CHINA’S SCRAMBLE IN AFRICA: A LARGE SPILLOVER THROUGH TRADE AND INVESTMENT

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Abstract: The rapid growth in China’s domestic investment in recent decades has generated a large appetite for global goods, especially from sub-Saharan Africa. This paper estimates the economic impact of changes in China’s involvement in sub-Saharan Africa’s trade and investment growth by using empirical evidences. China has become a major development partner of sub-Saharan Africa, as its trade, investment, and aid ties with the region have increased remarkably in recent years, but the evidences provided by different sources differ leading to myths regarding China’s involvement in Africa. Although rising trade with China has allowed African countries to diversify their export base across countries, away from advanced economies. Further, the domestic producers in Africa face stiff competition from the cheap Chinese products including labor disputes as well. Finally, China’s involvement in Africa brings about positive economic impact and international exposure even out of financial crises.

Key Words: Export, Foreign direct investment, Gross Domestic Product, Import, Trade Balance.

1. Introduction

China has emerged as Africa’s largest trading partner, providing demand for the continent’s energy and minerals. At the same time, there is a growing volume of Chinese direct investment in Africa. Some of it has taken the form of high-profile natural resource deals in countries with poor track records of governance (e.g., Angola and Sudan). These developments have given rise to a number of ideas about Chinese investment in Africa. That it is on the same enormous scale as China’s trade; that it is aimed primarily at natural resources; and that it is concentrated in countries with poor governance. Western critics expressed their views in different ways such as China is attempting wild rush into Africa or China’s investment into Africa maybe regarded as exploitation. Some research papers expressed doubt that why is China investing in Africa and the evidences are collected from the firm level, and finally it shows that each of these ideas is, to a large extent, a myth not backed up by data.

By the end of 2009, 45.7 percent of China's cumulative foreign aid of Yuan 256.29 billion had been given to countries in Africa. Further, China became Africa's largest trading partner, surpassing the United States in 2009. In 2012, China's trade with Africa reached USD 198.5 billion, while U.S.-African trade was USD 99.8 billion in the same year. China's trade with Africa is only 5 percent of its global trade total. More than 80 percent of China's USD 93.2 billion in imports from Africa in 2011 was crude oil, raw materials and resources. In 2011, China's investment in Africa was 4.3 percent of its global total (Asia represented 60.9 percent, Latin America 16 percent, and Europe 11.1 percent). In 2012, the China Development Bank agreed to provide USD 3 billion as loans to Ghana, which was almost 10 percent of Ghana's GDP. South Africa is China's largest trading partner in Africa, at a volume of USD 20.2 billion. Yet this is 4 percent of China's trade with the European Union.
In particular, China has become a major development partner of Sub-Saharan Africa (SSA), as its trade, investment, and aid ties with the region have increased remarkably in recent years. China’s real GDP has grown by an average of 10 percent a year in the past decade, and so has its need to import an entire range of products e.g. minerals, farm products, timber, and oil etc. to satisfy the fast pace of domestic investment, which increased fivefold in the same period. Its investment as a share of GDP increased from 34 percent in 2000 to 46 percent in 2012. Its stock of foreign direct investment (FDI) reached about USD16 billion in 2011 and China has stepped up its financial assistance to the region, including a credit of USD 20 billion to Africa in the conference of the Forum on China-Africa Cooperation (FOCAC) in 2012. The increasing role of China in SSA reflects China’s increasing share as a major player in world trade and its historic reorientation toward new markets that started in the last decade, including toward SSA countries (IMF, 2011).

2. China’s Interest in Africa: Some Controversial Evidences

While there is huge debate over China’s presence in Africa as it is one player, albeit a large player among many as shown by the Economist (Figure 2.1). China’s trade with Africa is the largest in the world but this year India’s trade with Africa will rise to almost USD 100 billion and is increasing faster than China’s. In FDI western nations have far larger amounts invested in Africa compared to China.

**Figure: 2.1 The Scramble in Africa**

China has increasingly become conscious of its image in Africa and concerns that have been raised over environmental and social safeguards as well as labor issues. Cases of human rights abuses have arisen from Chinese-African co-operation. African workers have protested against ill treatment and poor pay by Chinese companies, as well as the influx of Chinese workers who took away local jobs. In July 2010, hundreds of African workers at a Chinese-owned Zambian mine rioted over low wages.
In the IMF working paper Drummond and Liu (2013) examine some of the costs and benefits of China’s engagement with Sub Saharan Africa. Many existing studies focus on whether China’s larger involvement in Africa benefits or hurts the region overall. While some scholars and African policymakers have claimed that more trade between China and SSA has benefited the region (Ajakaiye and others, 2009; Renard, 2011), others have warned about losses owing to greater exposure to commodity price fluctuations and reduced demand for African production because of competition from China (Ademola, Bankole, and Adewuyi, 2009).

Among the studies that attempt to quantify China’s impact on the global economy, Ahuja and Nabar (2012) argue that a 1 percentage point slowdown in investment in China is associated with a reduction of global growth of just under 0.1 of a percentage point. Arora and Vamvakidis (2010) find positive spillover impact of China’s growth on the world and this impact has increased in the recent decades, a 1 percentage point increase in China’s growth is associated with an average 0.5 percentage point increase in the growth of other countries. In Africa, Ademola, Bankole, and Adewuyi (2009) analyzed trade patterns between China and Africa both at the aggregate Africa and at the national level. They conclude that African countries that gain from trade with China are oil exporters; ore and metal exporters; cotton exporters; and log timber exporters.

Although the total trade volume between China and Africa has grown rapidly, the speed of such growth has slowed down from 19.3 percent in 2012 to 5.9 percent in 2013. Such a rate is also lower than the growth of China’s overall foreign trade i.e. 7.6 percent in the same year. While the broad context is the slowdown of China's economic growth and of its foreign trade, exports by Africa suffer in particular because China's demand for raw materials has declined. China ran a small deficit in its trade with Africa, while its exports are still largely dominated by finished products including machineries, electronics, automobiles, textiles, etc. Meanwhile, despite the reiterated efforts that China would reduce the percentage of natural resources imports in Sino-African trade, natural resources remain dominant. In total, China's crude oil imports from Africa made up 23 percent of China's global imports in 2013, making Africa the largest exporter of crude oil for China.

3. Chinese FDI Flows to Sub Saharan Africa

China is the largest developing country foreign investor in Africa (UNCTAD 2013). The relationship started in the early 1980s, as part of concerted diplomatic efforts promoting Chinese economic cooperation with Africa. Initial investments were small, amounting to USD 51.9 million for 102 projects (about USD 500,000 per project) between 1979 and 1990, with Chinese businesses relying heavily on government-sponsored assistance projects to gain a foothold in local African markets (Government of China 2013). The distinction between foreign direct investment (FDI) and official assistance may at times be ambiguous. For example, in investments by Chinese state-owned enterprises can be included in definitions of official flows of development assistance, if they receive subsidized state financing such as export credits.
Chinese FDI in Africa surged during and in the wake of the global financial crisis and continues to diversify. FDI flows from China to SSA rose from next to nothing a decade ago to USD 3.1 billion in 2013, representing 7 percent of global FDI flows to SSA. China has established itself as a major investor in Africa, a dynamic that runs parallel to China’s growing trade involvement. China’s FDI stock in SSA reached nearly USD 24 billion in 2013, reflecting an annual growth rate of 50 percent between 2004 and 2013 (MOFCOM 2003-2014; Copley, Maret-Rakotondrazaka, and Sy 2014). The global economic crisis of 2008–09 marked the beginning of a major expansion in China’s engagement with SSA, in scope and in scale. While some foreign investors moved out of Africa, Chinese firms, already well leveraged at home and encouraged by the Chinese government, expanded their overseas operations. Mergers and acquisitions (M&As) surged and commercial lending and other financing arrangements set new records. Oil and other extractive industries remain the sectors of greatest interest to Chinese investors (at 30 percent of total investment), but Chinese FDI has recently undergone a marked diversification into financial services, construction, and manufacturing. Geographically, Chinese FDI continues to be concentrated in Nigeria, South Africa, Sudan, and Zambia, but it now extends across the continent. Chinese manufacturing firms have invested in countries as diverse as Ethiopia, Nigeria, and Tanzania. A review of a sample of Chinese Greenfield investments in SSA during the past decade reveals the rising importance of the manufacturing sector and the increasingly significant contribution of Chinese FDI to job creation in countries across the continent.

Figure: 3.1  Chinese FDI Flows to SSA, 2003–13 (US$, millions)

In any event, private investment flow is rising fast (Gu 2009) and, to the extent they are channeled via tax shelters, are likely to be underreported (Sun 2013). The officially reported stock of Chinese FDI in Africa was estimated at USD 21 billion in 2012, a doubling since 2009 (Figure 3.1). Reported flows are similar in magnitude to flows from the United States, with the largest share directed toward the resource sector, notably in Angola, Chad, Niger, Nigeria, Sudan, and Zambia. Chinese investment in other sectors is substantial, especially in
manufacturing (Figure 3.2). This is seen in the gradual development of manufacturing clusters in Ethiopia (glass, fur, footwear, and automobiles), Mali (sugar refineries), and Uganda (textiles and steel pipe manufacturing).

**Figure: 3.2 Chinese foreign direct investments in Africa, by sector, 2012**

![Chinese FDI in Africa by Sector](image)

Although partly driven by growing business opportunities in Africa, the shift toward manufacturing is also indicative of Chinese firms’ efforts to develop global value chains as domestic labor costs increase relative to lower-cost Africa. African firms in turn have gained growing access to Chinese markets; since 2012, China has given some 30 countries in SSA zero-tariff treatment (covering about 60 percent of their exports) and is importing a growing share of manufactures from the region (Figure 3.2).

The relationship is a complex one, involving multiple and diverse state actors in China, often (but not always) coordinating with state-owned and private corporations in a range of sectors across countries in SSA (Bräutigam 2009). Although commodities and associated infrastructure projects have tended to dominate the relationship, Chinese investment in other sectors is also increasing, notably in manufacturing. In recent years, the Chinese government has increasingly provided assistance for social development projects, and has engaged in peacekeeping and security operations.

### 3.3 Development Finance

Africa is the largest recipient of Chinese development financing and its share is increasing. Africa received nearly half of the cumulative USD 54 billion provided by China in global foreign aid through 2012 (Figure 3.4), significantly more than any other region (Government of China 2011, 2014). Chinese official development assistance has been, by and large, complementary to aid from Organization for Economic Co-operation and Development (OECD) countries. Chinese and OECD official development assistance differ substantially in scale, nature, and degree of...
Although Chinese assistance increased rapidly as OECD disbursements declined (Figure 3.4), Chinese aid remains well below the OECD’s, amounting to USD 3.2 billion in 2013 compared with the USD 26 billion disbursed by OECD countries in the same year (Figure 3.4). Chinese development assistance is frequently packaged into agreements that mix grants and investment, and concessional and non concessional loans (Bräutigam, 2011).

China is also increasingly channeling development assistance through multilateral institutions, including a USD 2 billion co-financing fund between the People’s Bank of China and the African Development Bank in 2014. Finally, OECD country development assistance is typically accompanied by greater conditionality on social development projects and policy reforms. As a result, almost two-thirds of OECD assistance to Sub-Saharan Africa flows to the social infrastructure in health, education, water, and sanitation, or toward emergency relief and food aid. In contrast, half of Chinese assistance is for infrastructure.

4. China’s FDI in Africa: Reality versus Myth

Because of different methodologies, official data on Chinese financial flows differ from data from other sources. For example, the China Global Investment Tracker (CGIT) puts total Chinese FDI in Africa at USD 61 billion in 2013, more than double the official figure. In 2013, the value of Chinese contracts, a proxy for committed investment flows, reached a staggering USD 82 billion. China’s financial involvement in Africa is complex and multifaceted and reliable information is not always easily accessible. However, Chinese banks appear to have provided some USD 52.8 billion in loans to African countries during 2003–11, equal to 2.8 percent of China’s GDP. Similarly, little information is available on investment flows from countries in SSA to China. SSA’s investment in China appears to be increasing, but remains marginal by international standards. South Africa is the only country in SSA with a significant investment presence in China (leaving aside Mauritius and Seychelles, which are offshore...
financial centers). Financial flows from countries in SSA to China are dominated by trading companies, often subsidiaries of Chinese firms supporting the business of their parent companies. Let’s inquire into some controversial evidences of China’s FDI in Africa.

**Figure: 4.1 The Stock of Chinese FDI to Sub Saharan Africa**

Source: UN Comtrade

Firstly, on the scale of China’s direct investment in Africa, Chinese statistics on what they call ‘overseas direct investment’ (ODI) show a stock of USD 26 billion in Africa as of the end of 2013. This number would amount to about 3 percent of total foreign direct investment (FDI) on the continent. UNCTAD’s World Investment Report 2015 similarly finds that the flow of Chinese FDI to Africa during 2013-2014 was 4.4 percent of the total to the continent. The European Union countries, led by France and the United Kingdom, are the overwhelmingly largest investors in Africa. The U.S. is also significant, and even South Africa invests more on the continent than China does. Clearly, China’s FDI does not meet the extreme heights many believe.

Secondly, in concern to natural resources, some researchers examine the allocation across African countries of the stock of Chinese ODI and the stock of total FDI (which, as noted, mostly comes from Western countries). Other things equal, African countries that are more resource rich attract more Chinese investment. However, this effect is about the same for Western investment, and it is only one factor determining investment. For example, Chinese ODI is also influenced by the size of the domestic market, indicating that some of it is aimed at serving that market. All Chinese enterprises making direct investments abroad have to register with MOFCOM. The resulting database provides the investing company’s location in China and line of business. It also includes the country to which the investment is flowing, and a description in Chinese of the investment project. However, it does not include the amount of investment. The investment to Africa over the period 1998 – 2012 includes about 2000 Chinese firms investing in 49 African countries. Firms often have multiple projects, so there are about 4000 investments in the database. The researchers consider the typical entry as a private firm that is much smaller than the big state-owned enterprises involved in the mega-deals that have captured so much attention. These data provide insight into what the Chinese private sector is doing in Africa. Based on the descriptions of the overseas investment, researchers categorize the projects into 25 industries covering all sectors of the economy (primary, secondary, and tertiary). The allocation of the projects across countries and across sectors provides a snapshot of Chinese private investment in Africa.

In terms of sectors, these investments are not concentrated in natural resources and the services are the most common sector; and there are significant investments in manufacturing as well. In
terms of countries, Chinese investment is everywhere—in resource-rich countries like Nigeria and South Africa, but also in non-resource-rich countries like Ethiopia, Kenya, and Uganda. Then it is investigated the allocation of projects more rigorously. In particular, it is examined whether factor endowments and other country characteristics influence the number and types of investment projects from Chinese investors. If Chinese investment is similar to other profit-oriented investment, then the number and nature of projects should be related to the factor endowments and other characteristics of the recipient countries. Indeed, it is found that while Chinese ODI is less prevalent in skill-intensive sectors in Africa, it is more prevalent in the more skill-abundant countries, suggesting that Chinese investors aim to exploit the local comparative advantage. It is also found that Chinese ODI is more concentrated in capital-intensive sectors in the more capital-scarce countries, suggesting its importance as a source of external financing to the continent.

Finally, some researchers examined the relationship between ODI and two governance indicators: a measure of property rights and the rule of law, and an index of political stability. Total FDI, other things equal, is concentrated in countries with better rule of law. Chinese ODI is indifferent to the rule of law measure, but on the other hand is positively correlated with political stability. This finding means that Chinese investment is not concentrated in poor rule of law countries; the biggest recipient on the continent is South Africa. But it does mean that China’s investment is more visible in the poor rule of law countries because China has invested in those locations whereas Western investment generally stayed away from them. Countries in which China’s share of investment is large include Angola, Burundi, the Central African Republic, the Democratic Republic of the Congo, Eritrea, Guinea, and Zimbabwe.

It seems that the results provide an accurate picture of China’s direct investment in Africa. There are other important issues that are not yet examined, such as Chinese workers in Africa or Chinese involvement in infrastructure. Chinese lending to African governments to build infrastructure, with or without Chinese construction companies, would not typically count as direct investment, unless the Chinese partner is taking an equity stake in the infrastructure.

5. China’s Trade with Sub Saharan Africa

Trade flows between China and SSA have expanded dramatically during the past decade and show no signs of slowing in the foreseeable future. China-SSA trade has grown by a remarkable 26 percent per year since 1995, reaching a total value of USD170 billion in 2013. China now accounts for roughly 24 percent of SSA’s total trade, up dramatically from a mere 2.3 percent in 1995. Yet despite China’s enormous and rapidly increasing importance in the region, its economic relationship with SSA is not symmetric: in 2013, SSA’s share in Chinese trade reached just 3 percent (Figure 5.1).

Figure: 5.1 Trade between China and Sub Saharan Africa
SSA’s exports to China have grown faster than its imports, generating a large, positive trade balance. SSA’s exports are concentrated in primary commodities, especially extractable resources such as oil, uranium, aluminum, zinc, phosphates, copper, nickel, and gold, as well as renewable resources and agricultural commodities such as timber, rubber, coffee, cotton, cocoa, fish, and cashew nuts. While SSA’s export mix is narrowly focused on the primary sector, Africa’s imports from China are extremely diversified. Consumer goods represent the largest share, particularly textiles and clothing, footwear, and consumer electronics, but capital goods such as machinery, commercial electronics, and transportation equipment are also well represented (Figure 5.2). Chinese products are often less expensive than similar products imported from the European Union or the United States, which makes the products attractive to firms and individual consumers alike. In addition, Chinese capital goods imports are boosted in the presence of large Chinese-financed infrastructure projects, which frequently include country-of-origin procurement rules. For decades, SSA exports were overwhelmingly oriented toward Western markets, but the region’s trade relationships are shifting; in 2013, China became SSA’s most important export partner. China now accounts for 27 percent of SSA’s exports, compared with 23 percent for the European Union and 21 percent for the United States. While India accounts for just 9 percent, the growth rate of SSA’s exports to India is second only to that of China.

Figure: 5.2 Sub Saharan Africa’s Export to China dominated by the Commodities
Overall, SSA has benefitted from China’s increasing demand for SSA’s exports of oil, minerals, and metals (Roache 2012). Exporters in SSA have faced very limited competition from Chinese exports in third markets, as many of SSA’s export products are unrelated, or even complementary, to Chinese products in key markets such as the European Union and the United States.

However, there is evidence that imports from China have had a negative effect on SSA’s exports within the African regional market, and local producers and traders have faced serious competition from Chinese imports throughout SSA (Figure 5.3). In a study of 44 South African manufacturing industries during 1992–2010, Edwards and Jenkins (2014) show that labor-intensive industries were particularly badly affected by Chinese imports and the negative impact on employment was more than proportional to the output displacement.

Moreover, exports of manufactures to China did not add significantly to industrial growth in South Africa. But Edwards and Jenkins also find evidence that Chinese imports contributed toward lower producer price inflation in South Africa, which in turn contributed to a moderation in consumer price increases. There is no question that low prices for imported Chinese goods have benefitted African consumers, as well as producers who rely on imported inputs and capital goods. Figure 5.3 shows the gap between SSA’s producer prices and the prices of Chinese imports in SSA. The comparison reveals a considerable price gap between China’s and SSA’s products of about 50 percent.

Figure: 5.3  Price Gap between Chinese and African Producer Prices
Source: Pigato and Gourdon (2014)

More troubling, African firms do not appear to be positioning themselves within Chinese value chains; as a consequence, trade with China is having a limited impact on economic transformation and export diversification. Imports of inputs and components for processing and assembly have been a major channel for technology transfer in many countries in Asia, particularly China. In the standard model, a firm from a developed country would export inputs or components to a less developed country with lower wage rates, where a local subsidiary would use those inputs to create a finished product for export to one or more third-country markets or even back to the original developed country. For many countries, this pattern of trade has had highly positive economic impacts by facilitating technology transfer and catalyzing the development of dynamic comparative advantage. Input exports from China to SSA for processing and subsequent re-export to the U.S. consumer market have increased in recent years but remain extremely small as a share of total trade (Pigato and Gourdon 2014). Consequently, there is very little evidence that China is using Africa as a platform for its global exports or integrating African firms into its international value chains.

The gradual liberalization of the Chinese economy and unprecedented high growth in China and SSA economies were accompanied by strong growth in trade between China and SSA (Figure 5.4), by an average of 30 percent a year since 2003. Overall, SSA has maintained a slight trade deficit with China, with fewer than half of the countries, notably Angola, the Republic of Congo, the Democratic Republic of the Congo, Zambia, and Equatorial Guinea, having a trade surplus with China. In addition, the increase in trade with China has outpaced SSA’s trade with other regions, both in terms of exports and imports. By 2011, China became the largest individual trading partner for the region, with the share of SSA trade with China reaching approximately 16 percent, rising from negligible shares in the 1990s. At the same time, traditional SSA trading partners’ shares, as measured by the Organization for Economic Co-operation and Development’s (OECD’s) Development Assistance Committee (DAC) member countries, have fallen steadily.

Figure: 5.4  Sub Saharan Africa’s Trade with the Partner Countries
China has become a prominent trade and financial partner for SSA. Trade with China is growing much faster than that with the United States and the European Union (Figure 5.4). China surpassed the United States to become the region’s largest trading partner in 2009; in 2013, trade flows with China accounted for 22 percent of the region’s total trade with the rest of the world. Official data on Chinese foreign investment and development financing are sparse, but flows to SSA appear to have grown substantially.

China’s trade with SSA is highly concentrated in a few countries. Five countries, Angola, South Africa, the Democratic Republic of the Congo, the Republic of Congo, and Equatorial Guinea account for about 75 percent of SSA’s exports to China. Six countries, South Africa, Nigeria, Liberia, Ghana, Benin, and Angola account for more than 80 percent of SSA’s total imports from China.

6. Economic Impact through Trade: An Overview

SSA economies are increasingly exposed to China’s domestic development through direct trade expansion. In the last decade, SSA’s exports to China have risen as a share of Gross Domestic Product for many countries. The higher export exposure to China is a result of two developments. First, the region experienced an expansion in international trade, including its trade with China. Between 2001 and 2012, as the value of SSA’s exports expanded by an annual average of about 15 percent, exports to China accounted for about 2.5 percentage points of that growth. Second, SSA’s exports to China outpaced its export growth across many countries in SSA. The contribution of China to SSA’s export growth has become even more important in recent years, explaining about 30 percent of total export growth in 2005–12.

SSA’s larger exposure to China helped shield the region from the global financial crisis. Trading with China helped to reduce the region’s historically high export volatility. Although in
2000–04 advanced economies contributed an annual average of 6.6 percentage points to SSA’s export growth, they contributed less than 1 percentage point in 2005–09 because of their economic deceleration. Yet, China increased its contribution to the growth of SSA exports from 3 percentage points in 2000–04 to 5 percentage points in 2005–09, thus providing a cushion for SSA exports and SSA economies in general during the crisis. Indeed, SSA growth suffered only a mild and short-lived deceleration despite the recession in advanced economies.

China’s economic growth has an indirect impact on SSA’s trade through commodity price effects. As net exporters of commodities, some SSA countries are affected by fluctuations in economic activity in China through its effect on world commodity prices, because China is the dominant importer for various commodities. Roache (2012) suggests that aggregate activity in China has a significant and persistent impact on the price of oil and some base metals, and this impact is rising, while shocks to consumption have no effect on commodity prices. Yu (2011) pointed out that China’s high investment rates, supporting industrialization and urbanization, have contributed to a large and growing demand for commodities. Rapid growth in China was a major contributor to the boom in commodity prices in the 2000s. For instance, China accounted for about 20 percent of world consumption of non-renewable energy resources (oil, gas, coal), 23 percent of major agricultural crops (corn, cotton, rice, soybeans, wheat), and 40 percent of base metals (copper, aluminum) in 2010. Overall, China’s demand for base metals dominates its total demand for world commodities.

China also affects SSA economies through its exports. More than half of SSA economies maintain a trade deficit with China, with large imports in manufacturing goods. Import-related gains reflect lower import prices and access to a wider variety of final and intermediate goods. At the same time, imports from China can lead to adjustment pressures on African manufacturing sectors as a result of Chinese competition.

Economic Growth has accelerated strongly in the region over the past two decades, coinciding with the expansion in economic ties with China. There has been a direct impact (via rising trade, investment aid, and flows) and an indirect one (via China’s demand for and impact on the prices of global metals and minerals). These impacts have been reflected in a quadrupling of the contribution of exports and investment to growth in gross domestic product in SSA since the 1990s. Significant Chinese investment and development finance have been channeled into infrastructure. This is particularly important for SSA, given that transport and energy infrastructure deficits are severe and the returns to investing in infrastructure are large. Improved infrastructure contributed more than half of Africa’s improved growth performance in the pre-2008 decade. Between 2003 and 2009, FDI from China contributed almost 2 percentage points to growth in Zambia, about 1 percentage point in the Democratic Republic of Congo and Nigeria, and 0.5 percentage points in Madagascar (Whalley and Weisbrod 2011). Indirect spillovers from growth in China have also been significant, especially for resource exporters. Drummond and Liu (2013) report that a 1 percentage point increase in China’s domestic investment growth is associated with an average 0.6 percentage point increase in SSA export growth, with a larger impact on resource-rich countries, especially oil exporters. For the top five resource-rich SSA countries ranked by exports to China as a share of GDP are Angola, South Africa, the Republic
of Congo, Equatorial Guinea, Democratic Republic of the Congo in which one percentage point increase in China’s domestic investment growth is accompanied by a 0.8 percentage point increase in their export growth rate. Renard (2011) points to an additional benefit of China’s growth, through reduced consumer and investment prices, as cheaper Chinese manufactures and capital goods displace imports from the United States and the European Union. These may be partially offset by the displacement of local industries through imports from China (e.g., apparel in South Africa and Madagascar. (Ademola, Bankole, and Adewuyi 2009).

**Figure: 6.1 Contributions to growth in Gross Domestic Product in Sub-Saharan Africa**

![Chart showing contributions to growth in Gross Domestic Product in Sub-Saharan Africa](chart.jpg)

Source: World Bank

IMF (2012a) suggests that several economies in the world are exposed to China’s investment led-growth and face growing risks from a deceleration in investment in China. Specifically, a 1 percentage point slowdown in investment in China is associated with a reduction of global growth of just under one-tenth of a percentage point. The impact is about five times larger than in 2002. The economies most vulnerable to an investment slowdown in China are regional supply chain economies and commodity exporters with relatively less diversified economies. SSA’s terms of trade could also be affected by the impact of China on international prices of manufacturing products. Thus, growth in manufacturing-producing trading partners such as China may benefit the region by weakening price inflation in the basket of SSA’s imports.

SSA economies are increasingly exposed to China’s domestic development through direct trade expansion. In the last decade, SSA’s exports to China have risen as a share of GDP for many countries. The higher export exposure to China is a result of two developments. First, the region experienced an expansion in international trade, including its trade with China. Between 2001 and 2012, as the value of SSA’s exports expanded by an annual average of about 15 percent, exports to China accounted for about 2.5 percentage points of that growth. Secondly, SSA’s exports to China outpaced its export growth across many countries in SSA. The contribution of China to SSA’s export growth has become even more important in recent years, explaining about 30 percent of total export growth in 2005–12.
7. Conclusion

In the years to come, China’s engagement with Africa is expected to grow. The system will adapt and adopt easy fixes for some problems, for instance, by increasing spending on training African human resources or by enhancing corporate social responsibility programs for local African communities. However, given China’s priority of fueling domestic economic growth with African resources and market potential, a more profound reconsideration of China’s overall strategic engagement with Africa will be required to resolve the most fundamental problems in Sino-African relationship. The inertia that currently characterizes China’s policy approaches to Africa will most likely remain to be unchanged in the near future. This situation deserves effective responses from Africa and from the rest of the world.

The IMF Working paper finds that China’s domestic investment has a positive and significant impact on its imports from SSA, and this impact is larger than on the rest of the world as a whole. China’s increasing presence in SSA has supported growth, somewhat similar to the impact of Japan’s growing presence on East Asia in the 1960s. China’s engagement has filled important infrastructure gaps and encouraged supply chain integration. China is only one of several major emerging economies with an interest in SSA, the others being Brazil, India, the Republic of Korea, the Russian Federation, and Turkey. But to benefit fully from the opportunities presented by trading partners (including China), countries in SSA need to focus on improving domestic policies to reform institutions, increase transparency improve business environments, and promote the development of human capital. Closer economic cooperation among African countries, for instance, harmonizing laws and facilitating cross-border business and collaboration could allow Africa to leverage the benefits of commerce with the major emerging market economies. This would also help lower the costs of bureaucracy and improve competitiveness. Improvements in regional infrastructure would encourage investment (domestic and foreign). Since natural resource wealth will remain important for the region’s growth prospects, better integration of the mineral sector into development and macroeconomic policy would help shield resource-exporting countries from volatility in commodity prices and assist with more sustainable, longer-term socioeconomic development. A higher degree of processing of agricultural and raw materials would take better advantage of preferential access to Chinese, U.S., and European Union markets and would mean more exports and jobs.

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