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Africa | Macro

China's slowdown: the implications for Africa

Gauging the impact of slower growth, and depressed commodity prices, on China-Africa trade and investment

- Recent events have underlined economic fragility in China. Economic growth in China will remain sub-par, and the manner in which it will be generated in the future is adjusting. The internal changes underway mean that the manner in which China relates to the rest of the world is in flux.

- Meanwhile, China's global impact has materially increased over the past decade, evidenced by the elevation of its global economic and geopolitical influence. This is particularly true for Africa, where bi-directional trade and investment has fostered a varying, though often deep, degree of dependence. In this report we assess the impact of China's "new normal" for Africa, pegging our discussion on the three primary channels of Sino-African bilateral engagement: trade; investment; and geopolitics.

- We find, unsurprisingly, that the trade channel is the most prone to an immediate and pronounced adjustment. Importantly, the momentum of China's commodity import growth has unambiguously stalled: in the first half of this year China's imports from the world of coal are down 38% y/y; and of iron ore by 1% y/y (meaning that, should this trend hold, for the first time in over two decades China will record an annual y/y decline in iron ore imports). Further, the pace of import growth of crude oil has slowed to 7.5% for each month in 2015; and in H1:15 Chinese copper imports were up 10% y/y – compared to y/y import growth in H1:14 of 22% and H1:13 of 32%.

- Considering African exports to China by value (rather than volume), the effect of China's moderating demand, as well (more acutely) as the global decline in commodity prices is clear: Between 2013 and 2014 Chinese imports of crude oil were flat from Africa; though imports of iron ore were down by 11%; platinum by 16% and copper by 3%. And in Q1:15, African exports to China (by value) of crude oil were down by 50% y/y; iron ore by 55% y/y; platinum by 28% y/y; and copper by 39% y/y.

- As a result, it is plausible that the value of African exports to China in 2015 will be as much as 40% down y/y. Given this, as well as the removal of the problematic "commodities not elsewhere specified" category of Chinese imports (which we discuss in this report), we expect African exports to China to dip to around USD60bn this year, from USD116bn in 2014. Assuming that Chinese exports to Africa remain flat y/y, this would mean that China-Africa trade would stand in 2015 at approximately USD165bn, down 25% y/y. This would further imply that China would run a large USD47bn trade surplus with Africa – which would present important political challenges for Beijing.

- Looking past the trade-related contagion, we don't anticipate China's geopolitical and investment intent towards Africa to materially shift. Though political and investment ties will mature in line with China's own internal adjustments, we expect that Beijing will look to maintain its growing strategic and political relations across Africa, one of the core channels for which will continue to be through the extension of state financing. Meanwhile, slow growth in China will likely add greater emphasis to the desire of its firms to externalise, and African economies will remain a key avenue for this intent.

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Introduction

As we know, economic growth in China is slowing, and the manner in which it will be generated in the future is adjusting. Naturally, the internal changes underway mean that the way China relates to the rest of the world is in flux – put simply, as China shifts from an investment and export-intensive growth model, its appetite for the commodities (most of which have been imported) to sustain and drive this growth will continue to moderate. Meanwhile, China's global impact has materially increased over the past decade, evidenced by the elevation of its economic influence and the widening of its global commercial and geopolitical footprint. This is particularly true for many African countries where bi-directional trade and investment has fostered varying, though often deep, degrees of dependence. Put simply, the health and structural composition of the Chinese economy has important and pressing implications for Africa, particularly for those economies that have been nourished over the course of the past 15 years in particular by China's surging appetite for commodities to sustain the expansion of its cities and fuel its industrial drive.

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Though expectations of China's adjusting and slowing economy are not new, the results of these processes have not yet fully manifested in its commercial relations with Africa, the most direct channel of which is in African exports to China. This is now changing, and is correlated with a precipitous drop in the prices of some of the commodities, particularly of oil, copper and iron ore, that have constituted the bulk of African exports to China since the turn of the century. Already, in almost all major commodities, the average annual growth rate of Chinese imports over the past four years is negative, and has slowed materially from the average annual growth rate enjoyed between 2008 and 2011, and 2004 and 2007. This year this downturn will likely be more pronounced, with meaningful implications for some of China's largest trading counterparts across the continent. This report identifies the African economies most prone to these effects, while also considering whether China's economic slowdown, and its new, and more inward-looking, economic model will influence the other two, and interrelated, pegs of China-Africa relations: investment and geopolitics.

First, trade

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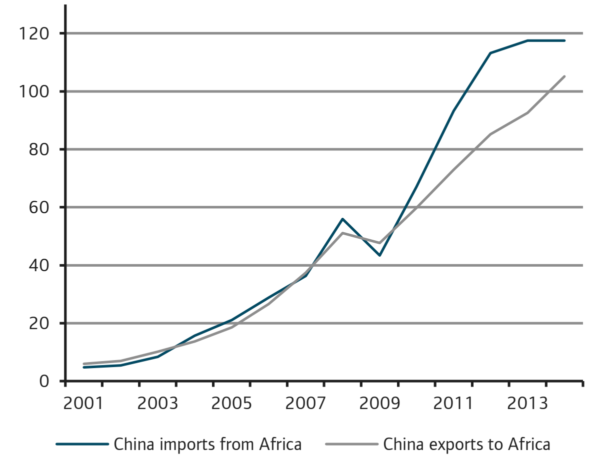
The impact of China's economic challenges will be felt most immediately and most acutely for African economies through the trade channel (with natural spin-offs, such as on the currencies of major African exporters to China).

These risks for Africa are emphasised by the fact that (a) the rapid pace of recent trade growth with China has fostered increased levels of dependence amongst many African economies; and (b) Africa's export profile to China remains profoundly undiversified, consisting almost exclusively of commodities. More specifically:

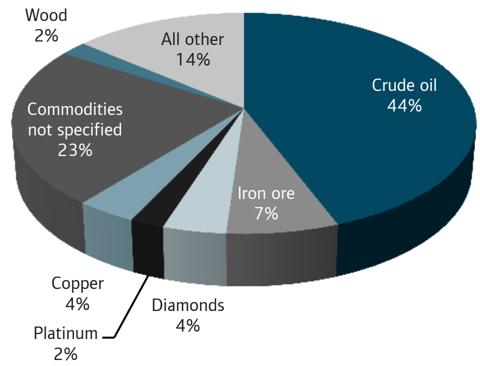
- Due to rapid trade growth over the course of the past 15 years in particular, China is now comfortably Africa's largest single trade partner. Last year, we reported that China-Africa trade totalled USD222bn, with Chinese imports from Africa totalling USD116bn, while exports to Africa amounted to USD106bn (Figure 1). China-Africa trade has elevated over 20-fold since the turn of the century, a rate unrivalled by any of Africa's other large trade partners.
- Naturally, this growth has fostered dependence, which has elevated since the 2008/09 financial crisis and the resultant drop in exports from Africa to the continent's traditional trade partners (the EU, US and Japan). Notably, since the 2008/09 financial crisis, African exports to China have more than doubled, compared to a10% decline in the African exports to the EU28, and a 70% decline in African exports to the US, in the same period (2008-2014).
- Last year, two thirds of the value of African exports to China consisted of crude oil or base and precious metals, with a further one-quarter comprised of "commodities not elsewhere specified" (this category is discussed later in this note) (Figure 2).

Figure 1: China-Africa trade, USDbn



Sources: ITC; Standard Bank Research

Figure 2: Make-up of Chinese imports from Africa, 2014



Sources: ITC; Standard Bank Research

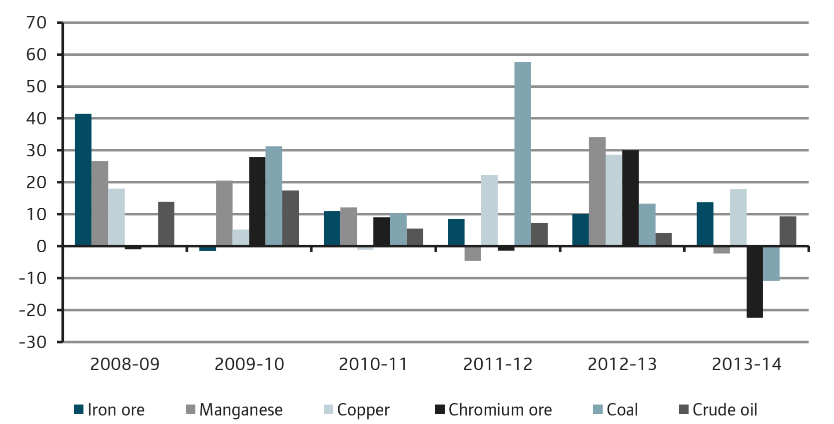
Chinese commodity demand

Given the above, it is critical to assess the current trend in Chinese commodity import growth as a means to understand the depth to which its trade relations with Africa may be affected by the economic challenges it is facing.

First, considering annual trade data it is clear that Chinese imports in 2014 already reflected the ongoing moderation in its demand for several of the key commodities it imports from Africa

First, considering annual trade data it is clear that Chinese imports in 2014 already reflected the ongoing moderation in its demand for several of the key commodities it imports from Africa. For instance, though between 2013 and 2014 Chinese imports of iron ore lifted by 14%; of copper by 18%; and of crude oil by 9%, these rates were all inferior to the general pace of growth achieved since 2008 (let alone between 2003 and 2007). Further, in 2014 imports of manganese declined by 2.2% y/y; of chromium ore by 22%; and of coal by 10% (Figure 3). Notably, the decline in coal imports in 2014 was the first in eight years (in fact, between 2008 and 2013 coal imports rose on average by 60% each year, included in which was a 210% lift in imports between 2008 and 2009).

Figure 3: Chinese import growth (y/y, %)



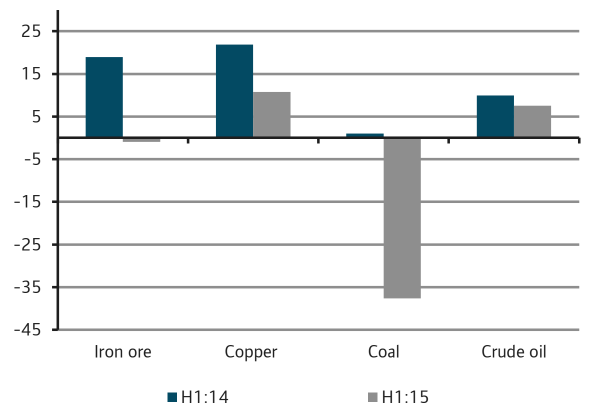
Source: CEIC; SBR. *In 2009 coal imports rose by 210% - this has been removed from the chart to allow a more reflective scale.

Though annual data does portray a slowing in the momentum of Chinese commodity demand, a more compelling image of China's economic adjustments appears with a consideration of import data for the first half of 2015 (Figure 4).

- In the first six months of this year, China's coal imports are down by 38% y/y. At current volumes China will import 31% less coal from the world than it did in 2014;

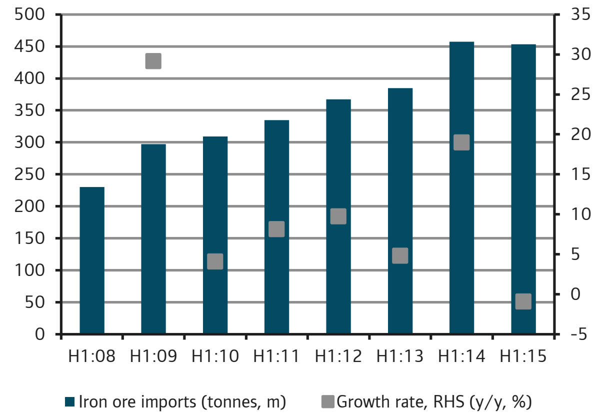
- In H1:15 crude oil import volumes slipped to an average rate of 7.5% y/y each month. Should this hold, China will import marginally more oil this year than it did in 2014 – though the rate of this import growth will substantially lag the recent average;
- Perhaps most significantly, in H1:15 China imported 453,107 thousand tons of iron ore, which is marginally (0.9%) less than the 457,372 thousand tons imported in H1:14. Should this trend continue, China is set to record a y/y fall in iron ore imports for the first time in over two decades (Figure 5);
- In H1:15 Chinese copper imports totalled just over 6m tonnes, a 10% y/y increase. However, y/y growth from H1:12 to H1:13 was 32%, and from H1:13 to H1:14 22%, meaning that the pace of recently recorded import growth has slowed considerably. In addition to this, in H1:15 China imported 1.69m tonnes of waste and scrap copper, 4% less than in H1:14 and 22% less than in H1:13.

Figure 4: Chinese import growth, y/y (%)



Sources: CEIC; Standard Bank Research

Figure 5: Iron ore import slowdown



Sources: CEIC; Standard Bank Research

Turning back to Africa

Acknowledging the generalised slowdown in Chinese commodity import growth, we now consider whether (and if so, to what extent) this momentum loss is reflecting in China-Africa trade, specifically (of course) on African exports to China. Unfortunately, when considering this aspect of the discussion we are forced to rely on trade data by value (USD), rather than (as above) on trade by volume. Though this is imperfect, it is nevertheless important, and aids in the understanding of the nature of the impact of both China's slowdown and the decline in commodity prices (which is in part a function of concerns around China's economy) on African exports.

What are these "commodities not elsewhere specified"?

However, before turning our attention to the trade-related impacts of China's economic shifts for Africa, it is important to delve into a pressing anomaly in recent Chinese trade data with Africa as a means to better gauge the existing nature and scale of the bilateral relationship. As outlined in in Figure 2 earlier in this report, in 2014 China reported imports of "commodities not elsewhere specified" of USD27bn, making this the second-largest import group from Africa for the year, and accounting for one-quarter of the value of its total imports from the continent. This was not unique to 2014: though between 2005 and 2010, imports in this category amounted to just USD7.4bn in total (an average of USD1.2bn per year), between 2011 and 2014 this had lifted to USD102.5bn (an average of USD25.6bn per year). Chinese data suggests that virtually all of these imports come from South Africa.

Anecdotal evidence has suggested that the anomaly could be explained by the fact that China does not directly report its gold imports – and as such the category could include gold imports from Africa. Until 2010 this explanation potentially held water, yet the extraordinary lift in this category of imports since 2011 cannot be accounted for by this explanation, even when considering gold exports from Africa (the vast majority of which come from South Africa) to Hong Kong, which many regard as a proxy for gold demand in China. Indicatively, in 2014 Hong Kong reported USD3.7bn worth of gold imports from Africa (7% of the USD54bn worth of gold imported from the world that year). Of the USD3.7bn in imports, virtually all (USD3.69bn) came from South Africa, with the rest, USD12.5m, coming from Ghana. Even if one assumes that all of these imports are included in the "commodities not elsewhere specified" component of China-Africa trade for the year, we are still left with an unexplained shortfall of over USD23bn (Figure 6).

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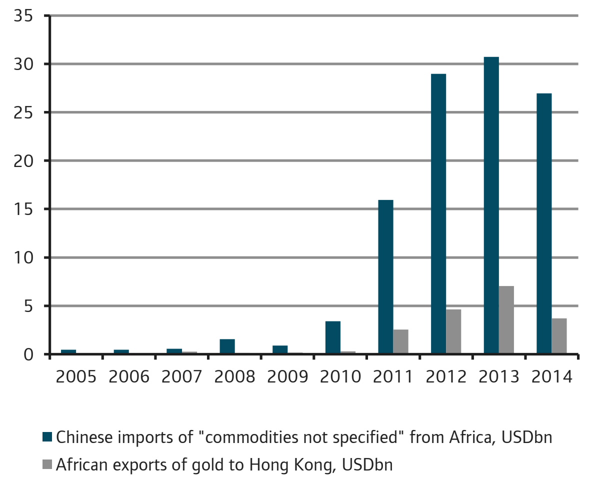
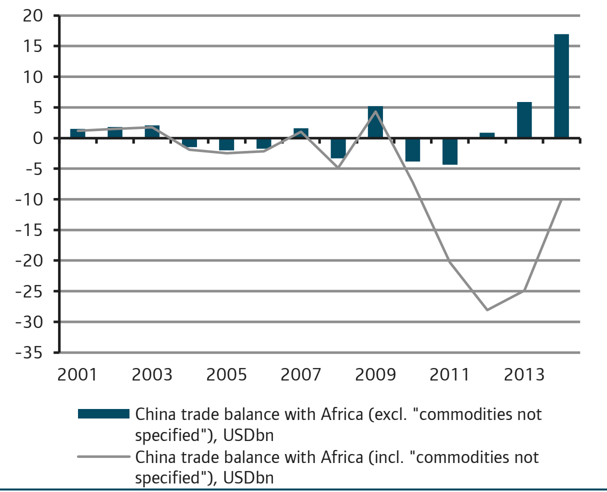
Importantly, should you strip this component out of the trade data, it emerges that China has run a fairly substantial trade surplus with Africa in 2014, of USD17bn, as well as a USD5.8bn surplus in 2013. This compared to the trade deficit it recorded with Africa, by including imports of "commodities not specified", of USD10bn in 2014 and USD25bn in 2013 (Figure 7). Politically, this poses challenges for China, which has consistently attempted to position itself as an equal, developing world, party when engaging with Africa. The pressing imbalances in its trade relationship with Africa renders this claim more complicated, particularly when (as has been highlighted by South African president Jacob Zuma) the nature of China's trade with Africa does little to foster greater value-addition, or beneficiation, in partner countries.

Figure 6: The USD23bn anomaly in China-Africa trade



Sources: ITC; Standard Bank Research

Figure 7: Surplus or deficit?



Sources: ITC; Standard Bank Research

Further, if one removes the "commodities not specified" category from Chinese imports from Africa, trade growth has been less pronounced as a whole since 2010: absent of this chunky import category, Chinese imports from Africa have swelled by 40% between 2010 and 2014, compared to the far more impressive 73% lift recorded if this category is included. Still, the elimination of this category does not fundamentally adjust the importance of China as a trade partner to Africa, nor does it shift its status as the continent's largest single trade counterpart.

The elimination of this category will have no impact on South Africa's trade measurements, but rather on the broader optics (and perceived quantum) of China-Africa trade as a whole

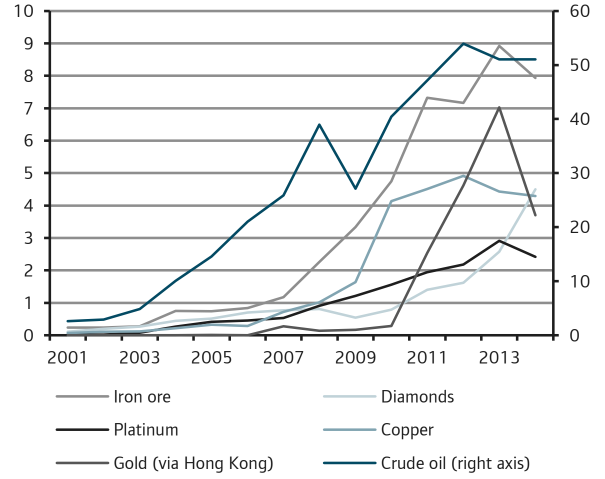
Further, it is critical to emphasise that the anomaly only appears in Chinese data, and is not corroborated in South African export figures. This means that the elimination of this category will have no impact on South Africa's trade measurements, but rather on the broader optics (and perceived quantum) of China-Africa trade as a whole.

Considering African exports to China

First, though we have previously outlined how the impacts of China's slowdown, and the global decline in commodity prices, have not yet fully reflected in African annual export flows, it is significant that over the course of the past two years the pace of growth of Chinese imports from Africa has halted from that experienced in the preceding five-year period. Indicatively, when excluding "commodities not specified", we find that, where between 2007 and 2012 the value of Chinese imports from Africa lifted at an annual average rate of 22% (and this including the 22% contraction in the value of exports suffered in 2009 against 2008), between 2012 and 2013 import growth totalled a far more modest 3%; followed by 2.5% growth between 2013 and 2014.

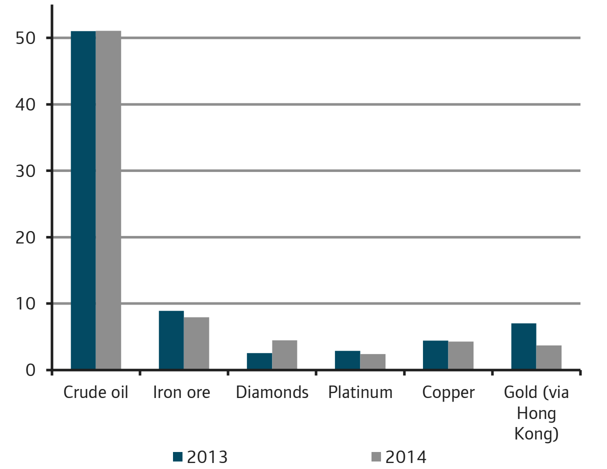
Looking specifically at the products which make up the bulk of China's imports from Africa, this slowing pace is explained. Between 2013 and 2014 Chinese imports (in value) of crude oil were flat from Africa; though imports of iron ore were down by 11%; platinum by 16% and copper by 3%. Further Hong Kong's gold imports in 2014 dropped to USD3.7bn, just over half of the value of imports 2013 (Figures 8 and 9).

Figure 8: Chinese imports from Africa, USDbn



Sources: ITC; Standard Bank Research

Figure 9: Crude oil imports flat in 2014 vs. 2013, USDbn

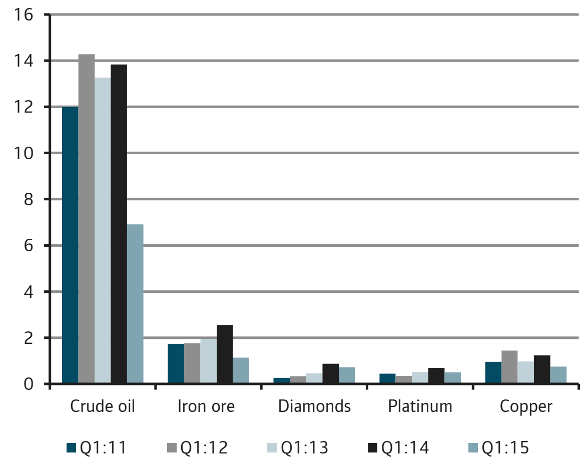


Sources: ITC; Standard Bank Research

Further, Chinese Q1:15 import figures from Africa present a clear indication of the impact primarily of the fall in commodity prices, as well (to a measured extent) of an ongoing easing in Chinese demand for these commodities. For instance:

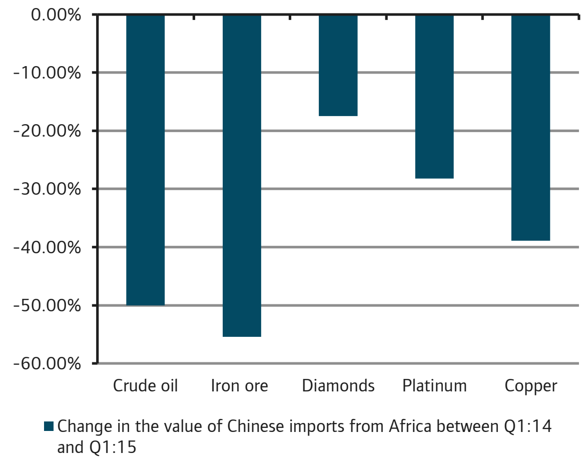
- Where China imported USD13.8bn worth of crude oil in Q1:14, in Q1:15 the value of total imports was just USD6.9bn, a 50% decline. This decline is also placed in starker relief when considering that the average value of Chinese oil imports from Africa for the first quarter of the year for the four years between 2011 and 2014 was USD13.3bn – almost double the value imported in Q1:15;
- Even greater relative harm was suffered by African iron ore exports to China, which contracted by 55% in value terms in Q1:15 relative to Q1:14 – the nominal representation of which saw import values drop from USD2.55bn in the first quarter of last year to USD1.14bn in the first quarter of this year. Between 2011 and 2014 the average first quarter value of Chinese iron ore imports from Africa was USD1.9bn;
- And copper imports dropped from USD1.23bn in Q1:14 to USD751m in Q1:15 – a 39% slide. Between 2011 and 2014 the average first quarter value of Chinese copper imports from Africa was USD1.15bn (Figures 10 and 11).

Figure 10: Chinese Q1 imports from Africa, USDbn



Sources: ITC; Standard Bank Research

Figure 11: Material harm suffered in Q1:15



Sources: ITC; Standard Bank Research

Should Chinese imports from Africa slide in value terms by 50% in 2015 against 2014, and the "commodities not specified" group is excluded from the data, Chinese imports from Africa in 2015 would be valued at USD58bn, down from USD116bn in 2014

Should the rest of 2015 proceed in much the same fashion as it started (as reflected by Q1:15 trade data) it is safe to assume that this year will see a profound dip in the value of African exports to China, particularly when the "commodities not specified" category is eliminated from official figures. For instance, should Chinese imports from Africa slide in value terms by 50% in 2015 against 2014, and the "commodities not specified" group is excluded from the data, Chinese imports from Africa in 2015 would be valued at USD58bn, down from USD116bn in 2014. Assuming that Chinese exports to Africa remain flat on 2014 in terms of value (and it is more likely that they will in fact lift given the demand dynamics in key partner African economies), this would mean that China-Africa trade would stand in 2015 at approximately USD165bn, down 25% on 2014. This would further imply that China would run a large USD47bn trade surplus with Africa – far larger than the trade surplus the EU28 would be expected to run with Africa even when considering the equally material impact on commodity prices on this trade relationship.

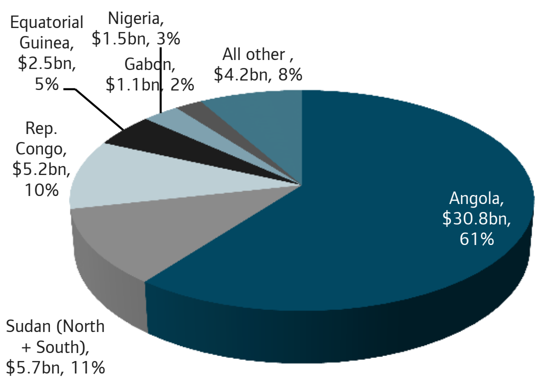
The African economies most affected by a dip in export value to China

China typically sources its commodity imports from Africa from a relatively small host of exporting economies. For instance, in 2014, 80% of its African crude oil imports originated from three countries (Angola, Sudan and the Republic of Congo); 95% of its iron ore imports came from South Africa, Sierra Leone and Mauritania; and almost 90% of its copper imports were delivered by Zambia and the DRC. As a result, the direct trade-related contagion effect for Africa is somewhat contained – though the impact on commodity prices which is associated with China's slowdown will, of course, be universally suffered by African commodity exporters.

Crude oil

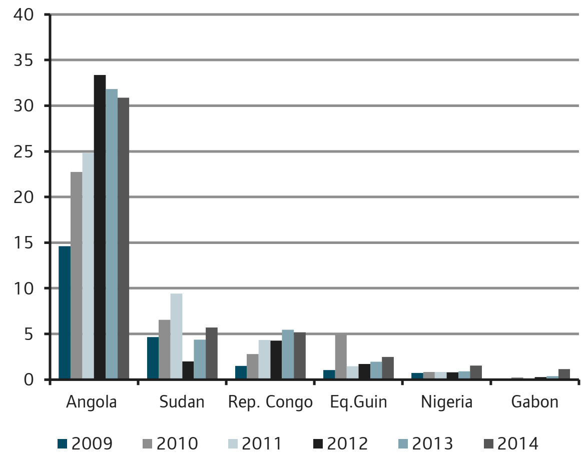
In 2014, China imported USD51bn worth of crude oil from Africa, 60% of which came from Angola, Sudan (North and South) and the Rep. of Congo (Figure 12). Though the value of Chinese oil imports from Africa in 2014 held steady on 2013, some countries did reflect a y/y slide. For instance, in 2014 Angola's oil exports to China were valued at USD30.8bn, down from USD31.8bn in 2013; while exports from the Rep. of Congo slid from USD5.45bn to USD5.18bn. These slides were accommodated for by the lift in exports from Sudan (from USD4.3bn in 2013 to USD5.7bn in 2014); Equatorial Guinea (USD1.96bn to USD2.46bn); and Nigeria (USD899m to USD1.53bn) (Figure 13).

Figure 12: China's imports of crude oil from Africa, 2014



Sources: ITC; Standard Bank Research

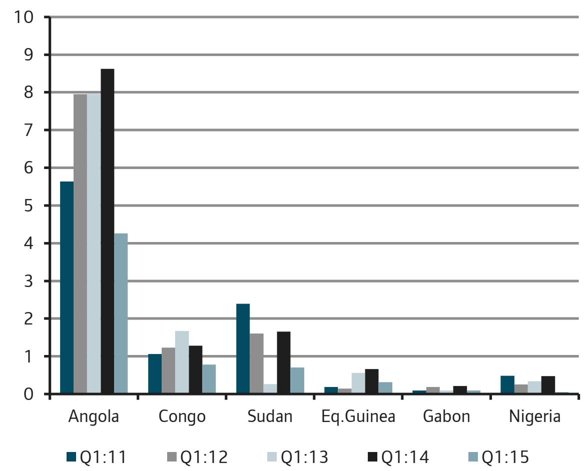
Figure 13: China's key African oil import partners, USDbn



Sources: ITC; Standard Bank Research

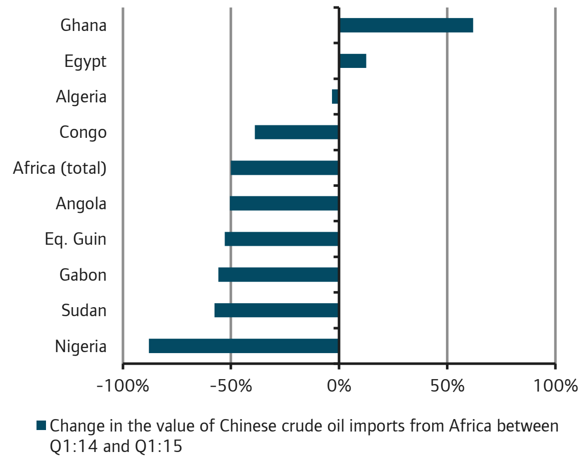
A consideration of the value of African oil exports to China in Q1:15 presents a clearer picture of the impact of the oil price slide on overall trade between China and Africa. Indicatively, in Q1:15 Angola's oil exports to China were valued at just USD4.26bn, down 50% from the USD8.6bn exports in Q1:14. Similar slides were experienced by Sudan (down 58% from USD1.65bn to USD701m); and Equatorial Guinea (down 53% from USD667m to USD314m) (Figures 14 and 15).

Figure 14: Chinese Q1 oil imports 2011-2015, USDbn



Sources: ITC; Standard Bank Research

Figure 15: The oil-price effect

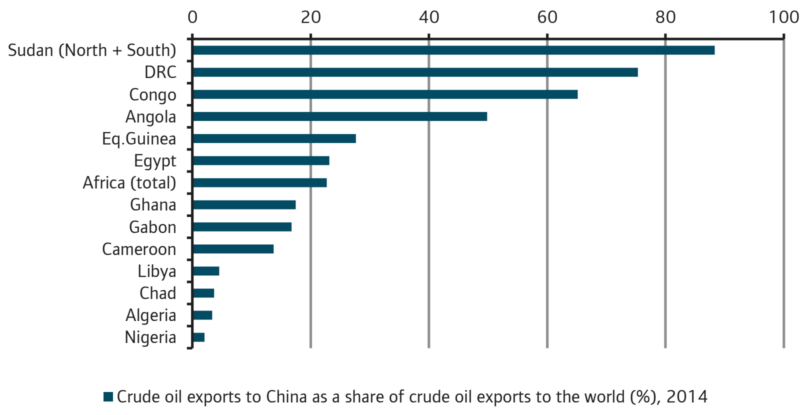


Sources: ITC; Standard Bank Research

A further and important qualification is to determine which African countries are most reliant on oil exports to China as a share of total oil exports to the world. This provides balance to Figure 15, for instance: though Nigeria appears most harmed by a drop in imports in the first quarter of this year to China, the blow is softened by the fact that in 2014 China absorbed just 2% of Nigeria's total crude oil exports.

In contrast, last year Sudan (North and South) exported almost 90% of its crude oil to China; the Rep. of Congo 65%; and Angola 50%. Across the board, in 2014 China accounted for around one-quarter of Africa's total crude oil exports (Figure 16).

Figure 16: Differing reliance on Chinese oil demand



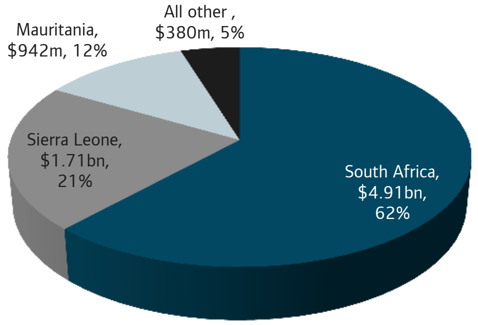
Sources: ITC; Standard Bank Research

Iron ore

In 2014, China imported USD7.9bn worth of iron ore from Africa – the bulk of which (95%) came from South Africa, Sierra Leone; and Mauritania (Figure 17).

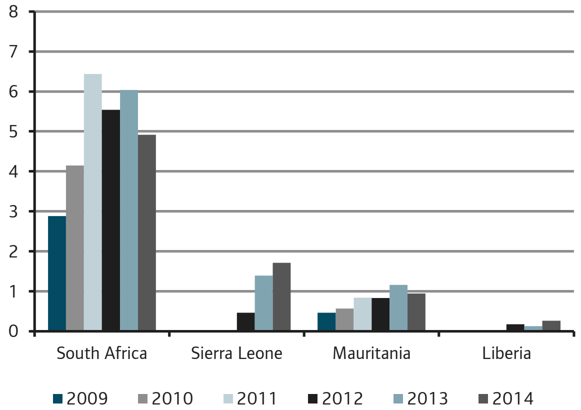
Overall, Chinese imports of iron ore in 2014 were down 11% from 2013 (USD7.93bn against USD8.91bn in 2013). This slide was reflected primarily in the value of South African iron ore exports to China, which dipped from USD6bn in 2013 to USD4.9bn in 2014; and Mauritania, which saw its exports decline from USD1.16bn to USD942m. Conversely, Chinese iron ore imports from Sierra Leone, which only began in 2011, continued their recent upward ascent – lifting by 23% from USD1.38bn in 2013 to USD1.7bn in 2014 (Figure 18).

Figure 17: China's imports of iron ore from Africa, 2014



Sources: ITC; Standard Bank Research

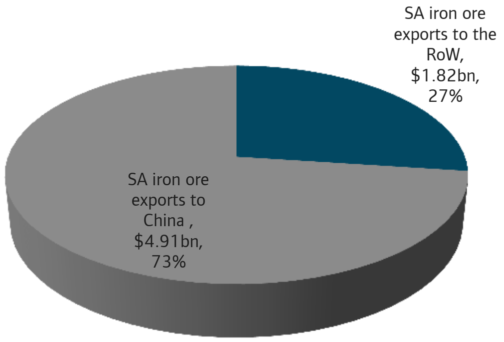
Figure 18: Iron ore exports to China, USDbn



Sources: ITC; Standard Bank Research

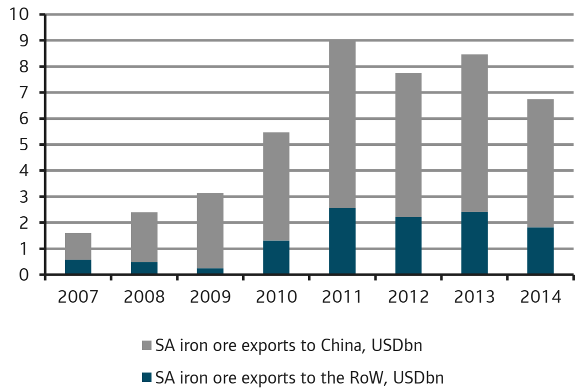
Accounting for two-thirds of Africa's iron ore exports to China, it is clear that South Africa's exposure to a Chinese slowdown through this channel is pronounced. Last year, China absorbed 73% of South Africa's total global iron ore exports (Figure 19). This dependence has been relatively constant over the course of the past eight years, with the exception of a peak in reliance in 2009 when SA exports of iron ore to China accounted for 92% of its exports of the commodity globally in that year (Figure 20).

Figure 19: SA iron ore export partners, 2014



Sources: ITC; Standard Bank Research

Figure 20: Chinese demand is critical

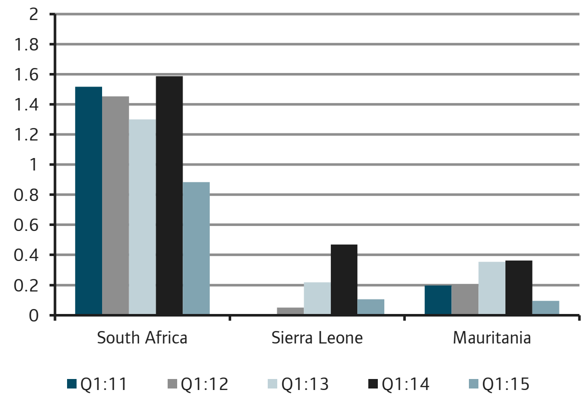


Sources: ITC; Standard Bank Research

As with crude oil, a consideration of the value of Chinese imports of iron ore from Africa in Q1:15 presents a sobering view of the impact the slump in the iron ore price, as well as cooling Chinese steel production growth. Indicatively, in Q1:15 SA exported just USD882m worth of iron ore to China against USD1.58bn exported in the first quarter of last year. More dramatically, exports from Sierra Leone in Q1:15 were almost 80% down on Q1:14 in value; while Mauritania generated just USD95.9m from its first quarter exports to China against the USD362m it generated in the same time frame in 2014 (Figures 21 and 22).

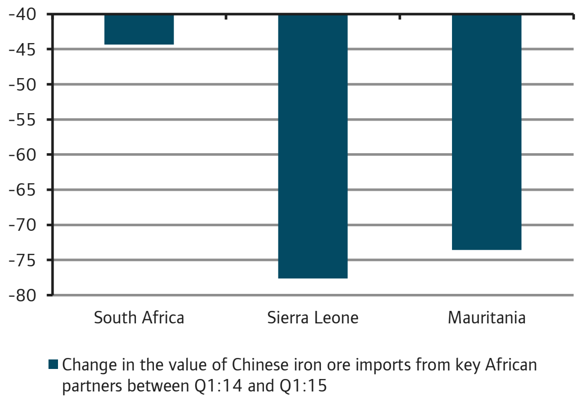
Worsening the situation for Sierra Leone is the fact that, at current prices, production at its Tonkolili Mine (where the world's largest iron ore deposits are located) has been halted. In April this year China's Shandong Iron and Steel Group purchased the remaining 75% stake in Tonkolili, raising its ownership to 100%, from African Minerals, pledging to increase production at the mine by 25%. Further, London Mining, which operates Sierra Leone's Marampa mine, went into administration in October last year due, it claimed, to debt, high costs, the low iron ore price, and the impact on its operations of the outbreak of Ebola. According to the International Steel Statistics Bureau, iron ore exports from Sierra Leone in the Q1:15 stood at just 1.8m tonnes, against the 4.1m tonnes exported in Q1:14. Separately, in March this year Glencore announced that it has abandoned its agreement to develop the Askaf iron ore project in Mauritania (included in which was a 18-year rail and port deal with a local government entity) due to the sharp drop in iron ore prices.

Figure 21: China's recent Q1 iron ore imports, USDbn



Sources: ITC; Standard Bank Research

Figure 22: Sierra Leone smashed



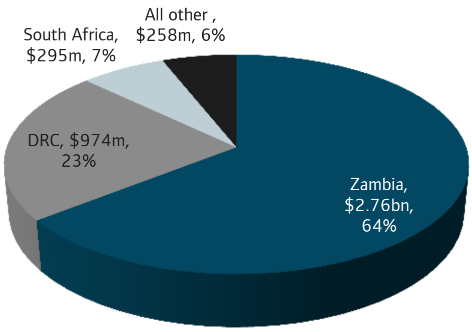
Sources: ITC; Standard Bank Research

Copper

In 2014, China imported USD4.3bn worth of copper from Africa. Of this amount, 87% originated from Zambia and the DRC, with a further 7% from South Africa (Figure 23).

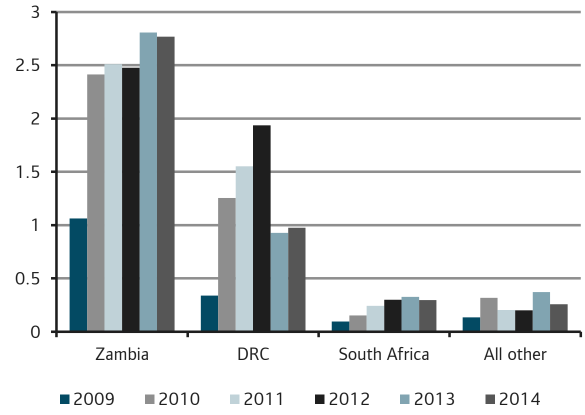
Overall, Chinese imports of copper in 2014 were down relatively marginally against 2013 values – dipping just 3% from USD4.43bn to USD4.3bn. As a result, the declines in exports to China from its three largest sources of copper in Africa were modest: Zambia saw its value of copper exports to China drop from USD2.8bn to USD2.76bn; and South Africa from USD326m to USD295m. The DRC, having seen exports decline dramatically between 2012 and 2013 (from USD1.9bn to USD927m) saw a slight lift in exports in 2014 to USD974m (Figure 24).

Figure 23: China's imports of copper from Africa, 2014



Sources: ITC; Standard Bank Research

Figure 24: Copper exports to China, USDbn

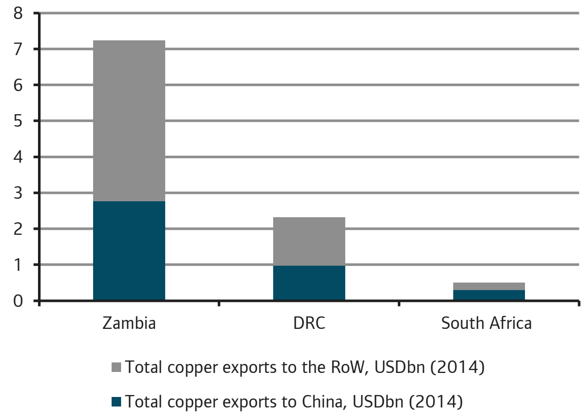


Sources: ITC; Standard Bank Research

In terms of their exports of copper in 2014, Zambia and the DRC each held a similarly proportional reliance on China as a share of total exports in the year. For Zambia, roughly 40% of its total copper exports were absorbed by China, compared to 42% for the DRC. South Africa's reliance was higher, with almost 60% of its copper exports for the year directed to China (Figure 25).

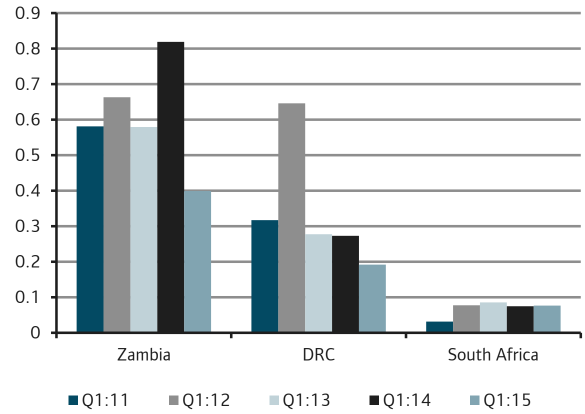
Looking at exports to China in the first quarter of the year also presents a varied image. Zambia has been most materially affected, with exports in Q1:15 totalling just USD398m, down 51% from USD819m in Q1:14. Exports from the DRC slid from USD273m to USD192m, and from SA lifted slightly South Africa from USD74.5m to USD76.5m between Q1:14 and Q1:15 (Figure 26).

Figure 25: Varied reliance on China



Sources: ITC; Standard Bank Research

Figure 26: China's recent Q1 copper imports, USDbn



Sources: ITC; Standard Bank Research

How will the political channel be affected by China's slowdown?

As we have consistently outlined, China's commercial strategy in Africa is deeply embedded in Beijing's simultaneous and mutually-enforcing political agenda on the continent. Over the course of the past 15 years subsequent Chinese administrations have placed growing and compelling emphasis on the deepening of strategic, and in most cases long-term, relationships with Africa's ruling elites. These partnerships have mattered, allowing China smoother access to African commodity exports (compared to the political volatility attached, for instance, to oil imports from the Middle East), as well as forging the avenues through which Chinese companies, particularly those engaged in construction and engineering activities, are able to externalise. Further, though these effects have begun to wear off, at around the turn of the century it was important for Beijing to garner additional support from developing world nations as a means to bolster its multilateral voice (as well as, more specifically, to dull the idea of Taiwan's political independence).

Since assuming the helm in 2013, President Xi Jinping (who paid his first overseas trip as head of state to Africa) has continued to emphasise the importance of deeper political relationships with Africa

Given the fact that Beijing has locked key relationships across Africa, and arguably forged sufficient political momentum for its state-owned entities, as well as private sector firms, to continue to expand across the continent, it would not constitute an unqualified leap to assume that some lessening of China's political ambitions would accompany its latest economic challenges, and inward-view. Though not implausible, this is unlikely to materialise – since assuming the helm in 2013, President Xi Jinping (who paid his first overseas trip as head of state to Africa) has continued to emphasise the importance of deeper political relationships with Africa. And later this year, from 2-4 December, the Forum on China Africa Cooperation (FOCAC) will be hosted by South Africa, allowing Beijing to commit to a range of politically-inspired lending and assistance targets across Africa.

Though China's geopolitical strategy has had certain short-term goals, for the most part its agenda has consistently held a long-term peg, wedded to the assumption that African economies will present compelling future opportunities for the externalisation of Chinese firms

Further, though China's geopolitical strategy has had certain short-term goals, for the most part its agenda has consistently held a long-term peg, wedded to the assumption that African economies will present compelling future opportunities for the externalisation of Chinese firms (both state and private). In many ways, slower growth in China will add greater, rather than lesser, urgency to these initiatives.

That said, though China will continue to emphasise the importance of bilateral relations with African states, the tone of this engagement is beginning to adjust as Chinese activity, and as such the value attached to the security of its people and investments, intensifies. Already we are witnessing signs of a more assertive (even interventionist) tone in China's relations with some of its key partners on the continent. This shift reflects the deepening and maturation of China's foreign policy in Africa, and has also (we would argue) been inspired by Chinese firms' growing experience on the continent and, as a result, their appreciation of the risks that these operations face. Chinese firms were notably shaken by the Arab Spring, for instance, with material implications for their investments in Libya in particular. Further, the kidnapping of oil workers in Sudan and the generally elusive policy environment in other countries host to Chinese investment has bent the government towards a more direct foreign policy agenda. The contribution of Chinese "military engineers" to Darfur in 2007; the sending of a naval contingent in late 2008 to the Gulf of Aden to assist in anti-piracy efforts; and the contribution of 170 combat troops from the People's Liberation Army's Special Force to the United Nations in Mali were all significant in light of the principle of non-interference which has underpinned Beijing's foreign policy for decades. Further, as outlined by Sun (2014), President Xi has engaged in "open intervention" through "direct mediation" in the conflict in South Sudan. In 2013, China's special envoy for African Affairs, Ambassador Zhong Jianhua, paid more than 10 visits to Africa to coordinate positions and mediate the South Sudan issue. And in January 2014, China's Foreign Minister Wang Yi called for an "immediate cessation of hostilities and violence" in South Sudan.

As China's appetite for commodities cools, countries that it has strongly emphasised over the past decade or more, such as Equatorial Guinea, the Republic of Congo, and Sudan, may shift, replaced by those economies which provide greater capacity to absorb Chinese investment and allow the expansion of its firms

A further, potential, adjustment in China's approach to Africa may come through the shifting emphasis of its trade ties. This is already clear with the United States (US) – as we have previously emphasised (see *Africa's re-pivoting trade portrait: 2014*, 14 April 2015), last year the US ran its first ever (at least as far as reliable trade data is concerned) trade surplus with Africa based largely on the fact that the US no longer seeks to import oil from Africa and, as a result, is adjusting the nature of its political relationship with the continent. Where US policy in Africa has since the 1990s been largely hinged on energy security and development assistance, the focus now is shifting towards the need to support the growth of US multinationals across the continent to nurture and benefit from African growth, as well as issues around security/terrorism in the "arc of insecurity" reaching from Senegal to Somalia (and including militant groups such as Boko Haram and Al Shabaab). China may, in time, begin to follow a similar course – as its voracious appetite for commodities cools, countries that it has strongly emphasised over the past decade or more, such as Equatorial Guinea, the Republic of Congo, and Sudan, may shift, replaced by those economies which provide greater capacity to absorb Chinese investment and allow the expansion of its firms.

Will Chinese investment in Africa be affected?

Though reliable official figures remain partly elusive, we know that China's investment stock has risen strongly in Africa over the course of the past decade in particular. Though largely spurred by Chinese state initiatives, Chinese private companies are increasingly participating in the investment drive. Some African economies rely on these flows, leading to the concern that a slowdown in China may dry the investment channel. For the most part, we don't expect this to materialise, for three interrelated reasons.

First, though China's investment stock in Africa is relatively material for the continent, it reflects a fraction of China's overall overseas FDI. According to the white paper on China-Africa Economic and Trade Cooperation released by the Chinese State Council in 2013, as at the end of 2012 China held "accumulative direct investment" in Africa of USD21.23bn, up from USD9.33bn in 2009. The same paper suggested that "over 2,000 Chinese enterprises are investing and developing in more than 50 African countries". Put simply, Africa is strategically significant, but nominally minor: we expect that around 2-3% of China's total global investment profile is housed in Africa. As a result, sustaining Chinese investment in Africa would not materially affect its pool of investment capital, and arguably adds greater political/strategic value (per USD of investment) than in other more advanced regions of the world.

We expect the Chinese government and Chinese firms (state and private) to remain wedded, through the investment channel, to Africa's long-term outlook

Second, particularly given the relatively small sum required, we expect the Chinese government and Chinese firms (state and private) to remain wedded, through the investment channel, to Africa's long-term outlook. This will elevate as the competitive environment intensifies – particularly with the emergence of a more direct and commercial peg to US-Africa relations (anecdotally, for instance, we understand that the Chinese government requested a state visit to Kenya soon after President Obama's recent "homecoming" to the country). Though the competitive environment may level as Chinese companies place a greater (more realistic) premium on the risk of their investments in Africa, we expect the thrust of investment to hold, regardless of the slowing of the economy, and the adjustment towards domestic consumption.

Third, and related closely to the above, slow growth in China will likely add greater emphasis to the desire of its firms, particularly those more closely wedded to China's phasing out growth model, to externalise. And in Africa there remain fewer political obstacles to this externalisation than in other regions in the world. At the FOCAC summit in December we expect Beijing to announce new lending commitments to African governments, which will grease the wheels of this externalisation. Further, China's external intent is evidenced by its support for both the new Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (under the BRICS umbrella).

Over time China's investment footprint on the continent will more closely map its own internal drivers. As such, Chinese appetite for new investments in Africa's extractive industries may temper, replaced by a greater focus on investments geared towards other sectors fuelling growth across the continent

Furthermore, over time China's investment footprint on the continent will more closely map its own internal drivers. As such, Chinese appetite for new investments in Africa's extractive industries may temper, replaced by a greater focus on investments geared towards other sectors fuelling growth across the continent. Already China's investment profile on the continent is more diverse than many suggest it to be: according to the White Paper on Chinese investment in Africa, as at the end of 2011 just 30% of China's investment stock was held in mining activities; followed by finance (19.5%); construction (16.4%); and manufacturing (15.3%). Further, it is expected that Chinese investment in African agriculture will lift in line with the growing imperative to fortify food security as domestic food consumption, a function primarily of enhanced economic wellbeing, continues to lift.

Conclusion

The manner in which China has dramatically ramped up its role in the global economy means that few are untouched by the economic challenges it now faces

The manner in which China has dramatically ramped up its role in the global economy means that few are untouched by the economic challenges it now faces. The most obvious channel of contagion relates to China's appetite for commodities. As we have outlined in this report, trade data in 2015 will likely provide a compelling indication of the impact of China's economic restructuring and momentum loss: it is plausible that African exports to China this year will be down 40% on 2014 (in terms of value). This will mean that China will run a large trade surplus with Africa; one which will be impossible to disguise even if the somewhat opaque category of "commodities not elsewhere specified" is included in the data.

We expect China to continue to look to invest and expand across Africa

Aside from the trade-related hit, though, we expect the Chinese government, and its flag-bearing firms, to continue to look to invest and expand across Africa in order to steadily externalise their operations and continue to secure and harness important long-term strategic and geopolitical relationships across the continent. The FOCAC summit later this year will provide President Xi with an important opportunity to re-emphasise China's commitment to the continent – the most direct indication of which will come through new financing commitments from Beijing, which will mostly be geared towards the improvement of Africa's infrastructure stock (with Chinese companies still preferred as contractors) as well as the deepening of Chinese engagement in non-resource sectors across the continent.

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