When China met Africa

China's investment in Africa has shifted focus in recent years, from a resource-rich portfolio to a much broader selection. What does this mean for China's expectations in this part of the world? And what does it mean for Africa itself?

By Xiaoming Li, Partner, White & Case, Beijing

The arrival of President Obama in Africa in the summer of 2013 brought into focus a number of trends affecting the continent. Economic growth, democratic reforms and environmental sustainability were all on the agenda. And one of the President's central aims for the trip was to encourage US-Africa trade. It's fair to say that the President's efforts were a direct result of the extraordinary level of Chinese involvement in all aspects of Africa's economic life.

The story of Chinese investment in Africa is a long one and has undergone enormous change in recent years. After hundreds of years of trading relationships plied across oceans between Chinese merchants and their African counterparts, trading everything from spices to gemstones, by the 1990s Chinese money was mostly focused on the large-scale extraction and purchase of raw materials.

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As China's economic miracle gathered pace towards the end of the last century, it needed raw materials and energy to sustain growth. And it looked to Africa to satisfy that hunger. Between 2000 and 2012, the trade between the two blocs grew by a multiple of ten. China became Africa's largest bilateral trade partner in 2009; the total volume was valued at US$198.5bn in 2012 and is expected to surpass US$380bn by 2015.

But now, raw materials are only part of the story. Today, Africa represents even more potential for Chinese investment. Rather than just "taking out," the flow of capital and products suggests China is "putting more in" through strategic partnerships and long-term trade agreements. For instance, according to the UN Conference on Trade and Development, Chinese investment in African manufacturing now almost equals its investment in commodities.

What does Chinese investment in Africa look like? In many ways it mirrors what's happening across China itself: investment in infrastructure and companies scrambling to meet the needs of a growing consumer class.

Take infrastructure: a few recent deals illustrate Chinese commitment to large-scale capital projects. Shipping line Cosco Pacific, one of many Chinese quasi-state-owned enterprises, holds significant stakes in ports up and down the Atlantic and Indian Ocean coasts, while Chinese finance has been instrumental in the construction of bridges in Botswana, stadiums in Kenya and roads in Nigeria. Then, in May 2013, a further US$5bn was pledged by the China Development Bank to South Africa's freight rail company Transnet for further investment in the network.

These investments will position Africa at the forefront of the commodities market for generations to come. Raw materials and human capital are worthless without the transport networks to move them around efficiently – and Chinese money has underpinned the enormous development of these in recent years.

The second trend mirrors that development: Africa's potential as a consumer market. The continent's emerging middle class is, like that of Indonesia, Thailand and Brazil, an irresistible prospect for investors looking for growth. Just like their Chinese counterparts, Africans want mobile phones, broadband, affordable cars and luxury goods. This revolution has already begun: consider Kenya, where micro-payments through the mobile phone network are now used by 17 million people every day.

In order to capitalize on this, China created the China-Africa Development Fund (CAD), a private equity scheme designed to deliver Chinese capital into African businesses – not just for an immediate return, but also to foster

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greater economic and financial development across the continent.

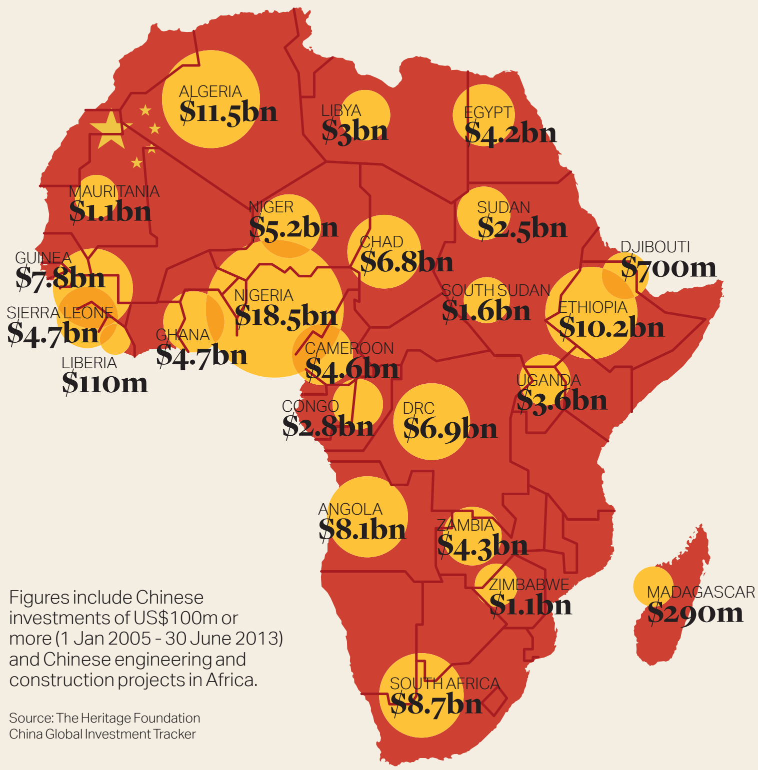
Founded in 2007, CAD has so far channelled nearly US$1bn of investment into a range of projects across Africa, as well as taking stakes in existing enterprises. For instance, in 2012, the fund took an 11 percent stake in Kalahari Minerals, valued at more than US$996m.

There's no doubt that a growing, stable Africa is good news for a China looking to sell its products. China now has a network of more than 150 commercial attachés embedded across Africa, acting as facilitators for a growing range of commercial activities. And alongside the frenzy of trade and investment, there is another factor to consider: aid. In the same time period of huge growth in trade, China's aid to Africa has also grown, with a total of US$72bn pledged between 2000 and 2011.

How has all of this been achieved? While private Chinese finance has played a role, the formidable weight of Chinese state machinery has been mobilized to support the country's investors, manufacturers and traders. During his term, President Hu Jintao was a regular visitor to Africa. His successor, Xi Jinping, made Africa one of his first destinations after taking office. The growing private sector in China has made no secret of its interest in Africa as a market, trading partner and co-investor. The ongoing relationship between these two shows no sign of slowing down.

The big picture

Exploring the extent of trade and investment between China and Africa.

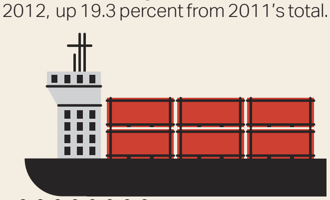


Figures include Chinese investments of US$100m or more (1 Jan 2005 - 30 June 2013) and Chinese engineering and construction projects in Africa.

Source: The Heritage Foundation China Global Investment Tracker

US$198.5bn

China's bilateral trade with Africa has soared, reaching US$198.5bn in 2012, up 19.3 percent from 2011's total.



EXPORTS

US$85.319bn

China's total exports to Africa in 2012 were **up 16.7 percent** from the previous year.

IMPORTS

US$113.171bn

China's total imports from Africa for 2012 were **up 21.4 percent** from the previous year.