China in Africa: A New Development Partner?

China’s growing interest in Africa has spurred intense debate. China’s has been Africa’s most prominent emerging partner in recent years. Chinese Foreign Direct investment (FDI) in Africa has increased by an average of 46% yearly in the past decade. The African Development Bank (AfDB) will soon release a report on this topical subject. This report challenges the idea that only China gains from its relationship with Africa and assess the real opportunities for both sides.

1) African Assets for China
China needs natural resources that it can find on the African continent to fuel its surging economy. According to the AfDB Chief Economist, Mthuli Ncube, “The growing trade and investment relations are often supported by grants or concessionary loans from China’s government, as part of the country’s “Going Global” strategy”. Most of Africa’s exports to China are either crude oil (70% of the total) or raw materials (15%) while the larger share of China’s trade and investments are linked to extractive industries and related infrastructure.

2) Opportunities for Africa
China plays the role of an important provider of much-needed finance and know-how for the development of the continent. Below are the major trends of Chinese investments in Africa.
- Chinese FDI structure often suggests the intention of establishing long-term relationships with local governments. It is very different from that of Western countries which involves private investors, and not committed to long-term presence.
- China spurs infrastructure development: more than 35 African countries have benefitted from China’s infrastructure financing. This rose from USD 1 billion per annum in 2001 to USD 7.5 in 2006.
- Providing African products access to international and regional markets is easier thanks to improved infrastructure. African exports to China expand while the continent’s trade with other major global markets are either stagnating or declining.
- Africa’s imports from China are more diversified than its exports. Three major types of products are imported: machinery and transport equipment; manufactured goods and handicraft, thus enhancing local consumption. Since Chinese imports include cheap electronic toys and textiles, it helps create a consumer society.
- The establishment of Chinese-Operated Special Economic Zones in African countries since 2006 is expected to focus on value-added by boosting the manufacturing capacity of many African countries.

To be continued
3) Challenges for Africa: Unbalanced Relationship?

There are still challenges that Africa has to face in its relationship with China.
- In overall value terms, over 70% of African exports emanate from four countries: Angola (34%), South Africa (20%), Sudan (11%), and the Republic of Congo (8%).
- It is quite the same for Chinese imports. They benefit relatively few countries. Six countries account for 60% of the total: South Africa, 21%; Egypt, 12%; Nigeria, 10%; Algeria, 7%; Morocco, 6%; and Benin, 5%.
- There is a large trade deficit between Africa and China. In 2008, the amount of the deficit was USD 10 billion.
- China’s trade does not seem to be geared toward a purely African strategy but is consistent with Chinese policy which is: lessening the country’s energy constraints and opening markets for its manufactured products.

4) Emerging Chinese Trends in Africa.

- China emphasizes investments in private sector and SMEs.
- Chinese are less risk-averse than their Western counterparts. For instance, they are not constrained by the same social and environmental safeguards.
- Chinese firms use some countries for re-exports, especially in the textile industries.

China’s growing engagement on the continent challenges the way traditional development partners operate and the AfDB would like to leverage the much-needed resources and know-how from China for the benefit of African countries. China has helped to re-establish Africa as a source of valuable commodities on the global market and also helped to focus on the challenges Africa still has to face in terms of creating sustainable growth for all and poverty reduction. However, through this new partnership, China should indirectly help to promote African interests throughout the world and therefore contribute to the continent’s sustainable growth.

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