Africa-China relations
Taming the dragon: new frontiers of co-operation?

A report by The Economist Intelligence Unit

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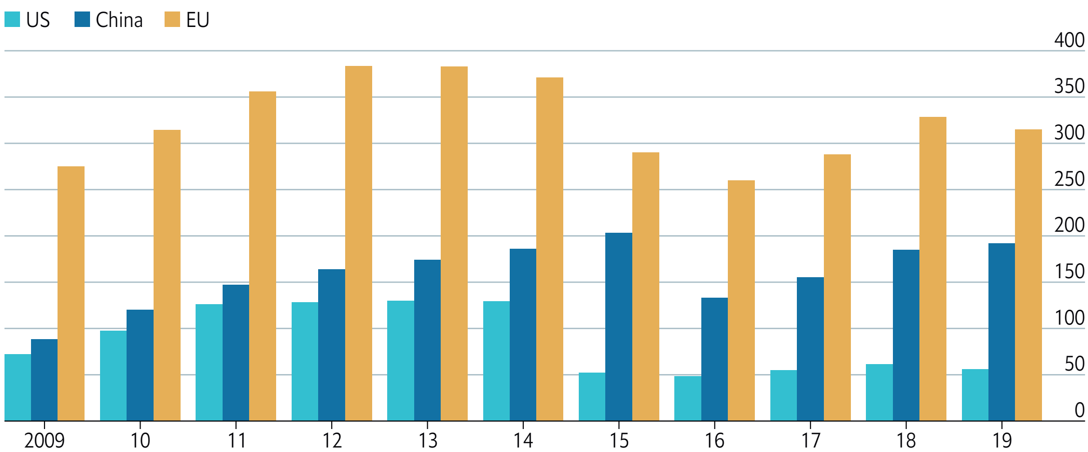
- Relations between Africa and China have been tested by the impact of the Covid-19 pandemic that spread across the continent in 2020. Disruption to national and international travel, trade and investment caused a synchronised downturn in all but a few economies in Africa.
- However, the Chinese government and some Chinese companies are making shrewd moves to build goodwill in the region, protect their strategic interests and set the foundation for stronger commercial engagement in the years ahead.
- The Economist Intelligence Unit expects Sino-African relations to remain strong despite the hiccup of 2020 and new frontiers of co-operation will be explored. China clearly retains a strong appetite for African ventures and the question is posed: How can African markets fully exploit and benefit from this evolving relationship?
- Sino-African relations are an increasingly busy commercial two-way street and one that presents both opportunities and challenges for African states, their corporations and other foreign businesses or investors with an interest in taking their first steps or expanding their footprint in the region.

Solid footprint across the region

China has worked hard to establish a solid footprint across Africa through years of high-level political engagement and the provision of access to much-needed project finance and expertise. Chinese companies have delivered thousands of transport, power and telecommunications projects in Africa over the past two decades. China has also supported export-oriented industrial park developments and taken a dominant position in many African markets for products such as competitively priced consumer goods, building materials, plants and machinery, and electronic equipment.

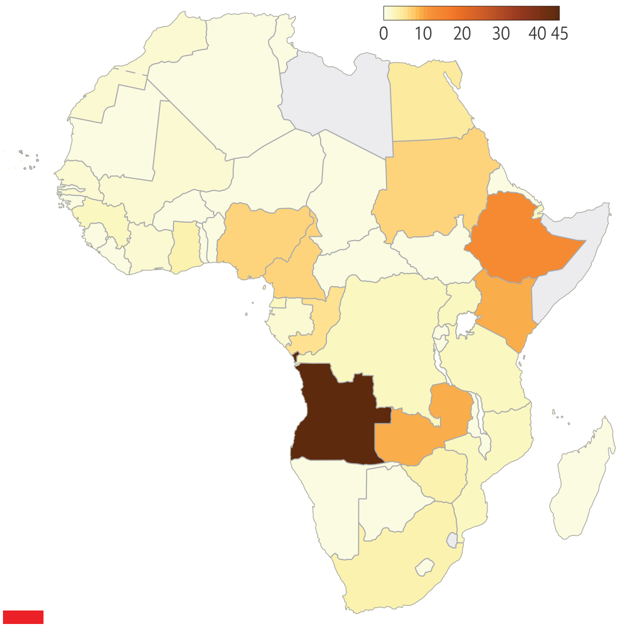
African trade in goods
(imports plus exports; US$ bn)



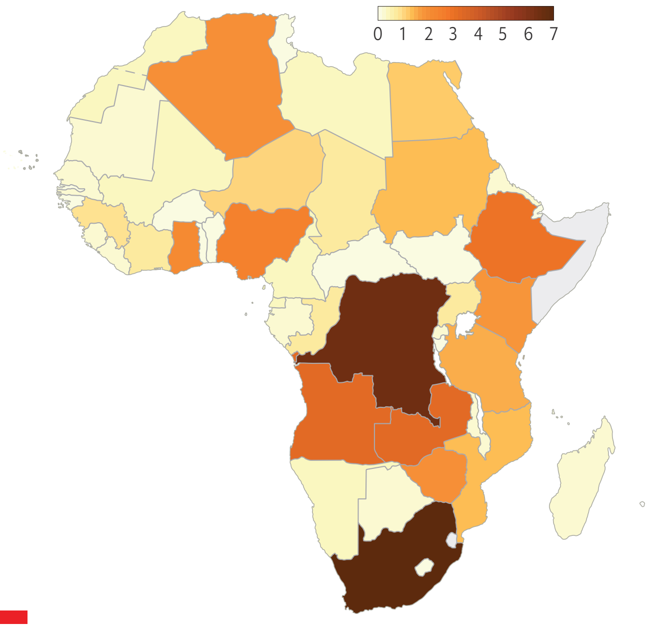
Sources: UN Comtrade; Eurostat.

The value of Chinese construction contracts in Africa has topped US$40bn every year since 2011 (surpassing US$50bn in 2014-17), and for years the number of Chinese workers in Africa has been close to 200,000 (although this slipped from a high of 264,000 at the end of 2015 to 183,000 at the end of 2019), according to the National Bureau of Statistics of China. This level of expatriate staffing reflects extensive Chinese engagement in Africa—expertise that is required, given the scale and complexity of some Chinese ventures in Africa, employment conditions attached to Chinese loans and foreign direct investment (FDI), and loose expatriate employment regulations across much of Africa. Interestingly, recent leading information revealed that both Chinese and local firms operating in the construction and manufacturing sectors in Angola and Ethiopia tended to employ just as many Chinese workers as local ones, paid them similar amounts and trained them to similar standards.

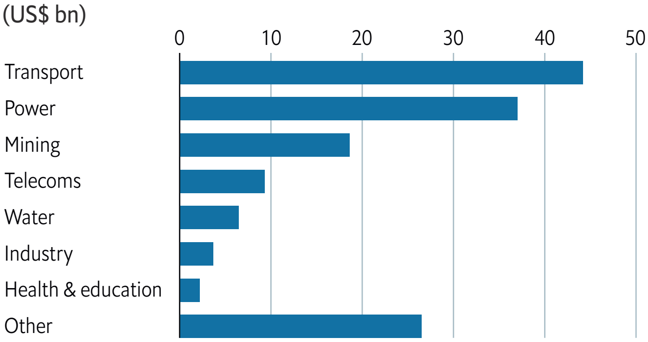
Chinese loans to Africa, 2019
(cumulative total 2000-18; US$ bn)



Stock of Chinese FDI in Africa, 2019
(US$ bn)

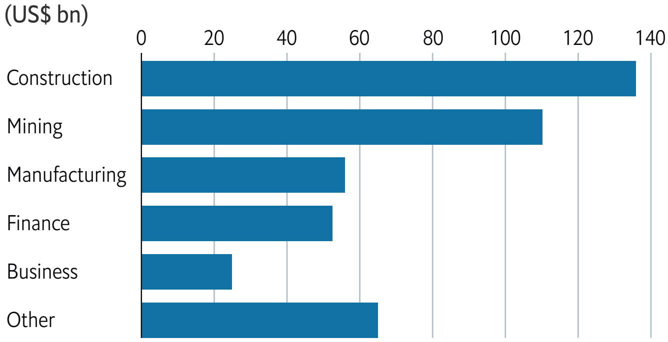


Loans by sector, 2000-18
(US$ bn)



Source: Johns Hopkins University, SAIS-CARI.

FDI by sector, 2019
(US$ bn)



Source: Ministry of Commerce of the People's Republic of China.

China is the region's single largest bilateral trader and provider of foreign capital in the form of commercial loans and FDI. Over the past two decades loans and FDI have been directed towards transport, power, extractives and telecoms projects, as have smaller but increasing amounts to manufacturing, finance, business services, and health and education. Resource-rich countries, including Angola, Algeria, Democratic Republic of Congo (DRC), Egypt, Nigeria, South Africa and Zambia, have been major beneficiaries. Countries on the eastern seaboard, including Djibouti, Ethiopia, Kenya and Tanzania, have received finance for major industrial and transport-sector projects. The financial splurge looks likely to continue, although financial forays may be more selective and even more diverse in the years ahead, given Chinese financial exposure to some parts of Africa coupled with China's own evolving strategy and needs.

An interesting feature of China's financial engagement in Africa is the primacy of loans extended to the region over FDI flows. This could suggest that Chinese companies have tended to be more risk averse when it comes to Africa and may have attempted to minimise operational risks linked to political and regulatory issues. However, the gap appears to have narrowed in recent years, possibly suggesting that China has become more confident about a more hands-on and exposed approach to its engagement. Whether this is true—or will last, given the impact of Covid-19 on African financial stability—remains to be seen.

A new year brings new focus

The pandemic year of 2020 proved a difficult time for relations between Africa and China, with Chinese trade and investment stumbling over hurdles created by virus containment measures imposed worldwide. Nevertheless, relations started 2021 on a reasonably strong footing, with China well on the road to recovery and actively seeking to protect its investments and shore up access to African markets, production bases and raw materials.

Gestures of goodwill—aligned with efforts to protect commercial interests—saw Chinese companies work closely with African counterparts (especially Ethiopia and specifically Ethiopian Airlines) to distribute personal protective equipment and medical supplies across Africa in 2020. Currently, China is offering the prospect of timely access to affordable (or free) and effective vaccines for Covid-19 to African states that find themselves on the fringes of the global scramble for inoculations. China is also providing financial respite (along with other G20 countries) to some of its African debtors that have been hard hit by the Covid-19 pandemic.

In a bid to further cement Sino-African relations, the Chinese foreign minister, Wang Yi, undertook a five-country trip to Africa in January, visiting Nigeria, DRC, Botswana, Tanzania and the Seychelles. The thrust of the tour was to consolidate existing ties and build new relations to ensure that Sino-African engagement remains on a positive trajectory. During the trip, Chinese officials emphasised a seven-point plan for enhancing relations in 2021 and beyond, with a fresh focus on agriculture, environmental issues, the digital economy, healthcare provision, industrial capacity, regional connectivity and free trade, and national security. During the trip, DRC and Botswana became the 45th and 46th African states to sign up to China's ambitious global infrastructure development strategy, the Belt and Road Initiative (BRI).

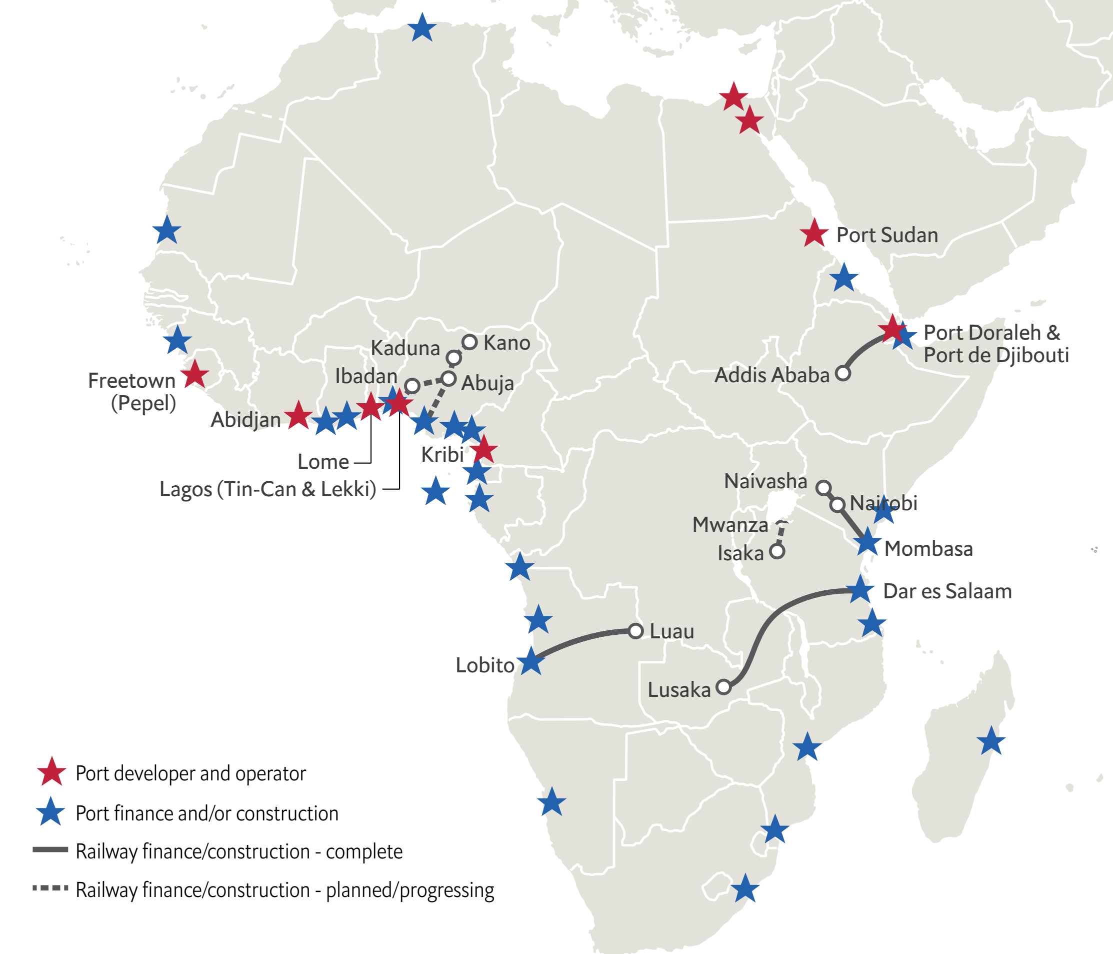
Further promises of hard cash are likely to be on the table in the year ahead. The latest edition of the triennial Forum on China-Africa Co-operation (FOCAC) will be held in the Senegalese capital, Dakar, in September, looking to build on recent efforts to foster ties that facilitate future trade and investment. FOCAC will again bring pledges of enormous amounts of additional development finance, albeit with strings attached. These may include more active engagement in the BRI and possibly a push for freer trade or economic partnerships agreements in Africa, while exploring new avenues of co-operation.

The BRI drives international connectivity

Delivering transport projects has and will remain a major point of engagement between Africa and China. All but a handful of African states have signed a memorandum of understanding to participate in the BRI, and some strategic locations will continue to see infrastructure facilitated by major developments to enhance their trade, especially those designated as access points to the continent for Chinese companies.

Chinese logistics companies operate a string of major ports in Africa, and Chinese project finance and delivery expertise lie behind an even wider range of completed, ongoing and planned

Major Chinese backed port and rail projects in Africa



port developments. One of China's biggest port operators, the China Merchants Group (CMG), has investments and concessions in Djibouti, Nigeria and Togo, and plans for expansion. The Djibouti government announced in January that CMG had agreed to a US$350m investment to help convert the Port of Djibouti into an international logistics and business hub, which comes soon after US$590m of investment in the nearby Doraleh Multipurpose Port and US$3.5bn in the Djibouti International Free Trade Zone. These and other investments (including a railway to Ethiopia and a Chinese naval base) are not surprising, given Djibouti's importance as a transshipment hub on the BRI-linked Maritime Silk Road, as well as its potential as a commercial hub for access to other parts of Africa, and its strategic location as a security node for busy shipping lanes passing through the Gulf of Aden and the Red Sea.

Other major ongoing (or recently completed) port development projects involving Chinese finance and construction linked to the BRI include major seaports at Abidjan (Côte d'Ivoire); Tema (Ghana); Lekki (Nigeria); Kribi (Cameroon); Dar es Salaam (Tanzania); Mombasa (Kenya); and Abu Qir, Alexandria and El Dekheila (Egypt). These ports, together with those in Djibouti, Durban and Lagos (Tin Can Island and Apapa) are identified as major maritime access points and commercial hubs for Africa. China is actively investing in all of them to improve port performance and enhance connecting infrastructure.

Railway expansion progresses

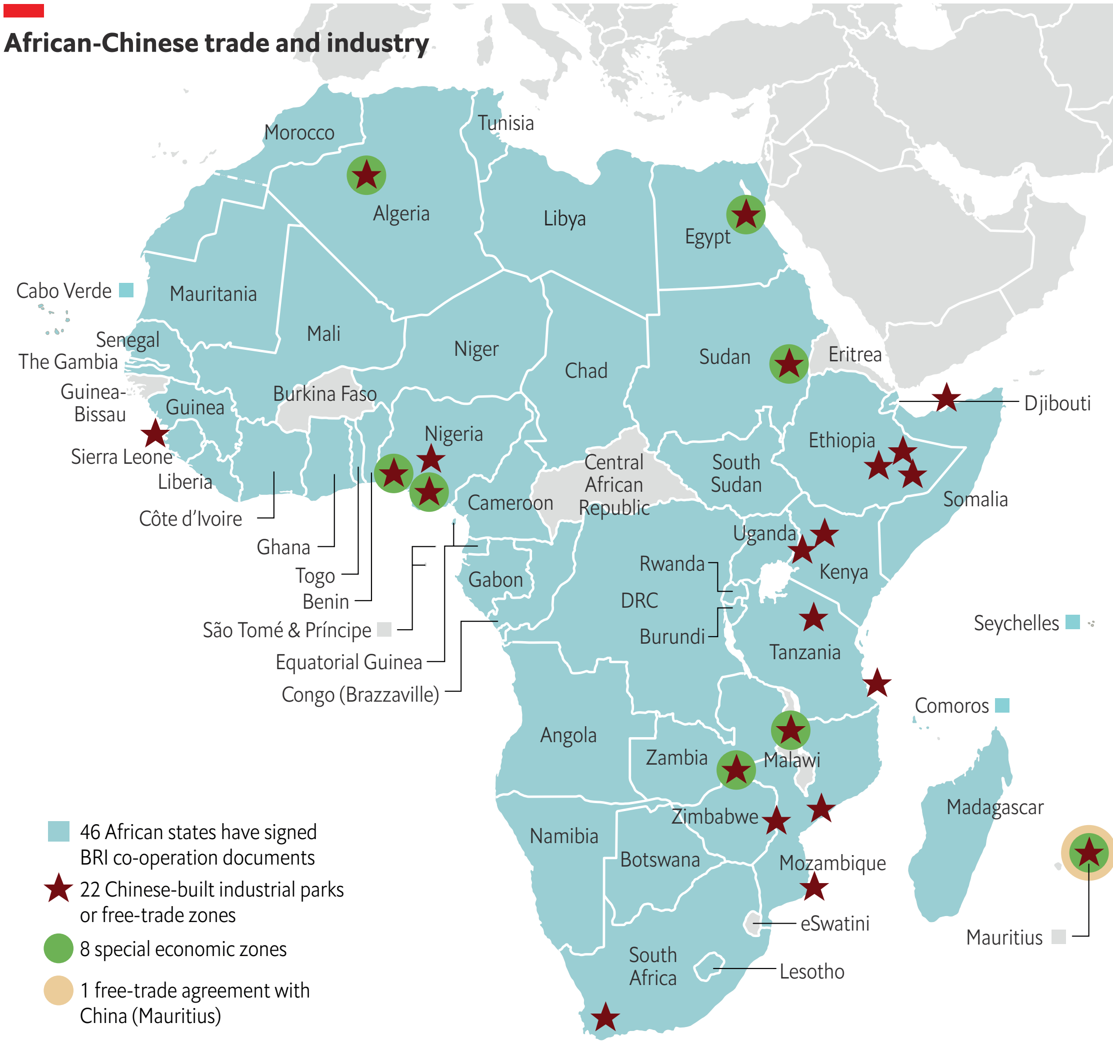
Chinese-backed major railway projects in Africa complete in recent years are the Mombasa-Nairobi Standard Gauge Railway (SGR) in Kenya (costing around US$3.2bn), the Addis Ababa-Djibouti electrified SGR (costing around US$3.4bn), the Abuja-Kaduna and Lagos-Ibadan SGRs in Nigeria (collectively costing more than US$2.5bn), and the Benguela Railway from Lobito to Luau in Angola (costing around US$1.8bn). These projects were constructed by Chinese companies and the contracts were largely paid through loans from China, and more are in the pipeline.

Tanzania announced in January that two Chinese companies—the China Civil Engineering Construction Corporation and the China Railway Construction Corporation—had won the tender to construct the northern section of a planned national SGR network centred on Dar es Salaam, the commercial capital. The two companies will construct a line from Mwanza on Lake Victoria to the north central town of Isaka under a contract valued at around US$1.3bn. In addition, Chinese companies that built the recently completed SGRs in Nigeria are contracted to deliver railway projects connecting Ibadan to Abuja, Kaduna to Kano and Abuja to the port city of Warri, with the latter valued at around US$3.9bn.

Free trade and industrial development

A new feature of Africa's evolving commercial relations with China could well be the emergence of more bilateral and collective free-trade deals. Mauritius became the first African state to launch a bilateral trade deal with China when a free-trade agreement (FTA) between the two countries came into effect in January, marking the first step in a potentially new direction for Sino-African relations in which Mauritius could well act as a catalyst and template for other free-trade deals in Africa. Currently, 13 African countries (Algeria, Tunisia, Egypt, Sudan, Ethiopia, Uganda, Nigeria, Zambia, Zimbabwe, Botswana, South Africa, Seychelles and Mauritius) have bilateral investment treaties with China, which could morph into more comprehensive trade and investment agreements in the years ahead. China has also developed industrial parks and free-trade zones in a wider range of African countries, as well as an evolving network of special economic zones across Africa, which present the potential starting point for more in-depth trade and investment ties.

African-Chinese trade and industry

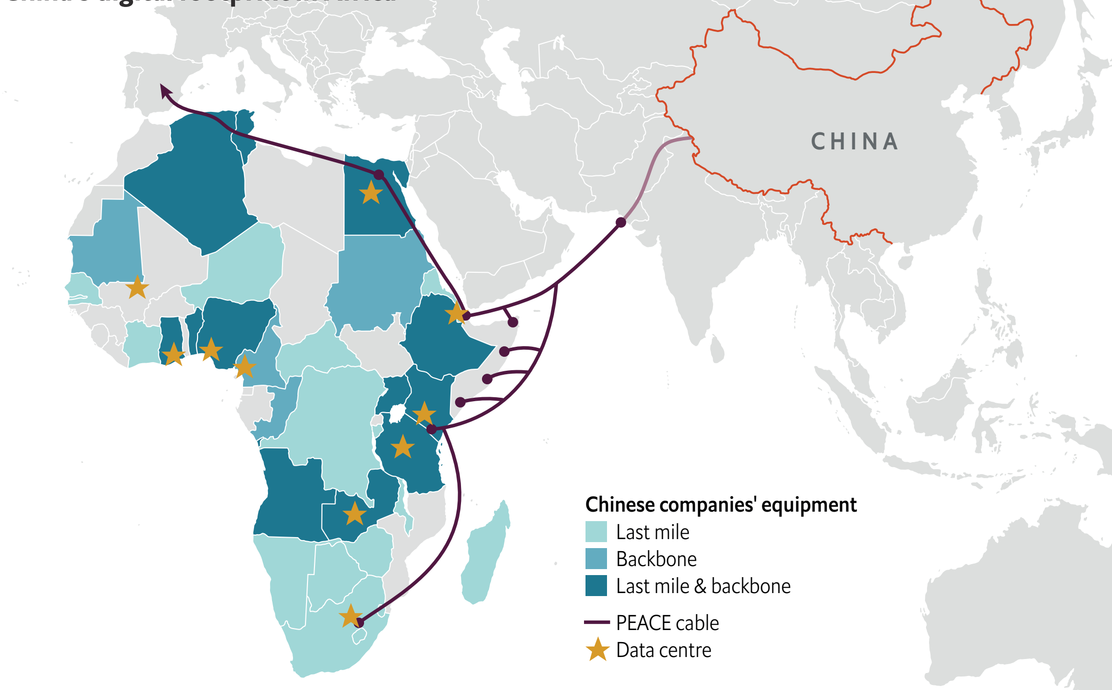


In addition to this, China has expressed support for pan-African and sub-regional free-trade arrangements that seek to build larger markets and more integrated supply chains on the continent. For instance, China is supportive of the enormous African Continental Free Trade Area (AfCFTA) agreement, which began its initial implementation phase in January. China considers the AfCFTA and other smaller sub-regional agreements as "win-win" situations, at least in the short to medium term. These FTAs necessitate infrastructure development and industrial know-how (including more and better highways, railways, seaports and airport infrastructure) and industrial know-how, which are areas where China excels on the continent. However, regional FTAs could create competition for Chinese manufactured products in the longer term. A clearer picture will emerge surrounding the impact on Sino African relations of the AfCFTA and other regional FTAs once rules of origin are better established for the provision of African goods and at what level external tariffs are set for Chinese imports. At present, China does not appear overly concerned and is more eager to exploit the opportunities that Africa's regional FTAs look set to create.

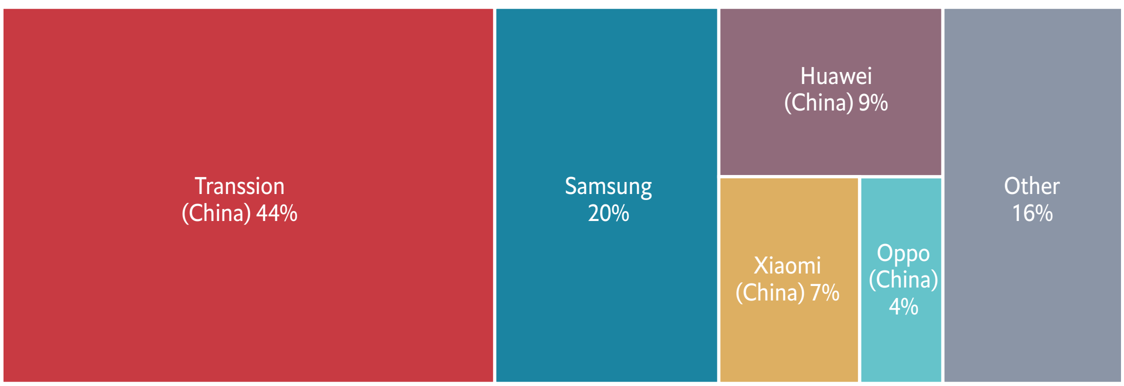
Telecoms and the Digital Silk Road

China dominates the market for smartphones and feature phones (traditional-style push-button mobile phones) in Africa, and this is unlikely to change soon. Chinese companies offer affordable prices and tailored products to African markets that provide a clear competitive edge. Transsion and Huawei, together with Xiaomi, Oppo and a few other minor players, provide more than two-thirds of registered smartphones and an even larger share of feature phones in Africa. A dominant and expanding handset presence is just one part of China's strategy for the telecoms sector in Africa, which has and will continue to drive the rapid spread of mobile data and voice services across the region.

China's digital footprint in Africa



African smartphone market share, Q3 2020



Source: IDC.

Even more crucial to China's future engagement in the telecoms sector in Africa, and a key pillar of its broader commercial strategy, is control over existing hardware and the rollout of next generation technology. Chinese companies including Huawei, ZTE and China Telecom are major providers of backbone and last-mile technology in Africa with an eye on wider rollout of mobile and fixed-line infrastructure. Huawei may have been excluded from key telecoms infrastructure contracts in North America and Europe, but the company has deep roots in Africa that provide it with a solid and seemingly irreversible foothold to pursue expansion plans in the region.

Information and communications technology (ICT) services could receive a boost in 2021, as China will soon lay the final stretch of a cross-border fibre-optic cable in Pakistan that forms the backbone of its Digital Silk Road and will support China's digital expansion across Africa. The cable will connect to the submarine PEACE cable in the Arabian Sea that links to various entry points in Africa, providing countries participating in the BRI with enhanced access to the Chinese tech sector while reducing reliance on western-developed and controlled cable services. Data centres, smart cities, 4G expansion and possible 5G introduction are on the menu and will help to shape Chinese involvement in telecoms and other business areas across Africa in the years ahead.

Major power plays

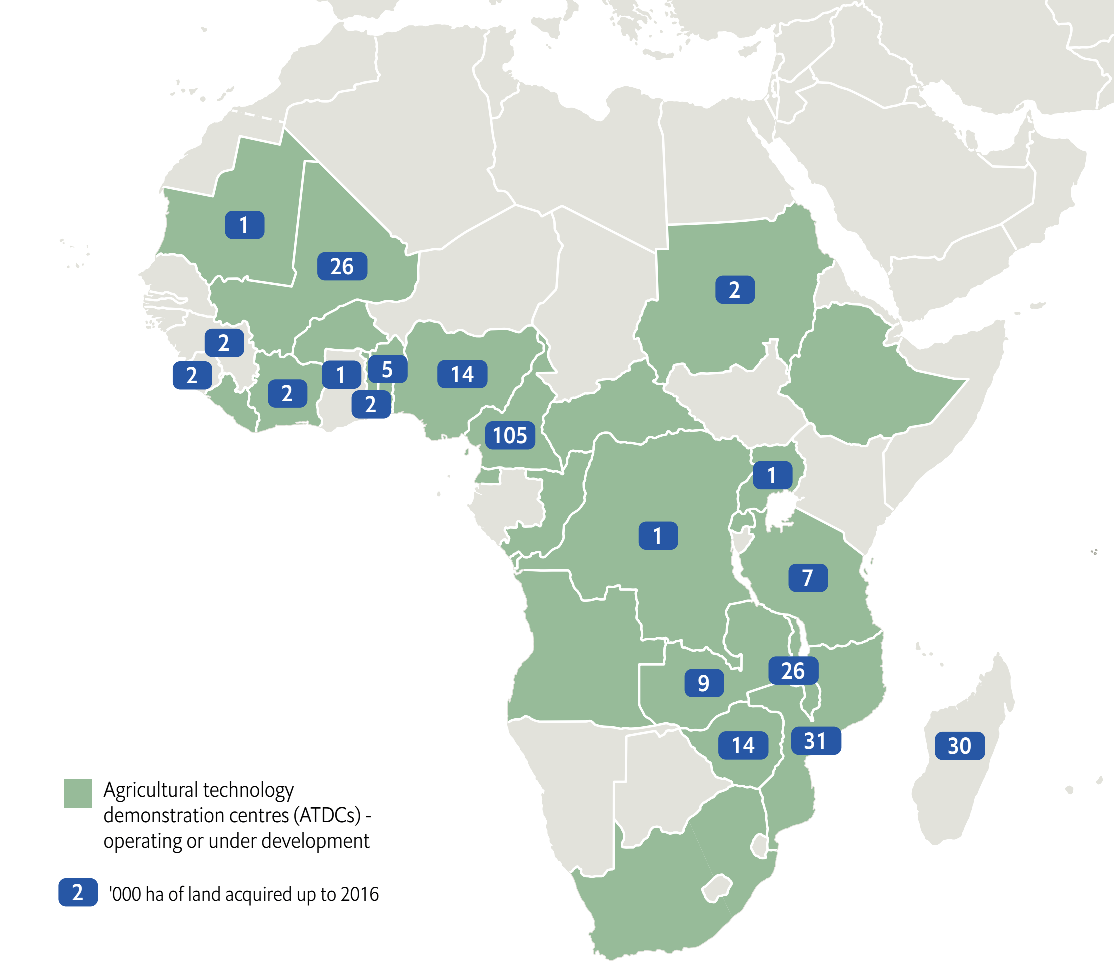
Africa is subject to an enormous power gap in terms of electricity generating capacity and weak transmission and distribution systems, which creates inadequate and erratic energy supplies in numerous countries. South Africa, Nigeria, Egypt, Kenya, Ethiopia, DRC, Angola, Tanzania, Ghana, Côte d'Ivoire, Mozambique and Zambia, among others, suffer regular power outages and cite the failings of the power sector as a major impediment to economic development. Ensuring power supplies to facilitate urban and industrial developments is a top priority for African governments and a strategic entry point for Chinese companies. China has been very active in delivering power-sector projects to Africa, and its work is far from done in developing power-generation facilities, including both traditional and renewable energy sources, and transmission and distribution networks. For instance, major investments already made and additional outlays planned for Nigeria, Ethiopia, and Kenya seek to pin down lucrative contracts, support other Chinese investments, build local productive capacity and raise the demand for Chinese imports. With China waiting in the wings, alongside competitors from Europe and North America, the big question is: how much money can Africa spend, and how quickly?

A red-green revolution

Enhancing food security, already high up the list of policy priorities in both Africa and China, has gained even greater importance in recent years and could see much more Sino-African collaboration on the continent in the years ahead. Already, China has pledged to help funnel more aid, development finance and private-sector capital into African agricultural ventures, with the aim of raising productivity levels, supplementing its own domestic and international food supply chains, and creating new markets for inputs and end products.

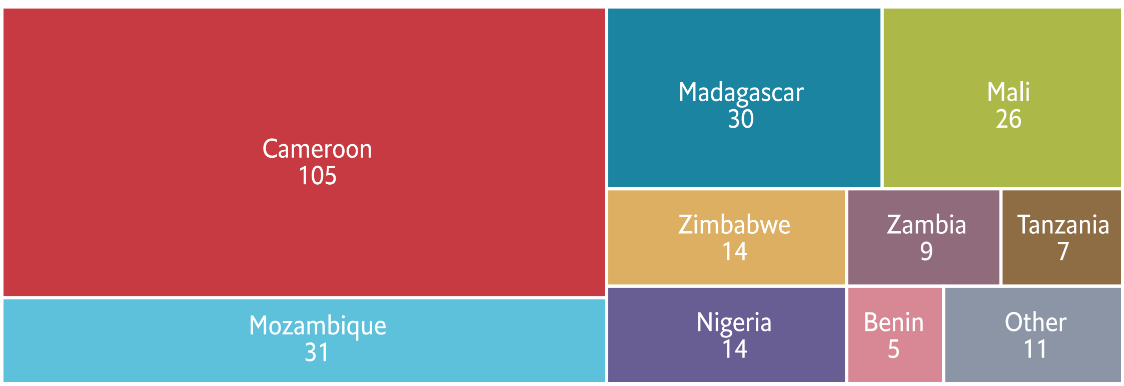
Chinese engagement in African agricultural ventures is increasingly characterised by corporate mergers, acquisitions and joint ventures involving private companies, together with the transfer of agricultural technology and know-how. Thousands of Chinese agricultural specialists are working across West, Central, East and Southern Africa in Chinese-financed projects and the country's long-

Chinese ATDCs and land acquisition in Africa



Chinese agricultural land acquisition in Africa

('000 ha 1987 through to 2016)



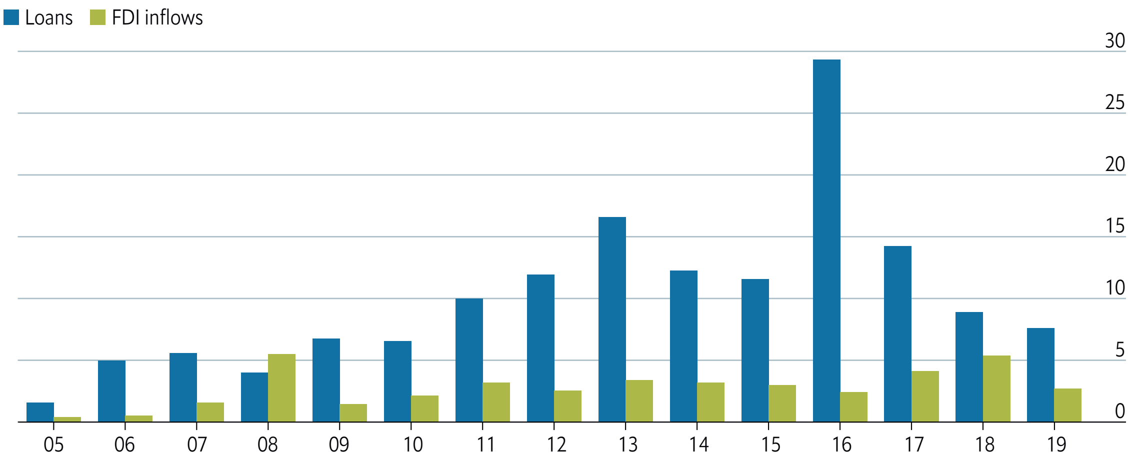
Source: Johns Hopkins University, SAIS-CARI.

established network of agricultural technology demonstration centres. Currently, more than 32 Chinese organisations—compromising 23 companies and nine educational institutions—have demonstration centres in 24 African states. Chinese profit-seeking ventures will continue to combine with official Chinese policy to create and leverage agricultural trade and investment opportunities in Africa.

Bumps in the road ahead

Concerns have escalated over the past twelve months regarding African debt exposure to China and the potential loss of sovereignty over strategic assets and resources following failure to make payments. However, China has proved reasonably flexible in postponing and restructuring debt repayments so far in countries such as Angola, Ethiopia, Kenya and Zambia. In the case of Kenya, in January the government secured a six-month debt-repayment holiday worth around US$245m, although China had taken a tough stance; the potential for a debt for asset swap with regards to the Port of Mombasa port looked a real possibility until fairly recently. To date, China has signed debt service suspension agreements with a total of 12 African states and has provided waivers of matured interest-free loans for 15 African states under the G20 Debt Service Suspension Initiative, and more could follow. However, Africa's current financial difficulties are not easily solved, and debt restructuring has largely kicked the problem down the line in the hope that economic conditions improve and financial strains ease.

Chinese loans and foreign direct investment in Africa
(US$ bn)



Source: The Economist Intelligence Unit.

Anti-Chinese sentiment within some African populations is simmering below the surface, with citizens resentful of Chinese economic influence and the lack of higher-value job creation for locals associated with some Chinese investments. There is a perception that ruling elites in Africa are complicit in Chinese predation of national resources and the displacement of African workers and products by Chinese substitutes. Whether or not these feelings are justified, the developments of 2020 increased tensions and elicited a response from China to appease its critics. For instance, the trip to Nigeria by Mr Wang, the Chinese foreign minister, incorporated efforts to smooth relations that had frayed following reports of Africans being targeted for Covid-19 testing and forced quarantine in

Guangzhou, China. These sentiments will be hard to shake off, and further outreach efforts should be expected to help pave the way for future trade and investment.

China's ten-year industrial-development initiative, Made in China 2025, is aimed at rapidly expanding its high-tech sectors and developing its advanced manufacturing base. This policy presents both an opportunity and a threat to African states. On one hand, China will continue to be resource hungry and anxious to snap up high-value metals such as copper, cobalt, iron, lithium, nickel, tin, tantalum, tungsten, silver and gold, to the benefit of African mining ventures. However, this demand could stifle the supply of these minerals for use in Africa, as well as curtail domestic industrial development in some countries, and enforce a reliance on imported high-value electronic components and products. Cementing an over-reliance on Chinese imports in specific higher-value product areas could become an increasing source of tension and require addressing in the longer term.

Raising its game

China has fought hard to secure a foothold in Africa and has now upped its game in the competition for access to the region's resources and markets. China's focus on Africa has shifted to a broader set of objectives in recent years that aim to strengthen existing commercial ties and foster new ones, while sticking to the underlying principle of pursuing mutual benefit. This broad strategy is likely to provide China with a competitive edge that will attract the attention of African counterparts seeking potentially lucrative flows of trade and investment, ultimately making it difficult to dislodge.

The foundations of China's new approach to Sino-African relations entails increased agricultural-sector co-operation in food production, storage and transportation; environmental initiatives to tackle climate change in the pursuit of sustainable development; digitalisation of the continent and realisation of opportunities created by the ICT revolution; health-sector co-operation to overcome the Covid-19 pandemic and disease prevention more generally; promotion of industrial clusters and knowledge transfer to boost African manufacturing; support for African regional connectivity in product markets and value chains facilitated through intra-African and international free-trade arrangements; and greater military and security co-operation in peacekeeping and counter-terrorism capacity. These objectives sit well with the development aims of most African states.

China is on a new geopolitical and economic drive in Africa, and countries across the region stand to benefit substantially from Chinese interest in the region in terms of industrial and technological development, regional and international connectivity, and global value-chain integration in the years ahead. Currently, Africa remains receptive to Chinese engagement, recognises the benefits that could accrue, and is actively seeking Chinese economic support, which bodes well for Sino-African relations. However, securing Chinese commitments is not a given, and achieving the best possible deal will require that African governments and companies hone their bargaining skills and fully value what they have to offer.

The direction of travel appears to be setting the foundations for an increasingly busy two-way street between Africa and China. This will undoubtedly throw up challenges for corporations from Africa and those based elsewhere in North America, Europe, the Middle East and other parts of Asia. However, evolving Sino-African relations will create more and new business opportunities that can be exploited by non-Chinese entities. Chinese companies will consolidate their presence in the region but do not have exclusivity to trade-facilitating infrastructure, industrial parks, power-generation sites, IT infrastructure, or consumer markets—whether or not they have helped to build or finance these.

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