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China-Africa Ties Deepen As China Eyes New Markets And Moves Up Value Chain

Africa matters more to China than ever before, and vice versa, says Standard Bank

Despite erosion of the cost competitiveness of China's exports, expectations that China will sell less manufactured goods to Africa have proven misplaced as China's exports to Africa are likely to have increased to over USD80bn while Sino-African trade is forecast to surpass USD200bn this year, up from USD166bn last year, according to a report co-authored by Standard Bank economists Jeremy Stevens and Simon Freemantle.

China continues to gain market share in Africa. Standard Bank estimates that 18% of Africa's imports were sourced from China this year so far, up from 16.8% in 2011, 10% in 2008 and as low as 4.5% a decade ago, while Africa's share of China's exports is steadily gaining relevance, increasing from 3.3% last year to 5% this year.

Jeremy Stevens, Standard Bank Group's Beijing-based economist, says that it is clear that African markets matter more to China than ever before, and vice versa, as China's exports to Africa have grown at a pace five percentage points faster than to any other region this year, while China's imports from Africa have increased by 26% this year, which is twice the speed of China's imports from any other region.

"Today, China accounts for 20% of Africa's trade. China's average monthly exports to Africa have increased by around USD1bn each year since 2008, rising most recently from an average of USD6bn per month throughout 2011 to an average of USD7bn per month this year. Africa is China's fastest-growing export destination and trade partner. China's trade with Africa has grown nearly twice as fast as its trade with Latin America, which is the second strongest performer," Mr Stevens adds.

"Chinese firms, confronting subdued activity in mature markets and tasked with shifting up the value chain, have recognised the importance of selling goods to the large emerging economies, especially the highly populated and increasingly wealthy ones in Africa," Stevens says. "Demand from African countries, especially the largest ones such as Kenya, Egypt, Angola, Nigeria and South Africa (KEANS), has simply become even more important to Chinese firms. And China's exports of industrial goods are continuing to squeeze out producers from mature economies as sellers move up the value chain to offset rising costs."

The report also notes that the rise in China's imports from Africa this year is virtually single-handedly on the back of sales of crude oil, notably from Angola. China's imports of African iron ore are flat, while copper, steel and aluminium have slumped by 29%, 54% and 60% respectively, during the first ten months of the year, according to the report.

“Looking ahead, it is inevitable that as the Chinese economy shifts away from investment-led growth, the incremental growth in its demand for commodities will moderate. For many African countries, weaker exports may harm already strained current account balances at a time when attracting financial inflows is more challenging,” Stevens argues.

And China is still a competitor for Africa’s nascent intra-Africa trade and will remain one until Africa develops manufacturing nodes. But Stevens believes that China is actually Africa’s perfect partner for supporting the quest, but will need constructive engagement. “Partnerships must therefore aim to entrench commercial ties amongst African economies,” he says.

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