

## Africa-China Economic Relations: The next phase\*

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The recent meeting of the Forum on China-Africa Cooperation (FOCAC) held in Beijing in the first week of September was an important indicator of a new phase in Africa-China economic relations. These reflect both the changing internal dynamics in China as its economy rebalances towards greater emphasis on domestic consumption and the recent changes in geopolitics that are altering international trade and financial patterns.

China's economic interaction with African countries, especially in the past decade, has been the object of much attention not only within Africa but globally. The rise of China has been hugely significant for the world economy—and it has had differential impacts across the world. For countries in Africa, which are dominantly exporters of primary products, it has been particularly significant in a number of different ways.

The first—and most obvious—is through China's voracious demand for raw materials for its dramatic industrialization, which increased both volumes and unit values of global primary product exports. The significant improvement in terms of trade for African economies in the first decade of the 2000s was due in no small measure to this, and contributed to African development much more than the paltry and declining amounts of aid and investment that the continent received from western countries.

Figure 1.

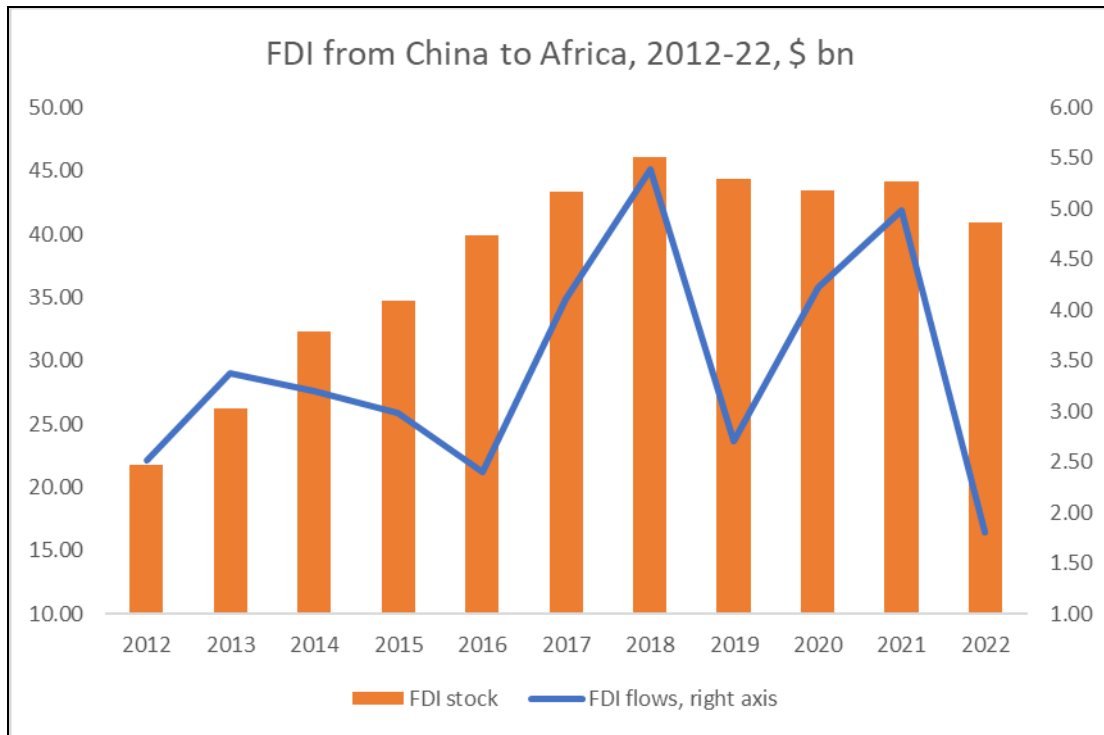


Source for all figures: [www.statista.com](http://www.statista.com)

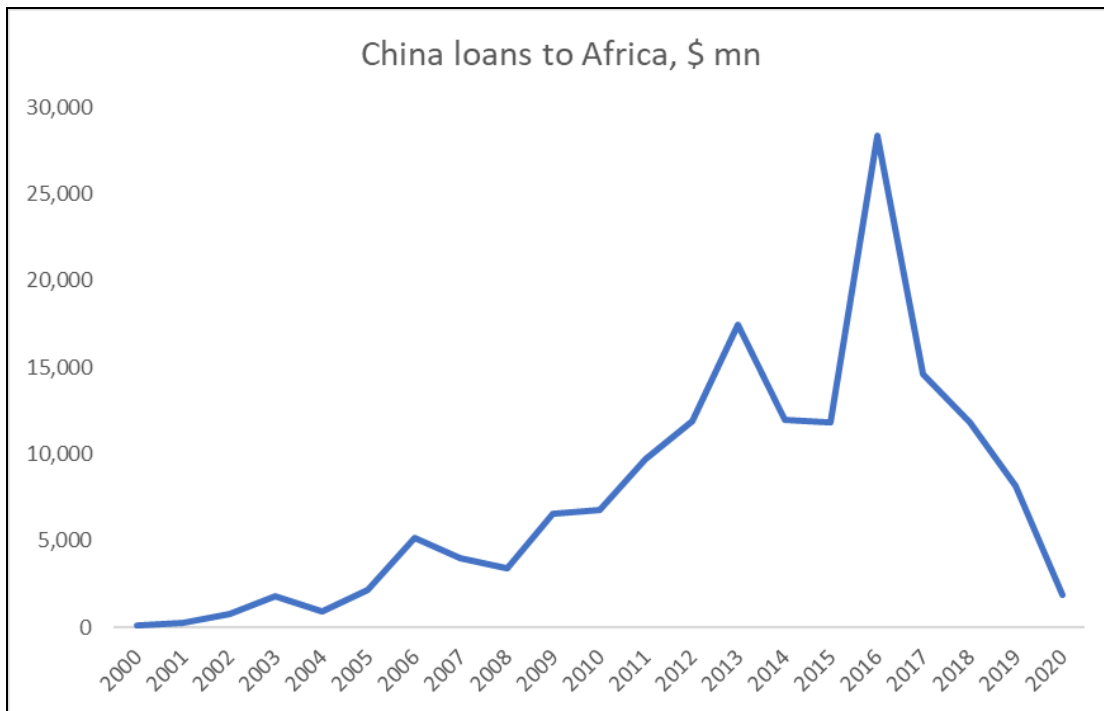
While merchandise trade between China and Africa was largely balanced in the first decade after 2000, after 2012 the divergence was marked, as Chinese exports to Africa rapidly outpaced African exports to China (Figure 1). This difference resulted

from growing demand in Africa for the relatively cheaper Chinese manufactured goods that were also in hot demand across the world.

**Figure 2.**



**Figure 3.**

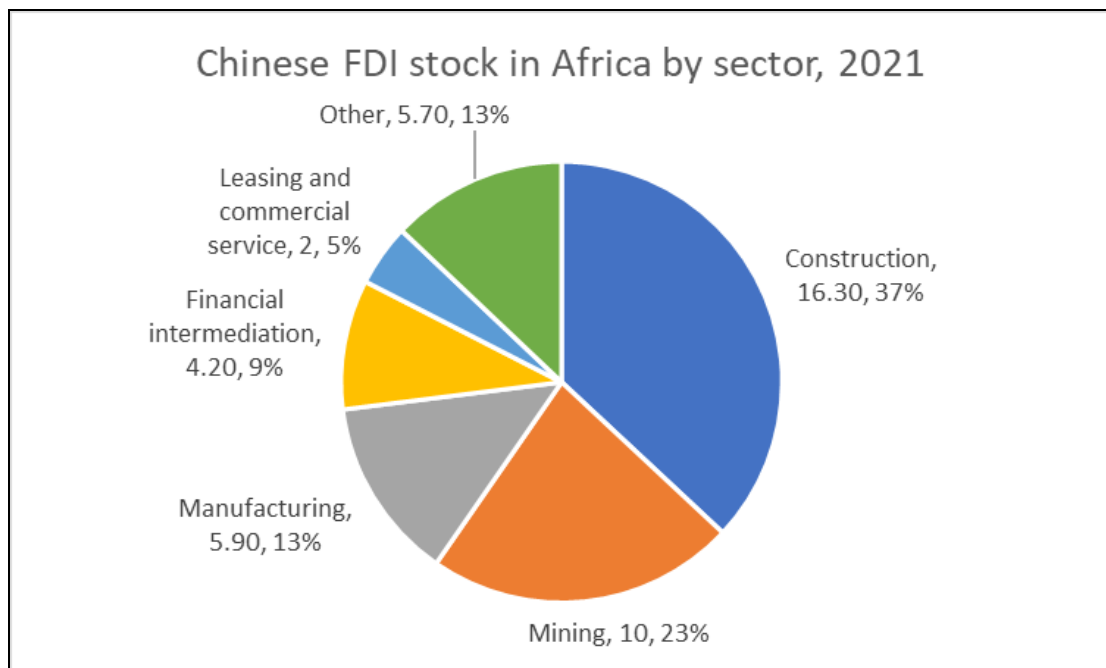


China’s growing current account surpluses after 2003 enabled it to accumulate the largest stock of o exchange reserves in history, and provided an impetus for the export of capital. Africa thereby benefited not just from increased export volumes and

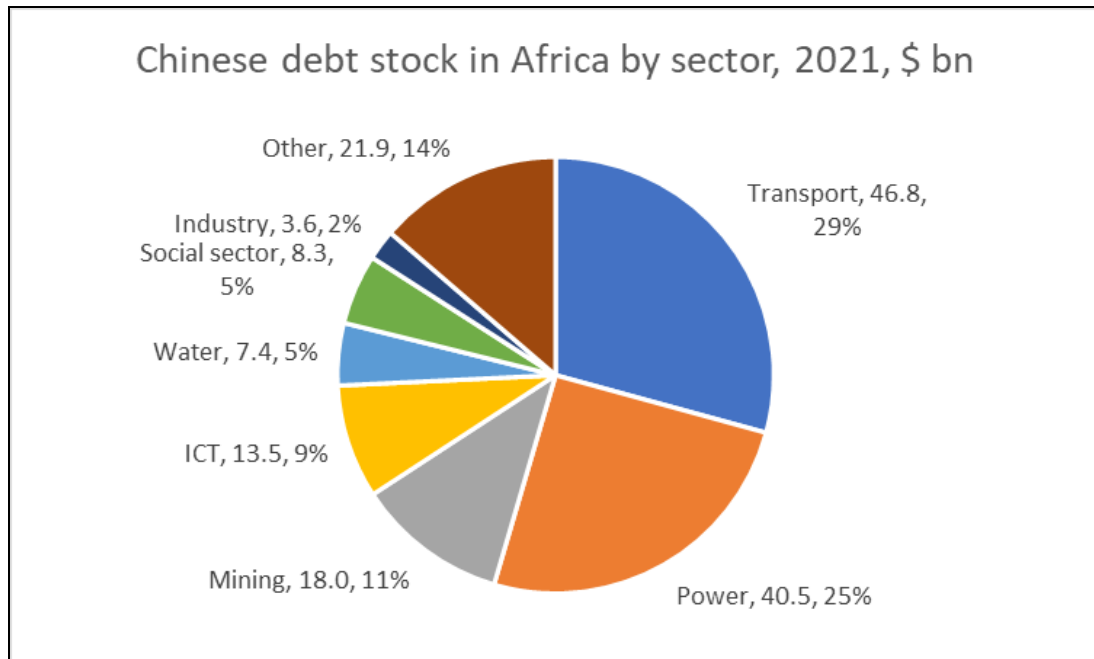
values, but also from capital inflows from China, both as foreign direct investment (FDI) and debt-creating flows. Figure 2 shows that Chinese FDI in Africa grew especially after 2008 and peaked in 2018 at \$5.4 bn, but declined quite sharply thereafter. Because of the legacy effect, the stock of FDI remained high thereafter at more than \$40 bn.

Meanwhile estimated loans from China to Africa (which are notoriously hard to measure accurately because of the opacity and complexity of much of this debt) peaked in 2016 at more than \$28 bn, but also fell rapidly thereafter (Figure 3). Western analysts have been quick to point fingers at China's external lending, claiming that this has led low and middle income countries into a debt trap, but this is misleading at best. Even today, debt to China accounts for less than 12 per cent of the continent's external debt, the bulk of which is actually held by private creditors (as loans and bonds) based in western countries, followed by multilateral financial institutions.

**Figure 4a**



**Figure 4b**



More significantly, Chinese foreign investment in Africa, whether as FDI or loans, has been in areas that western lenders and multilateral institutions were less interested in since the 1990s, as the focus of the global development industry shifted to other interventions in social spending that reflected current fads like microcredit and cash transfers. It is heavily oriented to infrastructure, as evident in Figures 4a and 4b. FDI was dominated by construction, followed by manufacturing and mining. It is certainly true that this has assisted China to gain access to minerals essential for industrialization, but this is hardly different from the orientation of Northern-based multinational companies who have been engaged in this for well over the century. Meanwhile, investment in manufacturing has also been evident, marking a break from FDI from western economies.

Meanwhile, more than half of the Chinese debt stock has been devoted to investments in transport and power sectors (Figure 4b). These are both critical areas for Africa given the region's level of development. It is worth noting that nearly one-tenth of the debt has also gone for investment in ICT. However, the recent decline in both FDI and loans, which has worsened in the past two years, means a change in the nature of China's economic engagement with Africa.

This is the context for the recent FOCAC meeting. First, the summit was remarkable in the indication of continued interest on the part of African nations: 51 heads of state of African countries attended—many more than are expected to attend the Summit of the Future at the UN General Assembly later this month. UN Secretary General Antonio Guterres was also present.

Second, China's President Xi Jinping pledged 360 billion yuan (\$50.7 billion) in credit lines and investments to Africa over the next three years. This seems like a lot,

especially in relation to finance from either western powers or IFIs. But, in fact, the amount is significantly lower (especially in real terms) than was promised in previous summits, such as in 2018. This probably reflects greater Chinese caution in debt flows to countries already facing external debt stress and repayment problems, as well as a policy shift towards increasing domestic consumption in China.

Third, there was no explicit promise of debt relief, which was a disappointment to several African participants. However, the Chinese government and other Chinese lenders are likely to continue their practice of rescheduling and extending repayments into the future on a bilateral case-by-case basis. In addition, currency swap arrangements, which have already played an important role in easing foreign exchange constraints in a number of countries, are likely to continue and expand.

Fourth, there appears to be a notable shift in the pattern of proposed investments, both in terms of type of investor and sectoral distribution. The Chinese government anticipates that private investment by Chinese companies is going to play a bigger part in future financial flows to the continent. Infrastructure remains important: President Xi spoke of “tripling” such projects. But in addition, there is much greater emphasis on “green” investment and enhancing the capabilities of domestic value addition through processing facilities. A plan to launch 30 clean energy projects across Africa was announced, along with proposed investment by Chinese companies in manufacturing electric vehicles within Africa and collaboration in developing nuclear energy projects.

This would be fundamentally different from the economic engagement of western powers with Africa, which over more than a century has remained essentially extractive. For example, France has benefited from uranium mining in Niger for decades to serve its own nuclear power industry without enabling that country to develop its own facilities or offering any power generation investments to west Africa—but China (which is also interested in Niger’s uranium) is now offering assistance for this.

Overall, this marks a broader shift away from reliance on mainly primary products to a more diversified approach to trade. China has shifted its fuel imports away from Africa to other countries, mostly in west Asia, and is also diversifying its geographical dispersion of imports of other minerals. The shift towards more manufacturing FDI will likely come from middle-sized enterprises that are eager to enter African markets, but there is more attention to generating greater value-added within Africa, for both economic and geopolitical reasons.

The full implications of this shift will only become clear over time, but for now, the rest of the world needs to take note.

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