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China-Africa trade: 2015 reflects commodity punch

As expected, African exports to China down 42% in value

- Recently announced trade data by China's customs office reflects our expectations for the harm in terms of the value of African exports to China which was wrought by last year's precipitous commodity price slump, and the related slowdown in China's growth prospects.
- In all, African exports to China were down 42% year-on-year (y/y) in 2015, to USD67bn, from USD116bn in 2014. This was the almost exactly the increment of loss we had expected — see *Insight & Strategy: China's slowdown: the implications for Africa*, 25 September 2015, where we outlined our expectations for a 40% y/y decline in African exports to China, in value terms, in 2015.
- Meanwhile, again as we had anticipated, Chinese exports to Africa held steady: in 2015 Chinese data valued total exports to Africa at USD102bn, a marginal (3.8%) decline on 2014 flows of USD106bn.
- In all, last year China-Africa trade totalled USD169bn, registering a meaningful 24% decline from reported flows of USD222bn in 2014. That said, it is important to outline (again as we asserted in our September report) that China appears now to have dropped the problematic "commodities not elsewhere specified" category from its import data from Africa. In 2014 China reported imports of this category of goods to the value of USD27bn, virtually all of which (China claimed) came from South Africa. Yet South African data did not corroborate this flow. As such, if we retrospectively remove this category from the 2014 trade data, then China's imports from Africa in that year amounted to a far more modest, though still substantial, USD89bn. Taking this figure (USD89bn), rather than the disputable figure of USD116bn, the y/y drop in African exports to China in 2015 reduces from 42% to 23%.
- What is now unambiguously clear, however, given both the reduction in the value of African exports to China, and the necessary elimination of the "commodities not elsewhere specified" category, is that China is running a large trade surplus with Africa. Last year (2015), this surplus amounted to USD35bn. By comparison, in 2014 the United States (US) ran a trade surplus of just USD4bn with Africa, while the EU27 and Japan both ran trade deficits with Africa, of USD2bn and USD6bn respectively.
- As such, while China remains Africa's largest single trading partner, the diversity and balance of this trade relationship is now more obviously problematic.
- This presents political challenges for Beijing, which has until now aimed to position itself as an equal, and developing world, counterpart in its commercial and political engagements with Africa. As a result, going forward, the tone of its engagements with the continent will certainly shift, as was already evidenced at last year's Forum on China-Africa Cooperation (FOCAC) in Johannesburg, at which China placed greater emphasis on "win-win" partnerships with Africa, and on the need for Chinese investment and financial assistance (largely in the form of concessional loans) to boost African manufacturing, skills and infrastructure development.

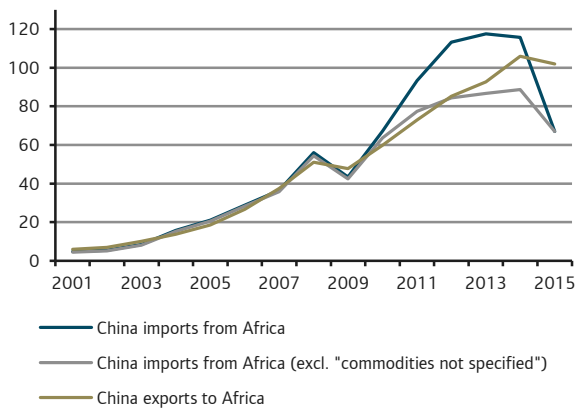
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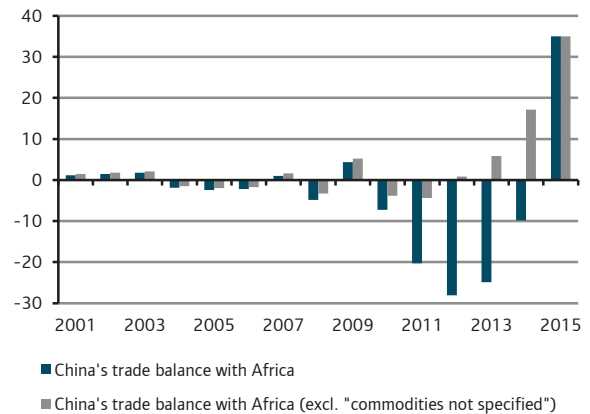
- This avenue of China-Africa engagement is a necessary and potentially productive development – but it will certainly take the foot off the pedal in terms of the raw scale of China’s commercial ascent in Africa which has been a presiding theme for the past 15 years in particular. Put simply, much of the China-Africa narrative since 2000 has rested on the seismic lift in trade – mostly, at least from 2000 to 2012, of Chinese imports from Africa. With this narrative cooling, new momentum will be needed. And the formation of the “win-win” partnerships Beijing is promising in order to stimulate this new tone will be infinitely more challenging, and bureaucratically complex, than the trade-fuelled drive which it is looking to supplement.
- Finally, though the trade concerns were fully expected, we are somewhat alarmed by the announced drop in Chinese investment to Africa, with direct investment falling by a reported 40% in H1:15. We expect that this decline is a further reflection of cooler Chinese appetite for African commodities. Regardless of this, we still see strong upside in this area of China-Africa engagement, based to a great extent on the continued ambition of Chinese companies to extend their global reach as a means, in part, of offsetting domestic vulnerabilities. Further, the Chinese government appears to remain convinced of Africa’s long-term potential (as are we), and is able to secure meaningful commercial and geopolitical access with fewer of the barriers, and costs, that exist in comparable frontier and emerging economies in Latin America and the Middle East.

Figure 1: China-Africa trade, USDbn



Sources: ITC; Standard Bank Research

Figure 2: China's towering trade surplus with Africa



Sources: ITC; Standard Bank Research

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