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EM10 and Africa: China-Africa—taking stock after a decade of advance

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Highlights

Roughly a decade on from the launch of a new era of commercial and strategic alignment, China-Africa ties continue to mature, substantially altering the make-up of Africa's political and economic milieu. Considering these ongoing alterations, this paper pauses to evaluate the current and potential scale of China's position in Africa, and, in so doing, posing questions as to the role of Africa's traditional partners in the continent's ongoing economic progression.

- Bilateral trade is the clearest manifestation of commercial alignment and, on this score, 2011 was another successful year. Trade between China and Africa reached USD160 billion (bn) in 2011—up by 28% from the previous year. Last year, China accounted for 18% of Africa's trade (up from 10% in 2008).

- African exports to China increased by one-third last year, up from USD67bn in 2010 to USD93bn (+60% since 2008). In contrast, African exports to advanced economies are under water vis-à-vis 2008 levels, and growing slowly.

- Africa's imports from China (+23.7%) increased by 4 percentage points (pps) faster than China's exports elsewhere, from USD59bn in 2010 to USD73bn in 2011. Africa sourced 16.8% of its imports from China in 2011 (up from 4.5% in 2002); Africa's share of China's total exports has doubled since 2002. In contrast, the net exports of the G7 (less the United States) to Africa have fallen in half the product types classified by the United Nations (UN).

Fluctuations in currency and domestic prices have little explanatory role in why China has hollowed-out the position of mature economies in Africa. In fact, two ingredients have re-enforced diplomatic support: (a) capital from policy banks and (b) time to develop two-way trust and establish commercial institutional know-how and infrastructure.

- State-Owned Enterprises (SOEs) encouraged to 'go out' have been successful in Africa, enabling China to ramp up its exports of equipment, machinery and vehicles, while simultaneously creating commercial (and employment) opportunities.

- Greater support will come this year as mature economies continue to stutter. Outward investment is critical to China's development. The China Investment Corporation (CIC) has been given an addition USD30bn to invest abroad by the State Administration of Foreign Exchange. Earlier this month, BRIC countries announced more lending to one another in their own currencies. Currency internationalisation will mean more investment and trade between China and Africa. And Chinese exporters to Africa will benefit indirectly through subsidies at the 59 exporting zones.

China's foresighted engagement with Africa back at the start of the past decade was a master stroke, allowing Beijing to steal a march on Africa's other partnerships. Importantly, China is well-positioned to participate in Africa's next phase of development. Commodities will continue to keep China in Africa's orbit. True, China has seen a downgrade in domestic potential growth and is shifting towards less energy-intensive growth levers, but China's USD7 trillion (tr) economy will still demand more in absolute terms. Meanwhile, robust growth out of several core African economies will ensure Chinese products continue to find fertile export terrain on the continent.

Since May 2009, we have been scripting a monthly report on BRIC and Africa relations. This focus has been necessary, particularly given China, India and Brazil's dramatic (though varied) advances on the continent. Yet, increasingly, reference to BRIC-Africa relations falls short in explaining the broad sweep of new partnerships Africa has forged over the course of the past decade. As such, the BRIC and Africa series has become the EM10 and Africa series, allowing an incorporation of wider developments shaping Africa's course. *This is the second report in the EM10 and Africa series.*

Introduction

The shift in economic influence away from advanced economies towards a wider arc of countries, and thus emboldening the global south, has continued despite the collapse of Lehman Brothers and the global recession it triggered. For Africa, China has been at the centre of the re-calibration of the continents trade and investment cords.

The latest figures once again tell a powerful story: last year total trade between China and Africa increased by 28%, reaching USD160bn. Today China accounts for 18% of Africa's trade, an increase from 10% just three years ago.

African exports to China increased to USD93bn over the year, which is a USD30bn increase since 2008. In contrast, African exports to France, Germany, Italy, Spain, and the United Kingdom are still lower when compared to 2008 peak levels. Powerfully, in four out of every five African nations, China's relative importance increased in 2011.

We expect China to become Africa's largest export destination this year, which is quite remarkable considering that, in 2008, Africa exported half as much to China as it did to the US. Even though China has rightly seen a downgrade in domestic potential growth, and is shifting towards less energy-intensive growth levers, it's USD7tr economy will continue to demand more resources from Africa (in absolute terms) each year to fuel still industrialisation and development.

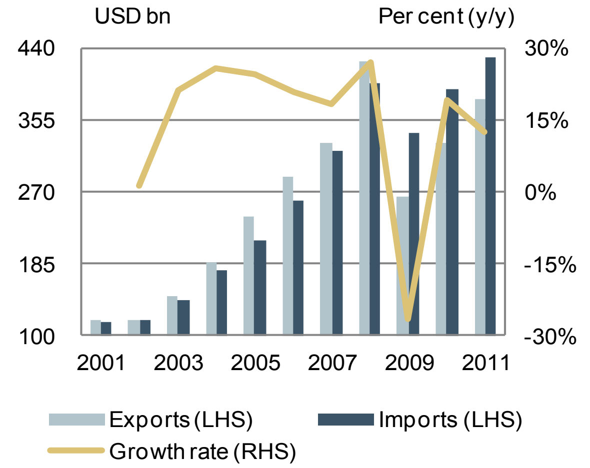
Even more incredibly than Africa's exports, China's share of Africa's imports has surged from 4.5% a decade ago to 17% last year, increasing to USD73bn in 2011. Indeed, from Cape Town to Cairo, and from Dar es Salaam to Lagos, China continues to capture a greater share of Africa's growing market—especially of equipment, machinery and vehicles. Of course, Chinese capital has helped. Encouraged to "go out", Chinese capital has enabled the development of 100s of projects across the continent helping to secure markets for Chinese goods, and create employment opportunities. Considering these ongoing alterations, this paper pauses to evaluate the current and potential scale of China's position in Africa, and, in so doing, posing questions as to the role of Africa's traditional partners in the continent's ongoing economic progression.

China has front row tickets to African development

Relative to market expectations and its own trend, Africa has had a solid past four years. For Africa, in the aftermath of the financial crisis, economic activity has expanded by an average of 4.7% each year from 2008 through 2011. Asia is the only continent that has expanded faster over this time horizon. In addition, over the same period, Africa's economic growth rate has diverged by just 1.3 pps from what markets had expected back at the start of 2008, which is less than most others. And last year Africa returned to trend growth, expanding by 5.2% in 2011.

African trade volumes are back to pre-crisis peak levels. Despite episodes of tight trade finance, fluctuations in global commodity prices, and weak external demand (mostly from advanced world partners), Africa has fought hard to buttress trade channels. Africa's trade with the rest of the world increased by 13.8% y/y last year from USD770bn in 2010 to USD875bn, returning to 2008 peak-levels (Figure 1). Meanwhile, capital inflows are basically also back to their peak—last year, Africa attracted around USD65bn in capital inflows (up from USD55bn in 2010, but, unlike trade, still down a fraction from the peak USD73bn in 2008).

Figure 1: Africa trading itself out of crisis



Sources: International Monetary Fund (IMF), Standard Bank Research

Yet, perhaps more than anything else, the headline figures belie Africa's growing reliance on China. It is clear that China's role in the world economy has expanded: two years ago China overtook Germany as the world's largest exporter; the next year China replaced Japan as the world's second largest economy. China's globalisation has had a profound effect on its socio-political, physical and economic links with the rest of the world. Fortunately for Africa, China has seemingly placed Africa at the nerve-end of its long-term global political and economic agenda.

Bilateral trade acts is the clearest manifestation of Sino-African commercial alignment.

- Last year overall trade between China and Africa reached USD160 bn in 2011—up by 28% from the previous year.
- Today China accounts for 18% of Africa's trade (up from 10% in 2008).

Total two-way trade is well on its way to our estimate of USD300bn by 2015, which we made back when trade had just reached USD100bn *(see BRIC and Africa in 2015: tectonic shift continue apace. 23 November 2010).* High-level political engagements have continued to incentivise and support business. Bolstering strong post-2000 diplomatic gains, in the last six months of 2011, high-level Chinese political delegations visited no fewer than 16 African countries. Tested by the financial crisis, it seems that Sino-African ties have benefited from a sophisticated institutional framework, enabling commercial endeavours to continue to flourish.

That said, it is worth highlighting that more and more Chinese activity in Africa has little direct support. Given China Inc's generally nascent African immersion, a perception prevails that all Chinese activity on the continent is centrally planned by Beijing. This is increasingly untrue, though the affiliation means that the Chinese government faces elevated reputational risk on the continent in managing the operations of its SOEs as well as the activity of the burgeoning Chinese community in key markets.

Africa's exports to China near USD100bn

Impressively, African exports to the rest of the world surged by 18% in 2011, increasing from USD376bn in 2010 to around USD445bn. Today African exports are four-times greater than just a decade ago (when they amounted to just USD130bn). Last year's export performance reflects a turnaround after exports slumped by 37% in 2009 from USD480bn in 2008 to USD303bn with each of Africa's top 15 export markets importing at least 20% less in 2009 than the year before.

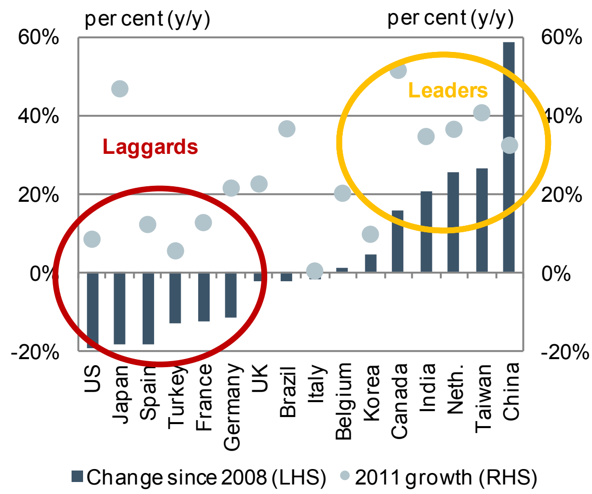
African exports to China increased by one-third last year, from USD67bn in 2010 to USD93bn (+60% since 2008). On aggregate, Africa's export progress has been propelled by demand growth for African goods by China. The acceleration in exports to China even compares favourably to Africa's other fast-growing partnerships, like Taiwan (+27%) and India (+21%), which are being launched from a lower base.

Exports to advanced economies are under water and growing slowly. Worryingly, once African exports to China are omitted from the calculus, Africa actually exported 17% less to the rest of the world than it did back in 2008. In fact, seven out of Africa's top ten export markets are still underwater vis-à-vis 2008 levels, including the US (-19%), Spain (-18%), Japan (-18%), Germany (-11%) and France (-12%). And not only are the laggard in the red, they are also expanding relatively slowly (with the exception of Japan (+40% last year) (Figure 2).

This year, China will become Africa's largest export destination, reflecting a dramatic alteration since 2008. Consider that in 2008 Africa exported USD55bn to China, which was less than half as much as Africa exported to the US (USD115bn). Even though, last year, the US was still Africa's largest export market, the gap with China has narrowed to less than USD1bn. As a result:

- China's share of Africa's total exports has increased from 10% in 2008 to nearly 18% last year.
- In contrast, the US' share of Africa's total exports has fallen from 21% in 2008 to a fraction above 18%.
- Similarly, the share of African exports heading to the EU15 has also fallen, from 39% in 2008 to 34% in 2011.

Figure 2: Leaders and laggards—African exports



Sources: COMTRADE, SBR

Today, African goods account for 5.3% of China's total imports, up significantly from 1.8% in 2002. Clearly, Africa is gaining market share. But, much like Africa's exports with other partners, African exports to China are primarily raw materials. Africa provides China with 30% of its tobacco, 25% of its pearls and precious metals, 20% of its crude oil and cocoa, 10% of its ores, and 5% of its iron and steel.

China's relative importance to virtually all African nations is rising. The share of total exports going to China for all but eight African countries has increased since 2008. In contrast, the US and EU have seen their proportionate importance fall in 31 and 29 African countries, respectively.

African exports to China can be divided into three groups:

- **Fast-growing:** Ores, slag and ash; pearls and precious stones; iron & steel; cotton; tobacco; pulp; rubber; cocoa; articles of apparel; animal & vegetable fats; fish; lead; and vehicles have all expanded by at least 20% p.a. since 2008.
- **Flat-lining** Mineral fuels; copper; oil seed; electrical products.; hides & skins; plastics; and fertilizers have

all grown a more subdued speed (below 20% p.a.)

- **Shrinking:** wood; nickel; wool; aluminium; machinery; organic chemicals; zinc; paper & paperboard; and ships.

Looking at individual African nations' exports to China, four clear groups emerge.

- **Group 1:** countries where exports have grown faster than 30% p.a. since 2009, from an already substantial base. Eight countries are included in this group, all of which export a specific commodity to China. Crude oil from Algeria, Republic of Congo, and Sudan, crude oil and gas from Egypt, copper from Zambia, copper and cobalt from the Democratic Republic of Congo (DRC), iron ore from Mauritania, and iron ore and precious metals from South Africa. Each exported more than USD1.5bn to China in 2011, reaching a combined total of USD36bn.

- **Group 2:** another group where exports to China have grown fast (+30% p.a.) and are on the cusp of being substantial, such as Chad (crude), Ghana (a mix of crude oil, cocoa and ores), Tanzania (ores) and Zimbabwe (tobacco). Each of these nations have seen exports bulge towards the USD500mn mark.

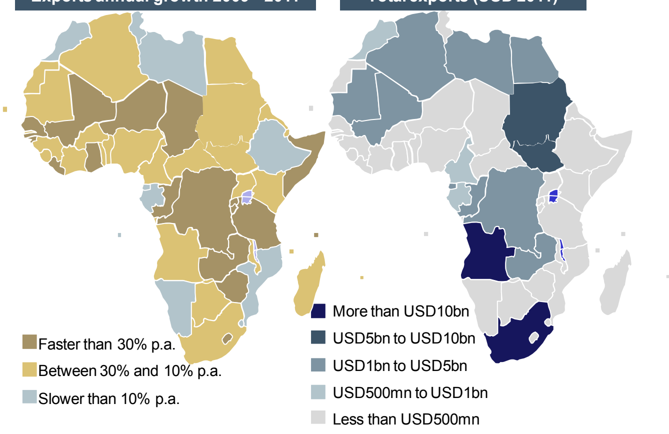
- **Group 3:** over a handful of countries are growing very rapidly (+50% p.a.), but off a very low base (smaller than USD100mn). These nations are also reliant on a single export like wood (Liberia, Gambia and Guinea), niobium and tungsten (Burundi and Rwanda), small circuit breakers (Lesotho) and sesame seeds (Somalia).

- **Group 4:** half a dozen nations that have sizable exports to China, but have grown slowly (Angola, Cameroon, Equatorial. Guinea and Nigeria) or even fallen Libya and Gabon). For each, crude petroleum makes up the overwhelming majority of exports to China.

Chinese firms have moved the dial, setting-up operations in Africa, in order to export commodities back to China. For instance, in the case of wood imports from Liberia, which surged in 2011, Ningbo Timber and Shenzhen Mei Tin Industrial have set up wood and wholesale trading companies in Liberia, acting as vital trade conduits.

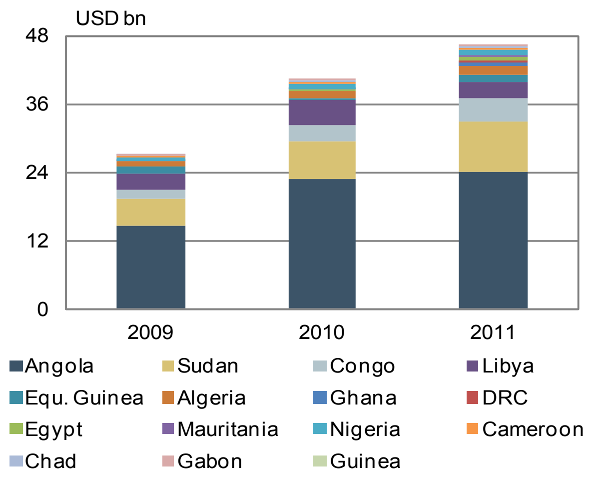
In absolute terms, Africa exports are concentrated. Exports of crude oil make up by far the largest product group exported to China from Africa. Between 2008 and 2011, African mineral fuel exports increased from USD39bn to USD46bn, accounting for 60% of total exports. Africa's largest exporters of crude oil to China (Angola, Sudan and the Republic of Congo) undoubtedly skew the numbers.

Figure 3: African exports to China: a mixed picture



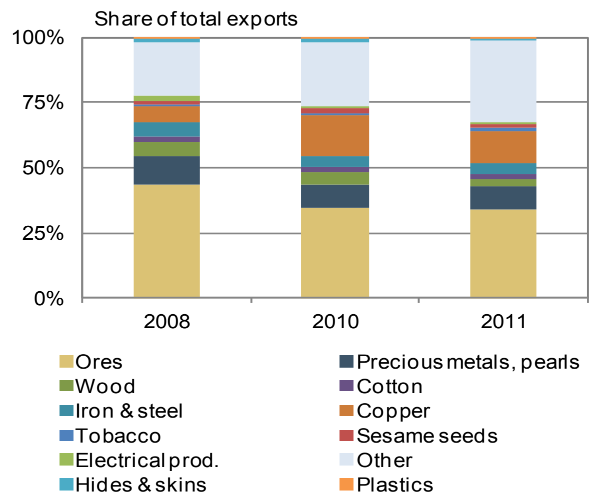
Sources: IMF, COMTRADE, SBR

Figure 4: Crude petroleum exports to China by country



Sources: CEIC, IMF, SBR

Figure 5: Undiversified basket of exports even excl. fuel



Sources: COMTRADE, ITC, SBR

But, simply having oil isn't enough, exemplified by Group 4. Geographical proximity, product quality and price, transport routes, social and political risk, and other factors matter too. For instance, crude oil exports from varying African countries have reacted differently in the post-crisis period:

- Last year Ghana and the DRC began exporting crude oil to China, joining Egypt which came on line in 2010. Each of these nations have become preferred sources, seeing exports to China grow rapidly—thus elevating them into Group 1 and Group 2.
- In contrast, a few nations have been de-emphasised as a source of crude oil for China, including Gabon, Guinea and Libya (though with Libya political unrest in 2011 was largely accountable for this shift and a rebound is likely). Meanwhile, Cameroon, Equatorial. Guinea and Nigeria all exported less crude oil to China last year than in 2009, with exports growing at less than 10% p.a. over the past three years.

China's interest in commodities will continue to grow. Granted, the combined effect of China's structural downgrade in economic growth (down from 10% p.a. in 2005-10 to around 7%p.a. through 2015) and a simultaneous shift to less energy intensive growth engines, does suggest that incremental growth in the demand for African commodities should moderate. However, the Chinese economy will reach USD7.7tr by year-end so in absolute terms demand will continue to surge. And, importantly, Africa's untapped resources potential (not only in oil and gas, but also in agriculture) remains profound *(see BRIC and Africa: China's food security challenge: what role for Africa? 17 November, 2011).*

Africa is an expanding market for Chinese - owned production

African imports continued to grow at a measured pace in 2011. African imports from abroad expanded by 10.8%, from USD391bn in 2010 to USD430bn in 2011. Even though imports expanded more slowly than exports last year, a less sharp fall in 2009 and more stable growth over the next two years meant that African imports usurped the 2008 peak back in 2010 (a year before exports).

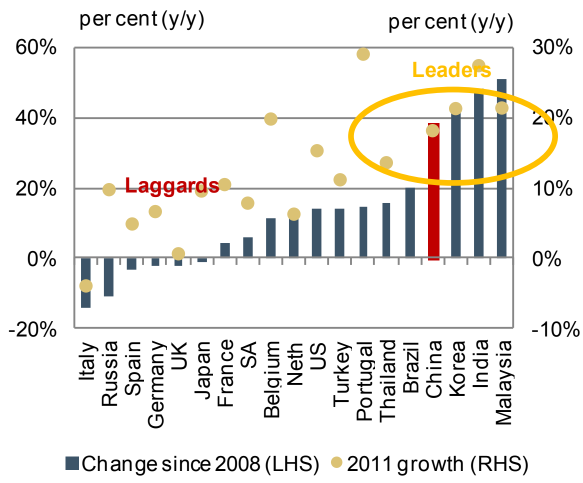
Today, Africa and China matter more to one another than ever before:

- African imports from China expanded by 23.7%, increasing from USD59bn in 2010 to USD73bn in 2011;
- Last year Africa sourced 16.8% of its imports from China (up from 4.5% in 2002);
- Meanwhile, Africa's importance to China also increased, accounted for 3.8% of China's exports (up from 2% in 2002); and
- Impressively, Africa's imports from China increased by 4 pps faster than China's exports elsewhere.

While China dominates headline figures, the emergence of new partnerships should not be neglected. Imports from China didn't grow the fastest last year—that prize goes to other emerging partners Brazil (+38%) and India (+27.4%). In fact, since 2008 Africa's imports from South Korea (+48%), India (+45%) and others have led the way. Nevertheless, China (+38%) has come off a substantially higher base.

In contrast to China's success in tapping growing African demand, mature economies have struggled. Africa's imports from Italy (-14.2%), Spain (-3.3%), Germany (-2.3%), the UK (-2.2%) and Japan (-1.2%) remain under water, with African imports from these mature nations lagging the pace of trade with key emerging peers (Figure 6).

Figure 6: South-South promise—African imports

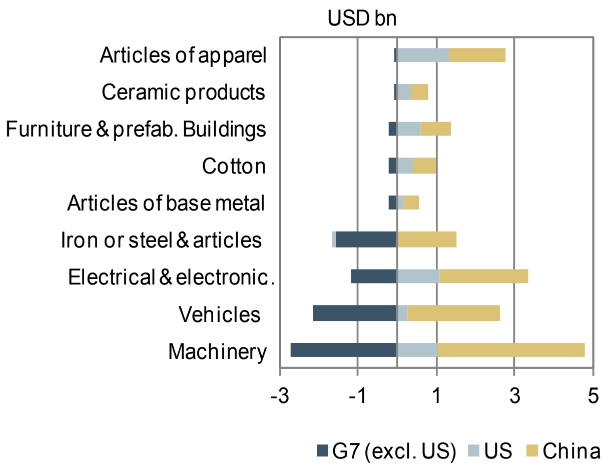


Sources: IMF, ITC, SBR

In contrast to China's success in accessing African markets the net exports of Germany, France, Italy, Spain, the UK and Japan to Africa for 43 (out of the 99 product types classified by the UN) have decreased in absolute terms. In fact, the G7 (excluding the US) sold Africa less equipment (-USD2.7bn), machinery (-USD2.2bn) and vehicles (-USD1.2bn) in 2011 than they did in 2008. Interestingly, the US has ramped up its exports of these products—albeit at a slower pace than China has been able to (Figure 7).

The data seems to confirm some of mature economy fears Africa is turning to China for manufactured goods. And there doesn't seem to be an easy fix to the shift. For instance, economic theory would suggest the marginal gain of China at the expense of Germany, France, Italy and Spain could be reversed by currency depreciation, which boosts cost

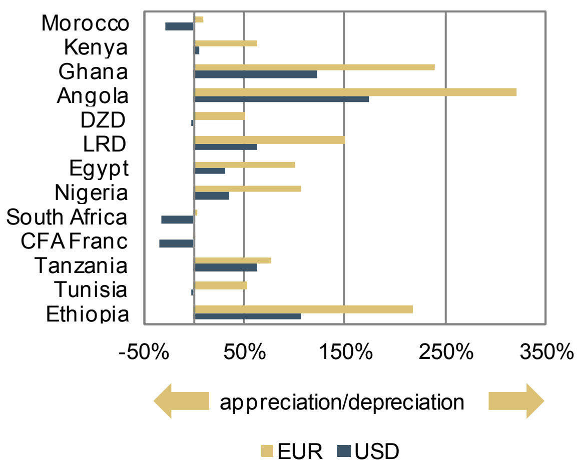
Figure 7: China gains at mature economies' expense



Sources: CEIC, ITC, IMF, SBR

competitiveness. However, the Renminbi has actually appreciated by 23% against the EUR since 2008 meaning China's exports—ceteris paribus—have actually gotten more expensive. Furthermore, China's domestic inflation has averaged 3.5%, which is more than twice the speed of the Eurozone. In contrast, the US has remained competitive despite African currencies appreciating less against the USD than they have against the EUR (Figure 8).

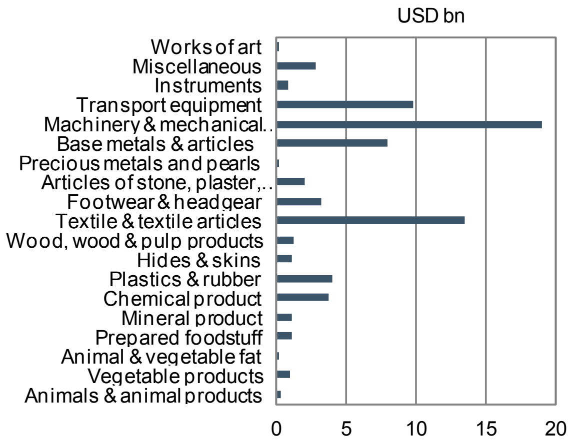
Figure 8: Relative currency path



Sources: Bloomberg, SBR

China's export competitiveness in Africa has head room. Despite becoming marginally more expensive, China has managed to grow exports to Africa rapidly. High-level political visits have certainly helped, but, perhaps more critically, success has bred success and Chinese and African businesses are now more comfortable transacting with one another. Since 2000, commercial relationships have been quietly finding their feet as business-to-business connections build up trust. This process takes time as entire production processes need to be rework as global supply chains are recalibrated. Today, on both sides of the Indian Ocean, firms are apportioning a greater share of orders/ sales to one another. Last year Africa's largest imports from China were electrical products (USD10.3bn), machinery and equipment (USD9bn), vehicles (USD5.4bn), ships and boats (USD4bn) and articles of iron and steel (USD4.4bn). Drilling into these numbers further, Africa is importing significant volumes of television and video sets, digital computers, engines and motors, air conditioners and refrigerators, bulldozers and vehicles. Interestingly, the largest product group (electrical appliances) primarily include imports of telephony -related infrastructure (USD2.5bn), often connected to the programmes of Chinese telecommunications firms Huawei ZTE.

Figure 9: What is Africa buying? African imports in 2011



Sources: ITC, CEIC, SBR

The majority of Africa's imports of electrical equipment and appliances, and machinery were made by South Africa and Nigeria. Orders from South Africa also made up the majority of Africa's imports of apparel, whilst Nigeria dominated vehicle imports. Interestingly, China sold nearly USD4bn in freight ships and tankers to Liberia last year (Liberia is the only market growing faster than 30% each year since the financial crisis that imports more than USD1bn from China. Other fast growing (plus 30% p.a.) markets over the period were Botswana, Central African Republic, the DRC, Guinea and Zimbabwe).

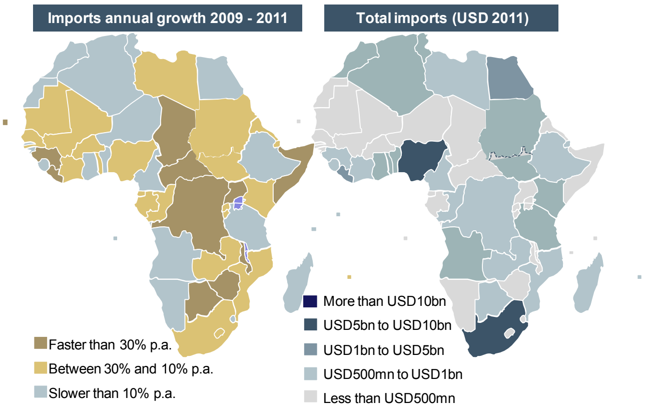
Table 1: Africa's top ten importers (USD mn)

	South Africa	Nigeria	Egypt	Liberia	Algeria	Ghana	Morocco	Benin	Angola	Kenya
Machinery	2,024	1,092	905	-	774	277	341	368	273	315
Electrical equipment	2,222	2,005	791	-	445	403	448	-	467	348
Apparel	1,795	179	915	-	287	116	137	73	39	92
Vehicles	485	1,089	435	-	818	219	99	50	242	151
Ships	-	-	324	3,790	-	62	-	-	60	-
Country total	13,367	9,207	7,286	4,966	4,472	3,113	3,043	2,875	2,784	2,370

Source: CEIC

Demand is growing most rapidly in countries were Chinese funded projects are being built. Consider the case of Botswana where imports from China have expanded by more than 30% p.a. since 2009. Shining a light into the numbers, it is apparent that imports of steam vapour boilers and their parts now make up 15% of the country's total imports from China (from zero in 2009). These products are connected to the Morupule B Power Project (*Standard Bank and ICBC were joint lead arrangers on a USD1.6bn debt package for Botswana Power Corporation to expand its plant near Palapye in eastern Botswana*).

Figure 10: African markets offering China sales point



Sources: ITC, CEIC, SBR

China will continue to prioritise trade with Africa. China's trade deficit widened to its largest level in nearly 22 years in February 2012, reaching USD31.5bn. Exports failed to rebound meaningfully from the previous month's 0.5% contraction, increasing by just 18.4% in February—half the speed of consensus expectation. According to Premier Wen Jiabao's opening statement at the National Party Conference in early March, China is targeting export growth of just 10% this year as key mature economies remain in the doldrums. With China's export growth continually decelerating, from 30% in 2010 to 20% in 2011, and possibly falling to 10% this year, the government was always going to take action.

In late 2011, Beijing's emerging markets export plan emerged, including Africa. The plan's genesis occurred at the annual Central Economic Work Conference during November, where Beijing announced the establishment of 59 sector-focused export bases to help maintain growth in overseas shipments—especially targeting emerging markets with large populations and rich natural resources. Examples include a garment exports base in East China's Jiangsu province, an apple base in Shaanxi province and a shoe base in Zhejiang province. The idea is for important industrial participants to gather and work on improving their goods and services for export, investing more in research and development and become better competitors. The bases are generally located in a region or city that either has a strong industry chain for a specific sector or has abundant resources of some specific goods. The government will give "handsome subsidies" to the exporters involved.

Capital is a critical competitive advantage for China in Africa

While trade is a clear litmus test for surging ties, Chinese investments in Africa have also swelled meaningfully. Conventional wisdom suggests that the two flows move in concert. To be sure, trade and capital are mutually re-enforcing in Africa. Across Africa, investment is required to unlock the trade potential because investments—particularly in physical infrastructure—are a precursor for deeper commercial access and cost competitiveness.

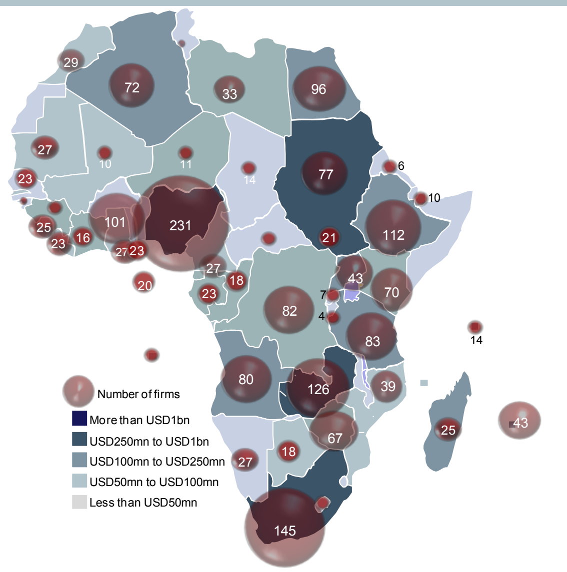
Chinese investments have been spearheaded by policy banks. This dynamic has been comprehensively covered in the ongoing China-Africa discourse, yet it warrants inclusion here in the manner in which it complements the competitiveness of Chinese firms in Africa, and bolsters trade. Just like policy banks have been used as a tool to maintain robust domestic growth in China by financing the lion's share of domestic fixed asset investment, China's capital is seeking (seemingly successfully) to secure markets for its goods and employment opportunities for its labour. And, Africa has provided fertile terrain for this strategy. Investments have ushered in Chinese firms, most prominently large SOEs, though increasingly followed by private Chinese firms and entrepreneurs.

Much like in trade, China has been making investments in African resources. The intention is to secure resources at source and become less susceptible to changes in commodity prices. How? Basically China is quietly becoming the world's biggest consumer and producer of the ingredients for it's own economic potion. African supply is being sent back to China to sustain the nation's rapid economic growth, modernisation, industrialisation and urbanisation.

Though estimates of Chinese investment to Africa vary dramatically, Chinese official statistics suggest the country has FDI stock of USD13bn on the continent. However, Chinese cumulative capital investments into Africa since 2000 are potentially north of USD30bn. One reason for often bloated FDI estimates is that announced investment still have to be disseminated in tranches often over a number of years—meaning that the same principal investment is often re-reported several times. Moreover, and far more importantly, the largest proportion of Chinese capital investment don't actually flow into the national accounts of African nations. Rather, China's investments typically manifest in trade.

Many of China's SOEs encouraged to 'go out' have subsequently been successful in Africa, growing revenue streams through African operations and diversifying, to become mostly independent engines. According to MOFCOM, Chinese firms have registered over 2000 subsidiaries in Africa. So far, the KEANS (Kenya, Egypt, Angola, Nigeria and South Africa) plus the DRC, Ethiopia, Ghana, Tanzania and Zambia have been pivotal (Figure 11). Large resources, construction and engineering SOEs have been prominent. For instance, Sinopec holds equity in oil fields in Sudan, produces oil in Algeria, Angola, Ethiopia and Gabon. Moreover, the firm is developing the Zarzaitine onshore oilfield, and both developing and producing in the Republic of Congo. Much like Sinopec, China National Petroleum Corporation (CNPC) operates in nine African countries. And, China Overseas Engineering Group (COVEC), China Civil Engineering Construction Corporation, China Overseas Construction Group, China Gezhouba Group, China Rail and Bridge, and others, have benefited from Chinese capital, building up project experience in Africa.

Figure 11: KEANS+5—FDI stock and number of Chinese firms



Sources: MOFCOM, SBR

Moreover, on the back of the projects, China's equipment manufacturers are gaining markets for their goods. For instance, China National Machinery Import and Export (Group) Co is providing the machinery for Chinese construction in Angola, the DRC, Nigeria, Zambia and elsewhere, and China National Machinery and Equipment Engineering is doing the same in Chad, Congo, Equatorial Guinea, Gabon, Senegal and Zimbabwe. Total Chinese construction machinery exports have expanded at a compounded annual rate of 40% between 2000 and 2010. As a result, China's share of global exports in the sector has jumped from 1% to 8% over the period. More impressively, despite domestic fixed asset investment increasing by an average of 25.6% each year since 2000, growth in Chinese exports of capital goods has outpaced growth in consumption goods over the last decade.

The Western Corridor Gas Infrastructure Project in Ghana provides an accurate and up-to-date illustration of how China has managed to be so successful in Africa. Late last year Ghana's Ministry of Finance borrowed USD3bn from CDB for infrastructure development. The Master Facility Agreement (MFA) covering the facility stipulated that 60% of supplies and services must be sourced from China. Essentially, the Chinese government is providing the Ghanaian government with competitively priced lending, through the China Development Bank (CDB), but paying a Chinese contractor directly to build (and supply inputs to build) the project—limiting the proportion of funds that enter Ghana. In return, Ghana gains an offshore processing plant, an onshore trunk pipeline, a petroleum terminal in Takoradi and the Tema Oil Refinery. The end goal: a natural gas-to-liquid plant linked to transport infrastructure, which, through its wholly owned subsidiary (Unipeck Asia Company Ltd), Sinopec has guaranteed the purchase of 13,000 b p/d of crude oil.

The success of this strategy provides support for new mechanisms to be unveiled. CDB has, according to its Chief Economist Wang Yuan, lent USD7bn to more than 30 African countries. Additional support has come from the CADF, which has principally supported the participation of Chinese SMEs on the continent. CADF and other supporting institutional frameworks are likely to be bolstered later this year at the Forum for China Africa Cooperation (FOCAC), to be held in China. China will also look to support exports to Africa through the 59 exporting zones outlined earlier in this report. Meanwhile, internationalisation of the renminbi will support greater trade and investment flows between China and Africa *(see BRIC and Africa: Rise of the Redback—an opportunity for Africa, 29 August 2011).*

Conclusion

Last year, Africa's trade with China increased at twice the speed of Africa's trade with the rest of the world. Overall, China-Africa trade swelled by 28%, to USD160bn. Today China accounts for 18% of Africa's trade (up from 10% in 2008). It is clear that Africa matters even more to China than ever before, and vice versa. Consider that, once African exports to China are omitted from the calculus, Africa exported 17% less to the rest of the world than it did back in 2008 as demand from the advanced world continues to stutter. China's commodity demand is structural and will be longstanding. In addition, Africa's demand for infrastructure and China's differential approach to financing creates markets for Chinese exports; commercial opportunities for its SOEs and employment opportunities for Chinese people.

Looking ahead, China has front row seats to Africa's next growth phase. Rightly so, China's leadership recognised back in 2000 that modernising diplomatic and commercial cords with Africa was necessary. At that time pessimism towards the continent was heightened. Beijing's foresight was a master stroke, and has reflected clearly in the manner in which China has maintained robust commercial ties with Africa amidst the ongoing economic malaise experienced throughout the advanced world.

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