Commodity name	HS Code	Dependency 2016	Dependency 2017
1	South Sudan	Petroleum oils and oils obtained from bituminous minerals, crude	'2709	0,83	-
2	Angola	Petroleum oils and oils obtained from bituminous minerals, crude	'2709	0,66	0,56
3	Gambia	Wood in the rough, whether or not stripped of bark or sapwood, 'or roughly squared	'4403	0,66	0,14
4	Congo	Petroleum oils and oils obtained from bituminous minerals, crude	'2709	0,64	0,52
5	Eritrea	Copper ores and concentrates	'2603	0,58	0,00
6	Guinea	Aluminium ores and concentrates	'2606	0,58	0,00
7	Mauritania	Iron ores and concentrates, incl. roasted iron pyrites	'2601	0,57	0,13
8	Sierra Leone	Iron ores and concentrates, incl. roasted iron pyrites	'2601	0,56	0,00
9	Zambia	Copper, unrefined; copper anodes for electrolytic refining	'7402	0,55	0,23
10	Eritrea	Precious-metal ores and concentrates	'2616	0,54	0,00
11	Gabon	Petroleum oils and oils obtained from bituminous minerals, crude	'2709	0,54	0,35

Source: Garcia Herrero & Casanova (2014), UNComtrade, Coface

Chart 7:
Trade-weighted export dependency on China
By country / country groupings - Index from 0 (no dependence) to 1 (complete dependence), 2016



INSET 2:

Angola and Zambia: poster children for Africa's export dependency on China

Angola: The 'resources-for-infrastructure' pact and oil dependency

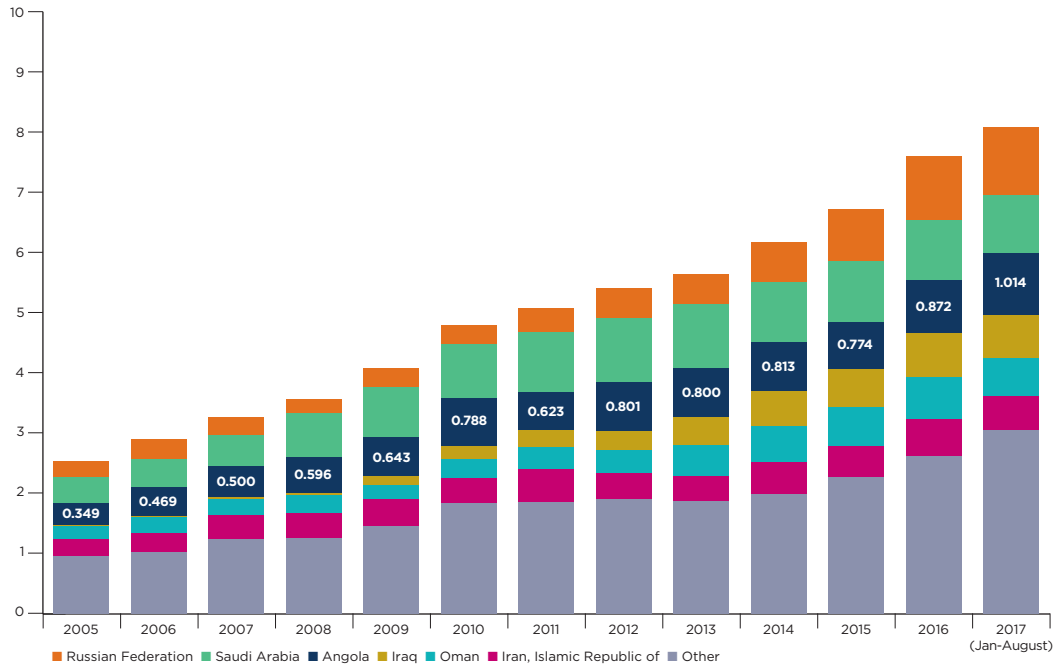
Angola had a very high export dependency incidence on China in 2016, and has systematically ranked among one of the top five most dependent countries in Sub-Saharan Africa over the past decade. The country's dependency on China is almost solely explained by its crude oil exports to the world's largest oil consumer. Angola has always been one of China's top suppliers of crude oil; even before the civil war ended in 2002 (see chart 7). The relationship transcends trade flows; just months after Beijing approved a USD 2 billion loan to Angola, Sinopec - one of China's oil and gas producers - ente-

red into a partnership with Sonangol, the Angolan public oil company. This deal structure, also known as "resources-for-infrastructure", whereby the repayment of loans for infrastructure development granted by China is made in terms of exports of crude oil, became a reference for other emerging markets in Africa and beyond. However, the 'Angolan model' has one caveat: the slump in oil prices in 2014 hit the bilateral relationship harshly. Trade between the two countries more than halved in terms of USD. Nevertheless, dependency to China remained high as the volume of oil barrels exported to

China remained buoyant. Cheaper oil led to an increase in Angolan exports to China to a record of 872,000 barrels of crude per day (b/d) in 2016 (see chart 8). Monthly data from China Customs indicates that Angola is poised to beat this record again in 2017 (1 million b/d on average between January and August 2017). Nevertheless, increased export volumes did not compensate the slump in oil prices from their 2014 peak. This increase could also prove short-lived, especially if the Chinese government decides to restrain imports in order to tackle overcapacity in the refining sector.



Chart 8:
China imports of crude oil by country of origin
In million barrels per day



Source: General Administration of Customs of the People's Republic of China, Energy Information Agency, Coface

Zambia: a story of friendship turned sour

Zambia's export dependency on China doubled over the past decade, beginning in 1998, after China Nonferrous Metal Mining Group (CNMC), a Chinese state-owned enterprise (SOE), developed and began operating the Chambishi copper mine. Since then, an increasing number of Chinese companies have followed in the footsteps of CNMC and entered the extractive sector in Zambia. Chinese presence in Zambia was also built on a "resources for infrastruc-

ture" model. The fact that a large part of inbound investment was resource-oriented greatly added to Zambia's export dependency on China, making the country even more exposed to potential shifts in commodity prices, and increasing its vulnerability to external shocks. Zambia is a telling example of the uninviting side of Chinese engagement in Africa. Several labour disputes between Chinese employers and local workers further tarnished the foundations of this long-las-

ting relationship. This matter most notably attracted international attention when *Human Rights Watch* published a report on labour abuses perpetrated by Chinese SOE in Zambia¹³. One of the most recurrent criticisms of Chinese engagement in Africa is poor operating standards, though not in all cases. A growing anti-Chinese sentiment in Zambia was used by politicians as a populist rhetoric; denouncing an engagement that produces little economic and social gains for locals.

2 DEBUNKING MYTHS: HOW AND WHERE ARE CHINA-AFRICA RELATIONS CHANGING?

2.1 Promising prospects for higher-value added processed commodities and agricultural products

Trade links between China and Africa remain unbalanced. Much has been said about China's increasing presence in the continent, including allusions to its neo-colonial nature. However, mainstream media

has not placed enough emphasis on the more promising developments that are reshaping China-Africa relations. Indeed, in 2016, fuels and metals represented 53% of total Sub-Saharan Africa's exports to the Middle Kingdom. However, although this figure remains remarkably high, it has decreased steadily since 2008, when it accounted for over 80% of Africa's export basket to China. This trend indicates that the

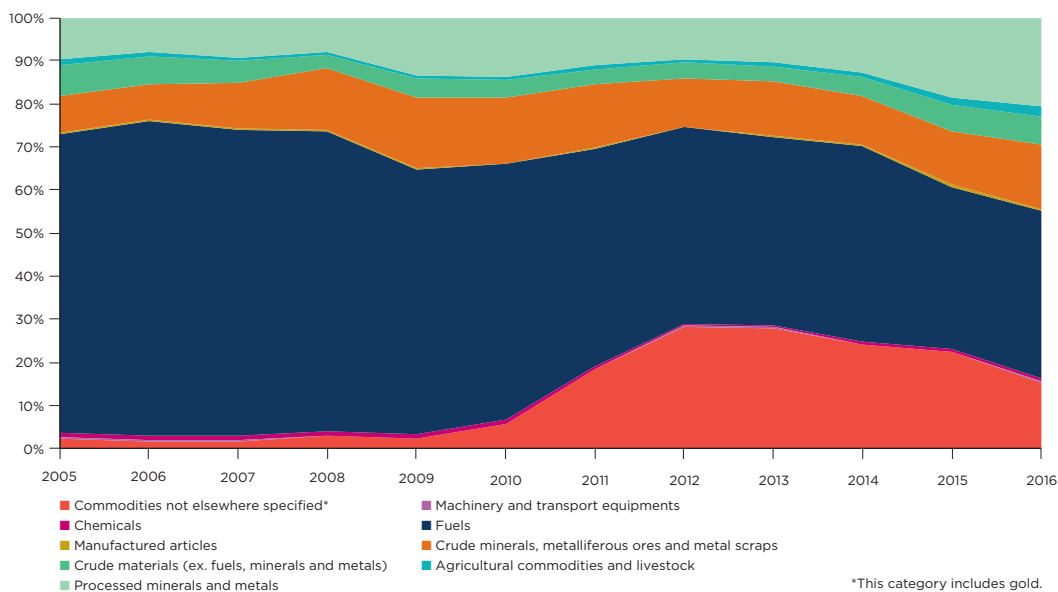
13/ "You'll Be Fired If You Refuse": Labour Abuses in Zambia's Chinese State-owned Copper Mines.' Human Rights Watch, 2011, URL: <https://www.hrw.org/report/2011/11/04/youll-be-fired-if-you-refuse/labor-abuses-zambias-chinese-state-owned-copper-mines>.

relationship between China and Africa has already started to evolve. In order to identify these evolutions, we singled out, on a country by country basis, sectors: 1) with exports volumes to China above USD 100 million in 2016 2) that tripled (or more) in the past decade.

Using this methodology, one of the first results we see is that there is a booming Chinese demand for an “unspecified” category of products imported from South Africa, which is predominantly comprised of gold¹⁴ (see *inset 2*).

Chart 9:

Exports to China by category of products
As a share of total Sub-Saharan Africa exports to China



Examining the data more closely shows that Africa has successfully captured a larger share of value-adding commodity processing. The rise of processed mineral exports, which increased fivefold between 2015 and 2016, is also an important feature of how the China-Africa relationship has evolved. Even though such a change in the export mix still makes resource-rich countries vulnerable to commodities’ price downturns, processing metals and minerals locally could generate greater revenues, create employment opportunities, and encourage transfer of technology.

Processing raw materials to increase the proportion of value-added per unit that remains in the country is a cause for concern. Some governments, aware of the potential benefits, are pushing aggressively to add value to their exports. In order to promote downstream processing of minerals, export taxes, export licensing requirements and export bans are sometimes put in place by African governments. In March 2017, Tanzania imposed an export ban of unprocessed gold, copper ores, mineral concentrates and metallic minerals. A recent OECD research paper¹⁵

found that this type of trade protectionism did not produce clear gains for industry. The authors also found that in some of the cases they studied, these measures could even undermine the overall performance of the protected industries. Even when implemented with the best intentions, policies of this kind can prove harmful by deterring investment and alienating miners who are already operating in the country. In the Tanzanian example, Acacia Mining, a subsidiary of the Canadian miner Barrick Gold (which operates several mines in the Eastern African nation), subsequently announced that it will begin to withdraw from the Bulyanhulu mine – the country’s main goldmine.

Raw materials, other than fuels and minerals, are also singled out in our analysis of the evolution of exports to China, starting with wood. We see strong export growth in the wood sector in a number of countries: Nigeria, Gambia (whose heavy reliance on China we have already discussed) and Ghana in Western Africa, Cameroon and Equatorial Guinea in Central Africa, as well as Mozambique and Zambia in Southern Africa. In total, these rough wood exports

14/ In accordance with the SITC classification, non-monetary gold other than gold ores and concentrates is under the chapter ‘commodities not elsewhere specified’.

15/ B. Fliess, E. Isardi and R. Roussow. ‘Export controls and competitiveness in African mining and minerals processing industries’, 2017. OECD Trade Policy Papers, No. 204. OECD Publishing. Paris. URL: http://www.oecd-ilibrary.org/trade/export-controls-and-competitiveness-in-african-mining-and-minerals-processing-industries_1fddd828-en



to China amounted to USD 1.5 billion in 2016. Limited Chinese forest products could present a window of opportunity for some of these African countries in the next few years. With wood being more consumption-driven than metals and minerals (notably for home furnishings), the sector could potentially benefit from China's rebalancing towards consumption.

Agricultural commodities are another area that offers potential development opportunities. 15% of the world's total arable land is in Sub-Saharan Africa, which gives the region a comparative advantage in this area. At the same time, China is the most populous country on the planet and its population has experienced a rapid increase in income, which has in turn translated into demands for a richer diet. This should support the possibility that African countries could diversify their export baskets by including a larger proportion of agricultural commodities such as oleaginous seeds, fresh fruit and vegetables, meat and fish. Although these are undeniably on the rise, trade figures indicate that exported volumes of agricultural products to China remain quite low at USD 1.2 billion, representing 2% of total exports to China. Moreover, the region had a trade deficit with China in this category; a situation which has not evolved much in the past decade. Media reports¹⁶ of a coordinated Chinese push to develop agriculture in Africa fuelled the perception that China was trying to enhance its future food security by heavily investing in the region. However, this is far from true: according to the findings

of the Johns Hopkins School of Advanced International Studies' China-Africa Research Initiative (SAIS-CARI), Africa is not close to becoming China's farm.

Digging deeper into the data, we find that only a few products have driven the growth in African exports of agricultural goods to China. It appears that growth was driven mainly by tobacco produced in Southern Africa, with Zimbabwe – China's top supplier of tobacco – leading the pack. Tobacco was followed by citrus exports, also from Southern Africa (this time South Africa). Outside of Southern Africa, exports of oleaginous fruits and grains (HS-1207) stand out, led by sesame exports from Ethiopia. Exports for this category of products also grew substantially in Mali, Niger, Senegal, Sudan, Tanzania, and Togo. Grain and oleaginous fruit exports from Sub-Saharan Africa represented roughly USD 1 billion each year from 2014 onwards. However, other renowned African agricultural goods such as cocoa (Ghana, Côte d'Ivoire, Nigeria, Togo), coffee (Ethiopia, Uganda, Kenya, Tanzania) and tea (Kenya, Burundi, Mozambique) do not feature prominently in Africa's export basket to China. We expect the share of these goods to increase in the future, in line with China's demographic trends: rapidly urbanizing and affluent emerging middle class. However, Chinese businesses and consumers still favour Asian suppliers. Therefore, it is unlikely that this will displace minerals such as oil and metal ores, or even tobacco for that matter, any time soon.

INSET 3:

Fixing a hole (in the data): South African gold exports to China

The category 'commodities not elsewhere specified' (HS-9999) saw a remarkable increase to USD 27 billion in 2014, before falling to zero just two years later. Moreover, 99% of these exports were coming from South Africa, creating a mystery: what exactly was being exported?

A pot of gold at the end of the Rainbow (Nation)?

South Africa became China's largest trading partner in Africa in 2010. This is (perhaps not coincidentally) also the year that the African nation joined the BRIC group, which subsequently became the BRICS. South Africa's export dependency as defined by our index grew over the past decade, in line with burgeoning trade flows. However, the rise in export dependency was driven mainly by unclassified commodities. In 2013, HS-9999 represented

an astonishing 64.9% of Chinese total imports from South Africa, and approximately 20% of South African exports to the world.

Evidence points to this mysterious category of products being mostly gold. South African gold (HS-7108) exports to China jumped from zero to USD 14.9 billion in 2015. Delving deeper into Chinese import data, we observed similar movements in the trade of these two categories for other top gold suppliers (Switzerland, Australia,

Hong Kong) to China between 2015 and 2016. The evolution of these trade flows is also in adequacy with the growth of Chinese demand for gold, especially after the World Gold Council and The Industrial and Commercial Bank of China (ICBC) launched a 'Gold Accumulation Plan'. Initial research from 2013¹⁷ confirms that the strange gap in the data could have been accounted for by gold. Our observations confirm this conclusion.

16/ *Will Africa feed China?*, Deborah Bräutigam, Oxford, Oxford University Press, 2015, 248 pp.

17/ Sandrey R., E.M. Mpitsa, J. Vermaak and M. de Beer. 'Assessing South Africa's trading relationship with China'. 2013. Working paper no. D13WP03/2013. Trade Law Centre. URL: <http://www.tralac.org/wp-content/blogs.dir/12/files/2014/02/D13WP032013-Sandrey-et-al.-Assessing-SAs-trading-relationship-with-China-20131209-fin.pdf>.

A similar conclusion can be drawn for exports of manufactured articles to China, which remains very low despite an average of 15% growth per year over the past decade. The opening of the Huajian shoe factory in Ethiopia is one example of the manufacturing potential for some African countries, which we examine in the following section of our report. Nevertheless, Sub-Saharan African countries still have a long way to go before they can establish themselves as the next «Factory of the World», as they are often touted. Low-skills industries, such as clothing, textiles, and footwear, are starting to emerge, but are confined to a few countries; mostly in Eastern Africa. In addition to Ethiopia – often singled out for its low labour costs¹⁸ – Kenya, which ranks higher in competitiveness in international rankings, could become a hub for apparel sourcing. Rwanda also recently benefited from investment in this sector (from Huajian Group and C&H Garments, for example). Small countries such as Swaziland, Lesotho, Mauritius, and Madagascar have established a burgeoning garment industry, and have created interesting potential development opportunities in part thanks to the African Growth and Opportunity Act¹⁹, which is an American initiative to support African economies. Therefore, this sector features an interesting potential but remains under-exploited in the commercial relationship between China and Africa.

2.2 Financing is also shifting away from natural resources

China has also played an increasingly prominent role as an alternative source of funding for African countries. Chinese ODI to Sub-Saharan Africa has increased considerably over the past decade. Flows have gone from a mere USD 0.4 billion in 2000, to a peak of USD 3.2 billion in 2013. As we have observed in the case of trade, these flows have since slowed.

Geographically, it is not surprising that most of Chinese investments have gone to regions that, being big exporters of commodities, also have very high levels of export dependency on China. In particular, we see that most ODI stocks in the region went to Southern Africa, followed by Central Africa (Nigeria, Congo, and Zambia). As we have seen in the previous sections of this report, Chinese engagement in the region has in many cases followed the ‘Angolan model’ – however this has started to change.

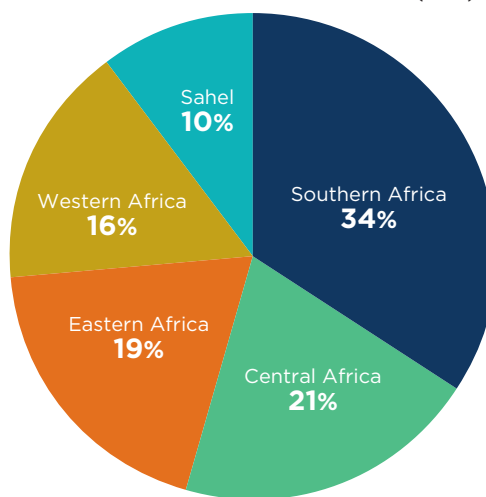
Studying the recipients of flows, rather than stocks, reveals a more encouraging picture. While South Africa and Congo are still on the list of top recipients, the ranking is dominated by economies like Ghana, Kenya and Ethiopia. Without delving into the details of each and every individual country, we observe that Chinese investments in these regions are not always extractive in nature. In fact, looking at microdata compiled by China’s Ministry of Commerce (MOFCOM) shows that most Chinese projects in Africa are in

services and manufacturing²⁰. This makes sense given the increase in exports of low-value added manufactured goods that was discussed in the previous section of this paper. It is also consistent with Chinese private companies settling-in in African countries in order to reach out local consumers, particularly in Eastern and Western Africa.

In addition, according to alternative figures compiled by the American Enterprise Institute, the largest number of deals involving Chinese firms in Africa (outside energy) has taken place in the transport sector, followed by the real estate, agriculture, and utilities sectors. Ethiopia and Kenya have seen a significant amount of Chinese investment pouring into the manufacturing sector (textile in Ethiopia and auto manufacturing in Kenya).

Technology is another area where Chinese enterprises have been very active in the continent; notably private sector telecom investors (e.g. Huawei). Transportation – in particular rail – is another sector where Chinese firms have played a key role, led by multibillion rail deals in Nigeria, Kenya, Ethiopia, and Djibouti. The region has also seen a number of Chinese projects in the services sector; the most publicized of which was ICBC’s investment in South Africa’s banking group Standard Bank. Chinese investments have therefore played an important role in promoting the diversification of Africa’s economy.

Chart 10:
Distribution of Chinese ODI stocks in Africa (2016)



Source: MOFCOM, Coface

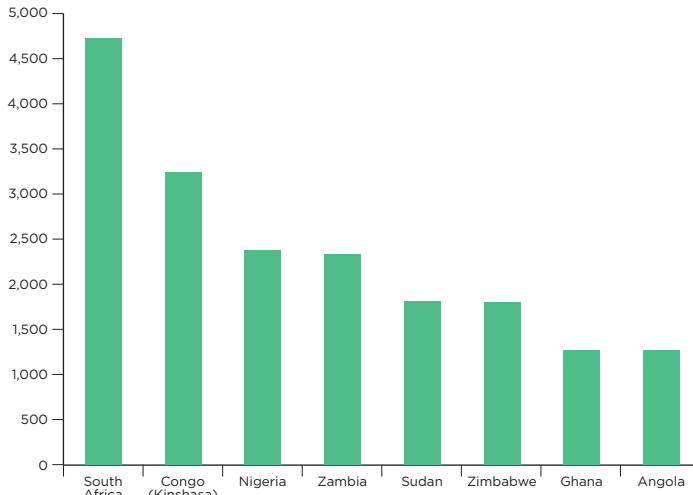
18/ A. Gelb, C. Meyer, V. Ramachandran and D. Wadhwa, ‘Can Africa be a Manufacturing destination? Labor costs in comparative perspective’, 2017. Working Paper 466. Center for Global Development. URL: <https://www.cgdev.org/publication/can-africa-bemanufacturing-destination-labor-costs-comparative-perspective>.

19/ African Growth and Opportunity Act (AGOA) is a US Federal Law adopted in 2000, which offers incentives to African economies to open their economies and build free markets. URL: <https://www.trade.gov/agoa/>.

20/ H. Heiwai, D. Dollar and W. Chen. ‘Why is China Investing in Africa? Evidence from the firm level’. 2015. Brookings.

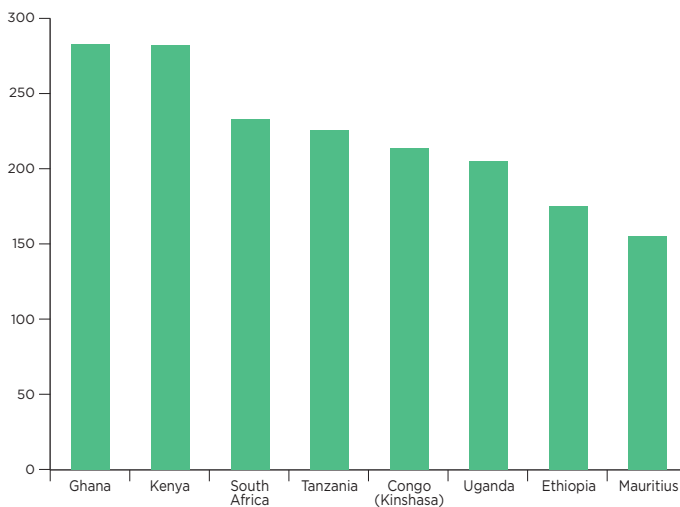


Chart 11A:
Top recipients of Chinese ODI stocks
Million of US dollars, 2015



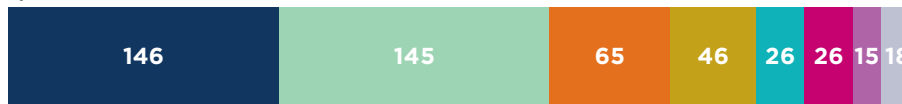
Source: MOFCOM, Coface

Chart 11B :
Top recipients of Chinese ODI flows
Million of US dollars, 2015
Source: MOFCOM, Coface



Source: MOFCOM, Coface

Chart 12:
Number of deals
By sector 2006 - 2017



Source: American Enterprise Institute, Coface

Lending figures certainly confirm this trend. Jiang Zemin's 'five-point' proposal set a foundation for China-Africa relations based on mutual cooperation, but also mutual gain. As China is not an OECD member, it does not follow conventional definitions of concessional aid: Chinese lending therefore serves a complex system of interests, which aim to secure China's economic interests in the region as well as promote Chinese-style economic development and reduce dependency of conventional partners.

The government encourages its agencies and commercial entities to 'closely mix and combine foreign aid, direct investment, service contracts, labour cooperation, foreign trade and exports.' Therefore, the complex nature of Chinese concessional lending may at times make it hard to interpret developments.

According to figures compiled by the SAIS-CARI Initiative, Angola has been the largest recipient of lending between 2000 and 2017, of the majority of

which was loans for oil. But the country accounts for only 21% of a cumulative 92 billion in loans between 2000 and 2017. Ethiopia comes in second (14.2%), followed by Kenya (7.4%), Sudan (7.0%), Cameroon (4.0%) and Nigeria (3.8%). China's aid to Africa covers a wide array of fields, such as agriculture, education, transportation, energy, communications, and health. On a sector by sector basis, transport and utilities (power and water) account for the lion's share (32% and 28% respectively); followed by mining and communication.

2.3 Conclusion

The nature of China-Africa relations remains unbalanced. The continent as a whole maintains a trade deficit with China, while export dependency levels have increased, especially for oil and metals. In spite of this trend, the latest developments do present the possibility that the China-Africa relationship may be able to go from being a failed marriage of convenience to a win-win partnership based on mutual respect. Agricultural commodities and wood products have emerged as a small, but welcome, addition to Africa's export basket to China, while Chinese ODI and lending has started to diversify away from the extractive sectors, focusing more on manufacturing, utilities, and services. This diversification has already translated into higher exports - but still very low - of low value-added manufactures into China, which should continue as the country aims to move up global value chains as part of its 'Made in China 2025' strategy. Existing initiatives such as the Belt and Road aim to boost regional connectivity and lower trade costs. This will not only boost exports to China, but also facilitate inter-regional trade both within Africa and within neighbouring regions in the Middle East and Europe.

However, as with any partnership, a healthy dose of scepticism is always warranted. The African export basket to China remains highly concentrated around crude oil and mineral resources. Plus, ODI and lending flows do not compare to trade flows in terms of value; they are one order of magnitude smaller. This means that African countries with high dependency levels on China remain very exposed to a steeper correction in Chinese demand or a return of lower commodity prices, especially metals. Moreover, Chinese interests in the region encompass China's principles for development and as such, will continue to pursue a complex network of economic as well as political objectives. African countries are right in trying to capitalize on this trend and learn from China's experience. After all, China's 'economic miracle' lifted millions of people out of poverty, something that most African economies can only dream of at this juncture. However, governments need to be wary of becoming (overly) dependent on Chinese financing, as they could risk becoming vulnerable to shifts in Chinese policies as well as demand. Some of the latest developments seem to point towards the right direction, but there remains a lot of work to be done for this relationship to become a win-win cooperation.

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