

EMERGING MARKETS

By Martyn Davies

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The year 2006 has been important for Sino-African relations. It marks both half a century of diplomatic relations between China and Africa as well as the highest-level and the largest meeting between Chinese and African leaders at a recent summit in Beijing — the Forum on China-Africa Co-operation.

Forty-one African heads of state attended the forum. The best place to network in Africa has suddenly become Beijing! In January, the Chinese government released its African Policy Paper. This was followed by state visits by President Hu Jintao, Premier Wen Jiabao and Foreign Minister Li Zhaoxing to 15 African states.

Between 1995 and 2005, Sino-African trade rose 10-fold, from \$4bn to \$40bn. In 2000, when the inaugural forum meeting was held, two-way trade between China and Africa amounted to \$10bn. In 2005, this increased fourfold to \$39,7bn and 2006 predictions place the value at \$50bn — an annual increase of 25%.

Further trade jumps are expected as Chinese explorations in the energy sector begin yielding results and China's double-digit growth necessitates even greater imports of energy resources. Wen predicted that bilateral trade between China and Africa will top \$100bn by 2010, making China the continent's largest trading partner.

In addition to the political backdrop of the forum, it is intended to promote trade and investment. Chinese and African firms signed 16 trade and investment deals valued at \$1,9bn.

Hu also pledged to extend \$5bn in loans and credits to Africa over the next three years — \$3bn in loans and \$2bn in preferential credits. It also pledged to establish up to five trade and economic co-operation zones on the continent. The South African government will be seeking to attract this Chinese investment to Coega.

The 16 contracts were signed between 12 Chinese firms and 11 African governments — Egypt, Ethiopia, SA, Nigeria, Kenya, Ghana, Zambia, Uganda, the Seychelles, Lesotho and Cape Verde.

The main sectors included infrastructure, telecoms and information-technology equipment, insurance, mineral-resource development, finance, and textiles manufacturing.

While the biggest deal signed at the forum in 2006 was for a \$938m project awarded to China's state-owned Citic conglomerate to set up an aluminium plant in Egypt, others included:

- A \$300m highway renovation project in Nigeria;
- A contract of \$30m to build a telephone line in Ghana;
- A \$60m textile business in Sudan;
- A copper-mining project worth \$200m in Zambia;
- Plans to build a \$55m cement factory in Cape Verde; and
- A \$230m ferrochrome mine and smelter project in SA.

The Chinese government announced its intention to liberalise trade with Africa — increasing from 190 to 440 the number of African exports that qualify for zero-tariff market access. This will hopefully assist in promoting trade exports from Africa to the Chinese market.

As trade levels have increased exponentially in recent years, outward-bound investment from China to Africa is rapidly rising.

China claims to have invested \$6,27bn in Africa, primarily by state-owned enterprises in the extractive, telecoms and construction sectors.

Africa accounts for between 15% and 20% of China's external direct investment. This figure is set to rise in the short to medium term.

China has announced its commitment to \$8,3bn for infrastructure development in Nigeria, \$3bn for port, rail and a mining investment in Gabon, \$600m for a hydroelectric dam in Ghana, and has just established a \$5bn fund for further investment in Africa.

China's investment focus will remain on energy-endowed economies, primarily in Nigeria, Angola, Sudan and Algeria.

As 2006 and China's Year on Africa ends, there is little doubt that the resonance of the 2006 forum will continue. The targets are ambitious but reflect China's commercial intent toward Africa.

The continent is rapidly becoming China's commercial sphere of influence. The challenge is for African economies to develop their institutions and formulate strategies of engagement vis-à-vis China and its state-owned enterprise investors.

In late 2009, the next forum summit will be held in Cairo, Egypt. High economic growth in double-digit figures looks set to continue in the Chinese economy.

China has become the most active investor in Africa and this level of engagement does not look set to taper off. Almost surprisingly for Africans, China's level of confidence in the continent's economy will change the commercial landscape of Africa.

But African governments and companies lack both a knowledge and understanding of the drivers of this engagement and its eventual outcomes.

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