China and Africa

Expanding Economic Ties in and Evolving Global Context

China-Africa engagement has considerably expanded over the past decade. Since its inception in 2000, the Forum on China-Africa Cooperation (FOCAC), has served as a vehicle for strategic collaboration, and diplomatic and cooperation initiatives have greatly increased.

China's engagement with Africa is marked by close linkages between trade, investment and finance. Just about all African countries are benefiting from Chinese foreign direct investment (FDI), which extends across the continent, and is increasingly diversified. Although oil and extractives still account for a large share, financial services, construction, and manufacturing now make up 50% of Chinese FDI in Africa. China's banks have supported large scale investments in infrastructure on the continent, and more than 2,200 Chinese firms, mostly private, are currently operating in African countries.

Chinese trade has undoubtedly contributed to economic growth in Africa. Commodity exporters in particular have benefited from high demand and associated price rises, and the competitiveness of Africa's non-oil natural resources has increased over the past decade. As China-Africa trade cooperation moves into its next phase, there is significant scope for diversification of exports, particularly agriculture and manufactures. Based on its own experience, China could help African countries to address structural and logistical constraints that limit the competitiveness of these exports.

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Chinese FDI to Africa has increased at a rapid pace since 2004, when the Government of China adopted a series of measures, including investment funds, to encourage investment overseas. Chinese FDI in Africa surged during the global financial crisis of 2008, when local governments also introduced preferential loan programs. Investments in infrastructure, particularly energy and transportation, have helped to address the physical infrastructure constraints faced by many African countries. In recent years, Chinese investment has extended to mergers and acquisitions and to the relocation or expansion of Chinese-owned manufacturing operations on the continent. While investing in Africa has provided new opportunities for Chinese firms, African countries have benefited from the skills and technology that it has brought.

Chinese FDI has become a significant source of job creation in several countries, as companies have established operations, particularly in labor-intensive manufacturing. Some production centers are export-oriented, taking advantage of duty free entry into China, while others are aimed at supplying local and regional markets. As Chinese investment increases and more firms establish operations in African countries, the challenge for local firms will be to remain competitive and take

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Chinese Investments in Sub Saharan Africa, 2013

- FDI flows rose to $3.5 billion.
- China's FDI stock in the continent reached nearly $25 billion.
- China became SSA's largest trading and development partner, with trade reaching $170 billion.

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advantage of opportunities to integrate into global value chains.

The changing nature of Chinese investment offers substantial opportunities to African countries, as well as some challenges. Major commodity exporters will be most affected by slowing demand and falling prices as China rebalances its economy toward services and consumption. However, increased Chinese investment in African countries from both public and private sources offers the potential to expand manufacturing and agricultural exports, and develop infrastructure. More Chinese companies are likely to outsource labor-intensive manufacturing operations in the face of increased competition and costs, and a more highly skilled labor market, at home. The Government of China is also encouraging outward investment. African countries could attract this investment, provided they have the right policies and a conducive business climate.

There is scope for China's considerable investments in Africa to have greater impact on economic transformation and export diversification.

African countries have a unique opportunity to attract strategic, job-creating investment from China, as well as other partners, but they need to act now. In some instances, this will require changed policies and conscious efforts to attract investment. Creating a conducive climate for investment, from China or elsewhere will require putting in place a supportive policy framework; lowering transport and energy costs; eliminating formal and informal barriers to trade; increasing the flexibility of labor markets; and ensuring effective competition policies. These policies will also help African firms to increase productivity and competitiveness.

There is scope for China's considerable investments in Africa to have greater impact on economic transformation and export diversification. For this to happen, both African countries and China need to maximize the development impact of their partnership. There are successful experiences to build on, and African countries are interested to learn from China's own experience of generating growth and reducing poverty. A proactive approach on the part of both African governments and private companies is required. Improvements in the business climate could attract more large Chinese firms to invest in Africa, bringing with them access to technology, skills and training, and knowledge transfer, as well as linkages to global value chains. Partnerships between Chinese and African firms though joint ventures and upstream and downstream linkages would also help to expand the private sector in African countries, creating employment opportunities. ■

Examples of Chinese Investment in African Countries

Nigeria: The Yuemei Group, a Chinese company, invested $1.2 million to establish a domestic manufacturing subsidy in 2006, and $50 million in 2007 to establish a textile industrial park with a complete production chain. By 2009, the park housed 5 textile companies and employed 1,000 local workers. The group currently operates 10 factories, with sales offices in other countries, and has set up another factory in Senegal.

Tanzania: In 2012, the total stock of Chinese investment was $541 million. Most private Chinese companies are engaged in low-tech, labor intensive industries, producing mainly for the local market. They have created 80,000-150,000 jobs, many providing on-the-job and managerial training. Several local entrepreneurs have established businesses after working for Chinese firms.

Ethiopia: The Huajin Group invested about $10 million to establish a shoe factory. Prior to starting operation, it sent more than 90 employees to China for technical training. The factory opened in 2012 and made a profit in the first year. In 2013, its 3,500 workers produced 2 million pairs of shoes.