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China and the US in Africa: Measuring Washington's response to Beijing's commercial advance

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- Last year, China maintained its novel position as Africa's largest trading partner.
- China's rise has occurred in tandem with an often ignored but undeniable elevation in US-Africa trade. Between 2001 and 2008 US-Africa trade advanced almost four-fold, whilst China's trade with the continent swelled more than ten-fold.
- The US' trade with Africa is less balanced (and more cyclically insecure) than China's. Consider that, in 2009, as commodity prices fell, US-Africa trade almost halved, while China-Africa trade dipped by a more modest 15%.
- Unlike the US, Chinese production has attached itself to Africa's fast-growing consumer markets. Currently, China is Africa's largest import partner. In contrast to the US, China ran a trade surplus with Africa last year.
- The US is Africa's largest export partner. Despite the decline in US-African trade in 2009 the US imported USD20 bn more from the continent than China .
- Importantly, African crude oil exports have been almost singularly responsible for the substantial increase in US-Africa trade. At their peak in 2008, crude oil exports from Africa accounted for 63% of the total US-Africa trade.
- US-Africa trade is narrow; three-quarters of US-Africa trade is conducted with five partners on the continent. Given the weight of its exports to Africa, China's reach is substantially wider.
- Government and private development assistance from the US to Africa vastly eclipses flows from China. Roughly coinciding with the presidency of George W. Bush, the US has risen to become Africa's largest donor. However, it is clear that Beijing is adopting a softer, more developmentally focused, tone in its engagements with the continent.
- In response to China's surge, the US is reorienting its Africa strategy. Locked within these thrusts, lie strategic opportunities for Africa.
- China's rise supplements, rather than supplants, the role of Africa's traditional partners in the continent. African governments must guard against a simplistic shift in allegiance from 'west' to 'east'. A multi-polar globe insists on a more mature and inclusive approach to the world's new reality. African states must remain acutely aware of the separate benefits to be gained from seeking deeper alliances with the US—still by some margin the globe's largest economy.
- Africa must ensure reciprocity. Leveraging US-China frictions rather than succumbing to a race to the bottom. The relative (and varied) merits of engaging with both must be measured and capitalised on.
- African must channel poles of influence into regional economic objectives, in light of domestic priorities. At times, niche areas of synergy will be national, such as green technology and mineral beneficiation and others, like infrastructure, may reside in the transnational sphere.

Introduction

On a global level, it is clear that much unites and much divides the United States (US) and China. Increasingly, the competition between the world's two largest economies is playing out in new centres of economic influence. Africa, while still relatively marginal, has experienced an elevation in relevance. Both China and the US continue to search for new, reliable sources of energy to provide sustenance for economic activity. Looking further ahead, each is trying to gain first-mover advantage into Africa's future markets.

Cognisant of this rising tussle, several African governments have shifted strategic priorities to include the rapidly rising Asian giant in their policy matrix. To be sure, the rise of China and the reorientation of US policy on the continent do present immediate opportunities for African states, yet, in order to navigate the new terrain, it is important to understand the critical and often widely divergent nuances applicable to China and the US' Africa strategies.

China overtook the US to become Africa's largest trade partner in 2009. Having usurped France in 1996, the US had been Africa's dominant trade partner for over a decade. More profoundly, the emergence of China marks the first time in Africa's modern history that a partnership with, for all intents and purposes, an emerging market has dislodged the commercial and diplomatic dominance of advanced nations inside the continent.

Sure, the financial crisis and economic recession caused a collapse in global production, demand, trade and energy prices. The nature of the decline, and the fact that the epicentre of the vicious destruction was the US, meant that US-Africa trade declined proportionately more than China-Africa trade. For instance, US-Africa trade collapsed by 40%, from USD140 billion (bn) in 2008 to less than USD90 bn in 2009; in contrast, China-Africa trade shrank by 15%. Nevertheless, despite the recession accelerating the velocity of change, the writing was on the wall.

China's economic cords have enjoyed a decade of profound (and uninterrupted) gains. Consider that in 1990, China was Africa's 17th largest trade partner, behind each of the G7 nations and a host of emerging contemporaries, like Brazil, South Korea and South Africa. Fast forward to 2000, China had climbed to an impressive eighth position. Sino-African trade had increased from USD1.2 bn in 1990 to USD7.4 bn in 2000, but remained some distance behind the US' African trade of USD33 bn. Since then, underpinned by maturing political institutional apparatus and important internal reforms across Africa, and mirroring China's global macroeconomic emergence, China-Africa trade has flourished.

It is important to stress at the outset that China's rise to become Africa's foremost trading alliance has occurred in tandem with, rather than in exchange for, a similar advance in commercial engagements between Africa and the US. To be sure, the US has made clear and definitive strides in reorienting its Africa policies over the course of the past decade so as to ensure relevance within the continent's increasingly competitive emerging and frontier markets. In other words, China's share of Africa's trade has expanded rapidly while Africa's share of global trade has doubled since 2001.

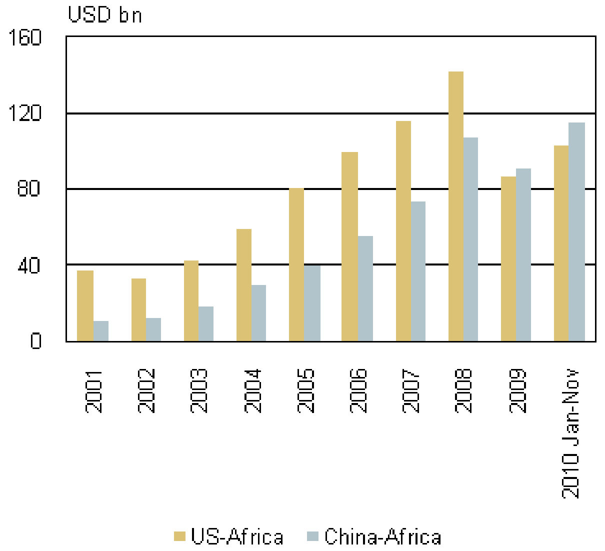
This paper looks to compare the manner in which China and the US are currently ingrained in trade and aid across the African continent. It offers a cross-section, with historical context, of what is undeniably a moving target. The paper also offers commentary on how the US and China relate to and influence one another. In so doing, the paper assesses the areas in which China and the US enjoy competitive advantages on the continent and offers perspective as to how Africa can use this elevated position to best unlock the continent's nascent potential.

Divergent patterns of African trade engagements

China's emergence is structural, reflecting its power in global trade

China became Africa's largest single trading partner in 2009 (Figure 1). Understandably, much has been made of this structural adjustment in Africa's trade alchemy, particularly as it has occurred alongside a similarly impressive advance in the US' trade with Africa. As such, while between 2001 and 2008 US trade with Africa advanced almost four-fold, at a compound annual growth rate (CAGR) of 18.3%, China-Africa trade advanced more than ten-fold at a CAGR of 33.3%. As a result, while US trade with Africa was 3.5 times the size of China's trade with the continent in 2001, by 2008 this margin had dipped to less than 1.3 times.

Figure 1: China vaults past the US in African trade



Sources: US Census Bureau, International Trade Centre (ITC), Standard Bank Research

Yet, analysis of China's acceleration in comparison with the US in Africa must be sobered by a realisation of the cyclical forces undermining more robust US-Africa engagements over the course of the past three years. Importantly, in 2009, the US' trade with the world dropped by almost one-quarter from volumes reached in 2008. As a result, the US' trade with Africa, which was worth more than USD140 bn in 2008, compared to USD107 bn for China, almost halved in 2009, while China-Africa trade dipped by a more modest 15% in the same time period. However, quite clearly, these cyclical events simply accelerated an underlying trade pattern; by the end of November last year US-Africa trade had recovered fairly strongly to USD103 bn (US-Africa trade is forecast to have reached USD120 bn in 2010), while China's trade with the continent surpassed 2008 peaks to reach USD115 bn for the first 11 months of the year.

Regardless of the symbolic influence of ascendancy, the important question is not so much whether China will retain its position as Africa's largest trade partner, or conversely if the US will return to the top. Rather, what is more significant is the nature of the products that are traded and how they are supporting Africa's broader economic objectives. For a start, analysis purely of the weight of trade belies the complexities which underlie the structural nature of bilateral engagements.

The US remains Africa's most profound export partner

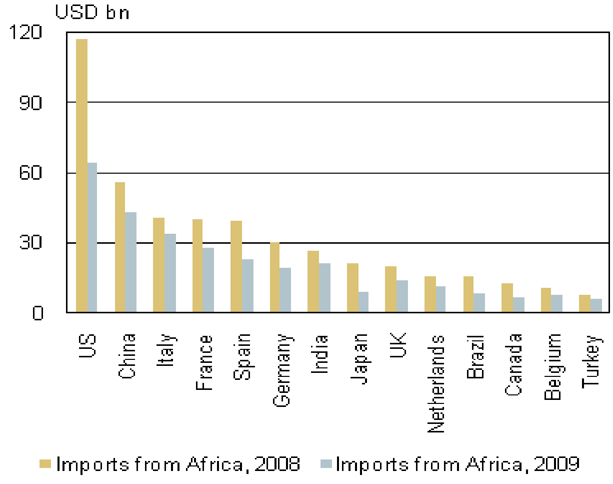
It is an oddity of contemporary economic commentary that the importance and size of the US economy is downplayed. Importantly, the US economy is nearly three times the size of China's. Granted, China has closed the gap, expanding by an average of over 10% each year since 1980. However, it should be no surprise that the world's largest consumer is also Africa's largest export destination.

While China may stand out as Africa's largest overall trade partner, its status in terms of African export partners is somewhat more muted. In contrast, the US is abundantly the continent's premier single destination for exports (Figure 2). Consider that, in 2008, the US imported a value of USD113 bn from Africa, more than overall China-Africa trade for the year To be clear, in purely economic terms, South Africa is not a BRIC. largest

Oil underpins much of the US and China's Africa pursuits

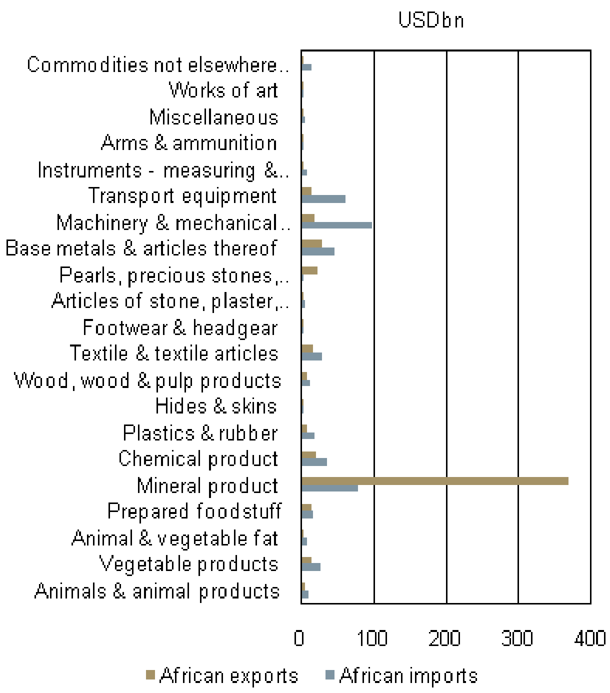
Quite clearly, Africa's trade relations with the world have largely been framed by its abundance of natural resources. Mineral products account for 65% of Africa's exports (Figure 3). Furthermore, adding product groups like base metals, pearls and precious metals, and wood and pulp products, Africa's exports are overwhelmingly made up of items that come from the earth. Hence, the composition of Africa's global trade reflects the continent's resource dependence and undiversified output.

Figure 2: Africa's top export markets



Sources: IMF, ITC, Standard Bank Research

Figure 3: Product composition of Africa's trade

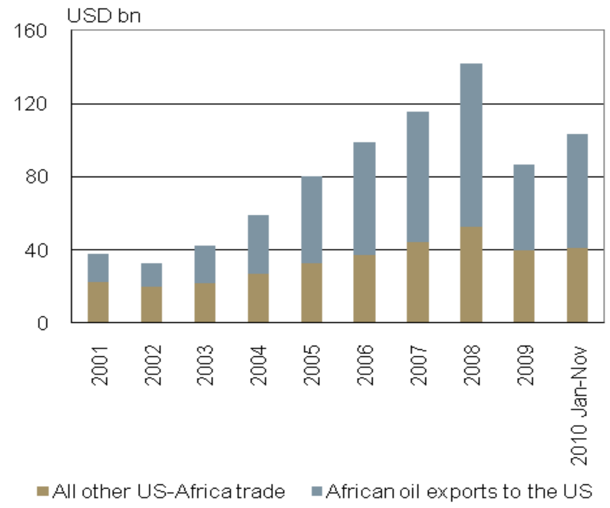


Sources: Bloomberg, IMF, Standard Bank Research

A cursory glance, hinged on prescient understanding, shows how bilateral trade between China, the US and Africa clearly mapped the commodities cycle most markedly between 2001 and 2008. To be sure, the economic fortunes of many African nations have been inestimably bolstered by an elevated appetite for (and price of) natural resources emanating largely from fast industrialising emerging markets, such as China and India. Meanwhile, a host of geopolitical and commercial incentives have led to a reinvigorated drive by US firms to unlock Africa's natural resource potential.

Abundantly, Africa's crude oil has been of most immediate allure. Indeed, African exports of crude oil have been almost singularly responsible for the substantial increase in US-Africa trade over the course of the past decade. Adding texture to this assertion, in 2008 the US imported USD89.4 bn worth of crude oil from Africa, accounting alone for almost two-thirds of the country's total trade with the continent for the year (Figure 4). Considering US imports from Africa alone is even more revealing; also in 2008 the US' imports of African crude accounted for almost 80% of all imports from the continent.

Figure 4: African oil drives commerce with the US

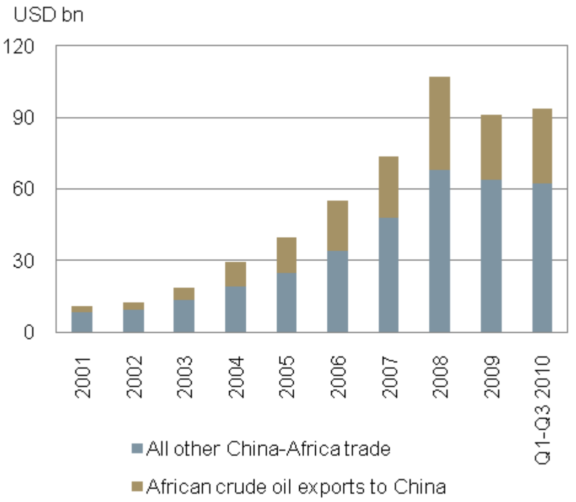


Sources: IMF, US Census Bureau, ITC, Standard Bank Research

While nominally inferior, China's reliance on African crude is steadily rising. At its peak, in 2008, Chinese crude oil imports from Africa of USD39 bn accounted for 36% of total China-Africa trade (Figure 5) and 49% of all Chinese imports from Africa (Figure 6). Reduced demand in 2009 led to a 30% decline in imports to USD27 bn, meaning that the decline in oil imports from Africa accounted for three-quarters of the total dip in China-Africa trade between 2008 and 2009. Therefore, apart from African oil exports to China, overall China-Africa trade displayed remarkable resilience during the stiffest headwinds of the financial crisis.

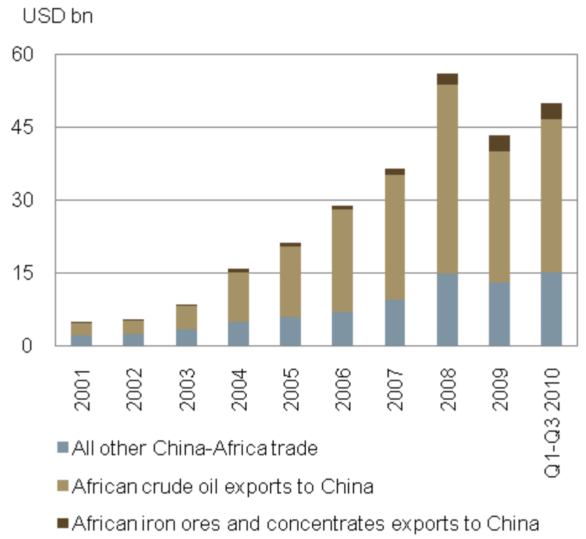
Quite clearly, the energy-intensive bias reflected in US-Africa trade places bilateral ties at greater risk of cyclical fallout. Referring again to the figures above, between 2008 and 2009, US demand for African crude dropped by USD42.3 bn, or 47.3%. Meanwhile all other US-Africa trade dropped by a more moderate 24% in the same time period. The decline in US demand for African crude oil therefore accounted for 78% of the total drop in US-Africa trade between 2008 and 2009. Similarly, the lighter weight of crude oil in China's trade relations with Africa was a dominant force, allowing a less severe decline in bilateral trade relations in 2009. Importantly, African demand for both US and Chinese exports stayed firm in 2009 – dropping by only 15.3% and 6.6%, respectively.

Figure 5: China's reliance on African crude oil



Sources: IMF, US Census Bureau, ITC, Standard Bank Research

Figure 6: Oil and iron ore dominate Chinese imports from Africa



Sources: IMF, US Census Bureau, ITC, Standard Bank Research

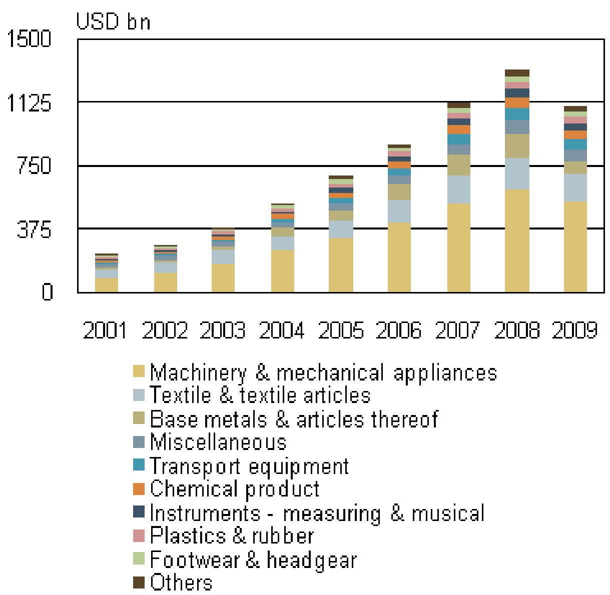
Africa's markets mattering more – especially for China

While the status quo is rather uninspiring, progress is underway. Africa's trade is maturing. Rising incomes across Africa mean that consumer markets are deepening. Furthermore, financial deepening means that more and more households are enjoying unfettered access to funding. However, most compelling is the future potential of Africa's dormant consumer base. Higher demand for goods used to support manufacturing and services across the continent is creating new avenues for trade engagement with new emerging partners.

Inspired by a rapidly swelling population, which is expected to reach two billion by 2050, African consumers are increasingly being courted by a range of advanced and emerging world agents. Africa's gross domestic product (GDP) per capita stood at USD1 630 in 2010; by 2015 this will have increased to USD2 200 at a real annual growth rate of 5.7%. This increase in GDP per capita will result in a 30% rise in the continent's spending power. More specifically, private final consumption in Africa's ten largest economies will more than double, from around USD730 bn today to over USD1.5 trillion (tr) in 2015. Interestingly, Africa already has a larger number of middle-class house-holds (defined as those with incomes of USD20 000 per year or above) than India.

China is well positioned to benefit from these developments. Recall that those nations that have attached themselves best to global supply chains have outperformed in recent years. In this manner, China has excelled: consider that in 1980 China accounted for a mere 1% of world trade – less than Africa's 3.5% at that time. Since then, China's exports have surged from a mere USD18 bn in 1980 to a truly staggering USD1.2 tr in 2010, making China the world's dominant exporter (it is further expected that China's exports will reach 1.5 tr in 2011).

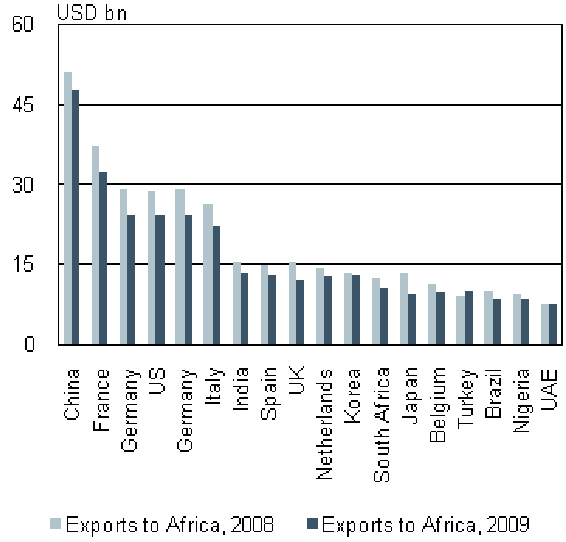
Figure 7: China's manufactured exports dominant



Sources: ITC, Standard Bank Research

China's dominance in global manufacturing of low-cost consumer goods has forged new relevance in Africa and lent a more balanced texture to bilateral trade. As a result, China has rapidly emerged as Africa's most important import partner. In 2008, African nations imported USD52 bn worth of goods from China, almost USD14 bn more than imports from France and well ahead of the USD28 bn imported from the US in the same year (Figure 8).

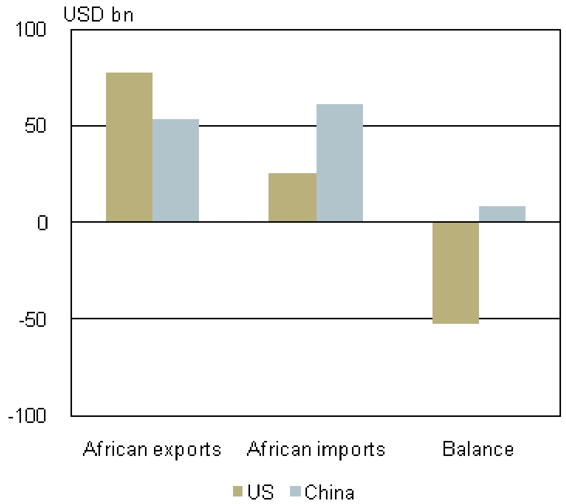
Figure 8: Africa's top import partners, China clearly ahead



Sources: US Census Bureau, ITC, Standard Bank Research

Indeed, the weight of Chinese exports to Africa over the course of the past five years has been sufficiently robust to outpace the substantial increase in African exports to China. Indicatively, in 2009, China ran a trade surplus of USD4 bn with Africa, as opposed to the sizeable deficit the US ran with the continent (Figure 9). Naturally, the manner in which the US has outsourced its low-cost manufacturing to Asia is reflected in this deficit. Indicatively, in 2008, the US ran a record trade deficit of USD85 bn with Africa.

Figure 9: US and China trade balance divergence in 2010 (Jan-Nov)

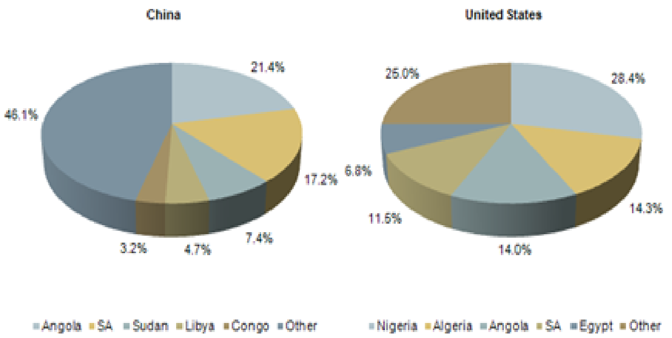


Sources: US Census Bureau, ITC, Standard Bank Research

China's trade with Africa touches a wide range of nations

Given the above, it is natural that the bulk of the US' trade with Africa occurs with a select range of largely oil-exporting nations. Indeed, 90% of the total average US-Africa trade in 2008 and 2009 was conducted with the US' top ten partners on the continent. Even more exclusively, the US' top five trade partners in the same average time period accounted for three-quarters of total trade with the continent. Given the weight of its exports to Africa, China's reach is substantially wider. Taking an average of trade between 2008 and 2009, China's top ten trade partners in Africa accounted for 74% of its total trade with the continent, while its top five partners accounted for 53% of total trade (Figure 10).

Figure 10: Top trade partners in Africa, 2008-2009 average



Sources: US Census Bureau, ITC, Standard Bank Research

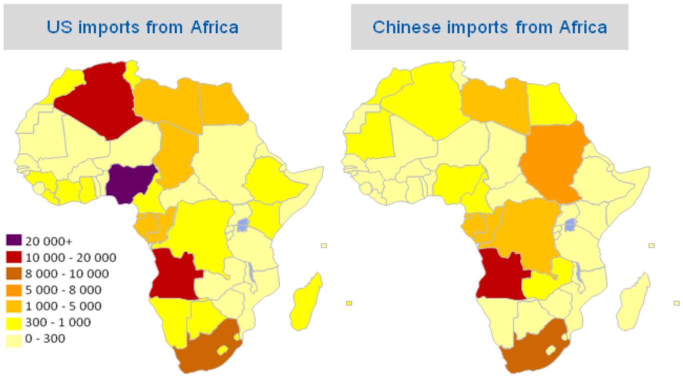
While China and the US have managed to compete fairly evenly in unlocking Angola's crude oil in recent years, the US maintains clear advantages in Nigeria, by some margin its largest trade partner in Africa, and Algeria. Meanwhile, sanctions imposed by the US barring its corporates from engaging in Sudan have allowed China to secure meaningful access to the country's oil reserves. South Africa maintains robust exports to both China and the US (Figure 11).

As mentioned, the US, unlike China, has been unable to unlock African markets for its exports effectively. Only Egypt and South Africa, which imported an average of USD5.6 bn and USD5.4 bn respectively in 2008-2009, offer relatively fertile access for US exports. For China, the spread of its exports to Africa incorporates a wide arc of nations, and is able to percolate into more nascent consumer environments. South Africa (USD7.9 bn), Nigeria (USD6.1 bn) and Egypt (USD5.4 bn) were the three largest recipients of Chinese exports in 2008-2009. At last count, more than 20 African nations counted China as one of their top five import partners.

Yet, Africa resides at the margins of US and China world trade

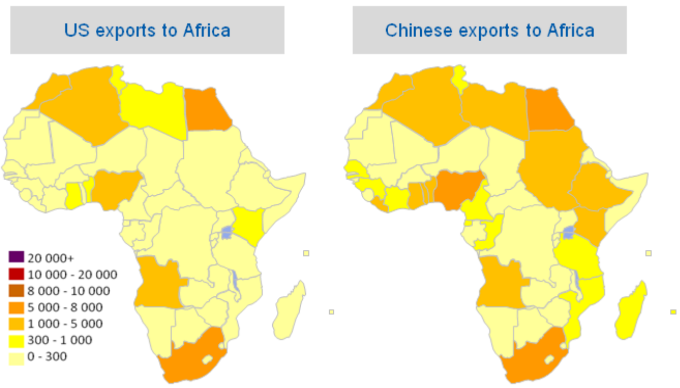
An analysis of the importance of China and the US to Africa should not simultaneously overestimate the importance of Africa to these two globally dominant economies. Despite structurally important advances since the turn of the century, Africa remains at the margins of both the US and China's overall global trade. As at the end of November 2010, Africa accounted for just 3.5% of the US' trade with the world for the year and 4.3% of China's trade with the world for the first three quarters of the same year. That said, this position represents a substantial elevation in relevance since 2002, when Africa accounted for only 1.8% of the US' trade with the world and 2% of China's trade with the world (Figure 13).

Figure 11: Imports from Africa, 2008-2009 ave., USD mn



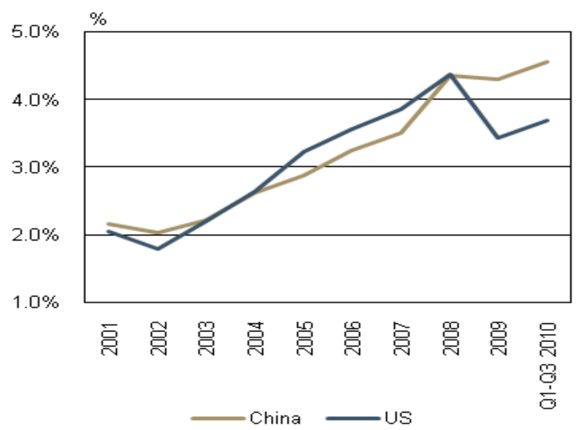
Sources: US Census Bureau, ITC, Standard Bank Research

Figure 12: Exports to Africa, 2008-2009 ave., USD mn



Sources: US Census Bureau, ITC, Standard Bank Research

Figure 13: Africa's share of China and US world trade

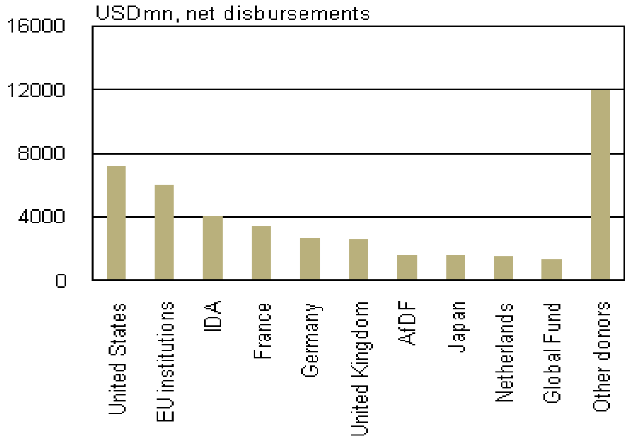


Sources: US Census Bureau, ITC, Standard Bank Research

Aid: the US maintains an important structural base

It is no coincidence that aid flows tend to increase in tandem with a rise in bilateral commercial activity. To be sure, aid, particularly in Africa, acts as an important beachhead for wider engagement. Historically, Africa's most profound aid and development partners have originated in the advanced world. These countries are all members of the Organisation for Economic Development's (OECD) Development Assistance Committee (DAC), which guides and collates aid contributions in the form of Overseas Development Assistance (ODA). According to the OECD, since the turn of the century, the US has consistently been the largest contributor of ODA to Africa. In 2008, the US contributed over USD7 bn in ODA to Africa, more than double France's contribution and three times that of the United Kingdom (UK) (Figure 14). Importantly, US ODA to Africa has appreciated substantially since the beginning of former US President George W. Bush's presidency in 2001 (Figure 15).

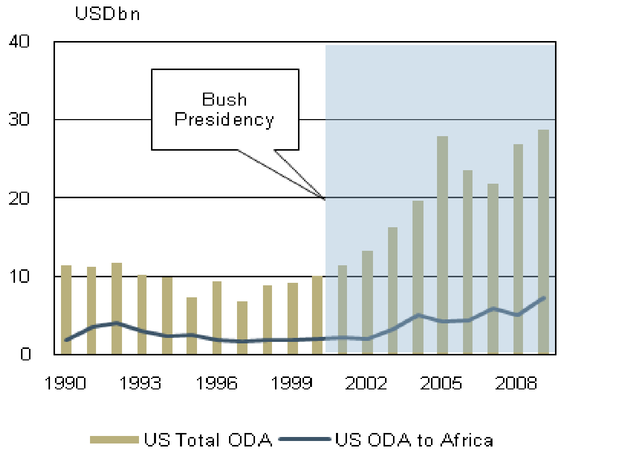
Figure 14: Top 10 ODA donors to Africa, 2008



Source: Organisation for Economic Cooperation and Development (OECD)

Indicatively, while in 1998 Africa received only 13.3% of US aid, this figure had increased to 28.6% by 2008. In 1998, Egypt was the only African country to rank in the top 15 recipients of US foreign aid, but by 2008 five countries were included in this list (Egypt, Kenya, South Africa, Nigeria and Sudan). Clearly, the direction of the US' aid contributions to Africa are driven less by humanitarian necessity and more by strategic and commercial incentives. According to a recent Congressional Research Service (CRS) report, the core bases for the increase in US ODA to Africa since the turn of the century include Africa's rising clout on the global energy stage; the US' post-9/11 national security agenda; and Africa's rising consumer power, which has the potential to provide new avenues for US exports. These factors have led to a conceptual shift which has placed Africa in a more central position in the US' foreign policy agenda. Moreover, it is clear that the US' rising interest in Africa is in response to a vigorous reengagement of the continent by key emerging powers, most notably China, since the turn of the century.

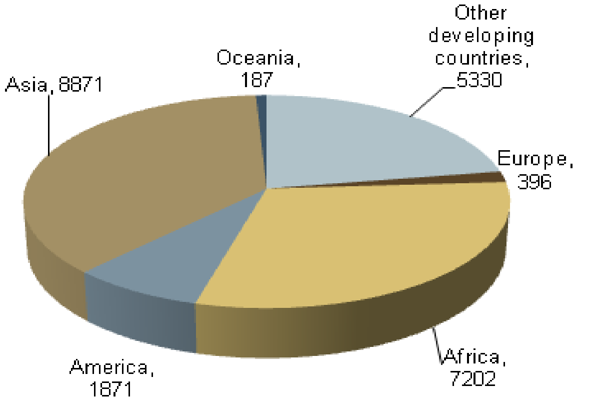
Figure 15: Rise in US ODA to Africa marked by Bush years



Source: OECD, US Agency for International Development (USAID), Standard Bank Research

Importantly, in 2008, the US contributed 26% of total ODA disbursements by G7 countries to Africa. As such, the US has outpaced all other DAC donors in recent years in terms of total ODA contributions, as well as with ODA to Africa. Between 2008 and 2009 the US' total ODA increased from USD26.8 bn to USD28.6 bn, amounting to an increase in ODA as a percentage of gross national income (GNI) from 0.19% to 0.2%. Meanwhile, 30% of the US' ODA to developing countries in 2008 was directed to Africa and 37% to Asia.

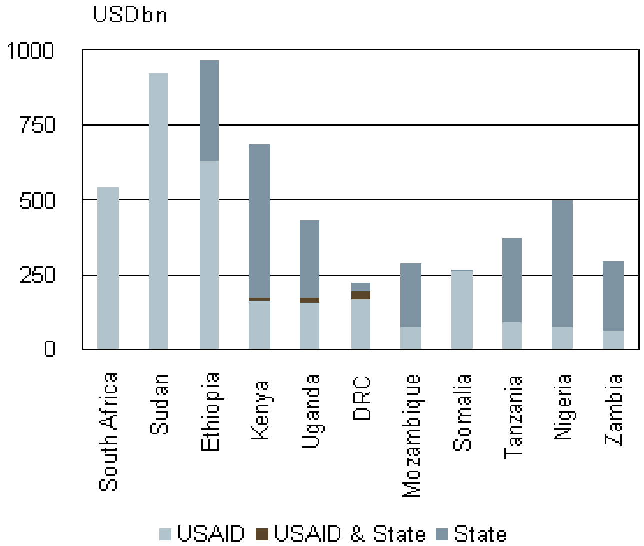
Figure 17: Distribution of US ODA to developing countries, 2008, USD bn



Source: OECD, US Agency for International Development (USAID), Standard

Given its prominent role in mediating the broader Middle Eastern conflict, Egypt has, for the past two decades, been a major recipient of US development assistance. Despite recent political upheaval in Egypt, this support is likely to remain robust. To be sure, Egypt ranks second behind Israel as the US' largest foreign recipient of financial and technical assistance. In FY2009 and FY2010, the US dedicated in excess of USD1.5 bn per year to Egypt, much of which is not captured by traditional ODA measurements.

Figure 17: Top SSA recipients of US foreign assistance appropriations in 2008



Source: USAID, Standard Bank Research

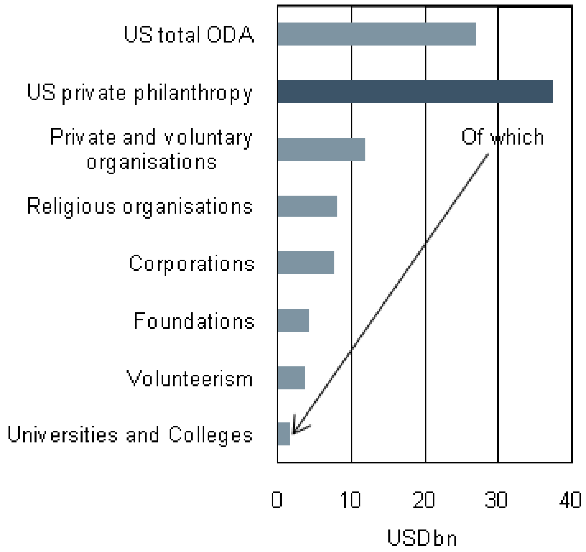
Increasingly, private philanthropic institutions are playing a pivotal role in African development. By far the most profound of these organisations are domiciled in the US. The Hudson Institute has estimated that in 2008 US private philanthropic institutions contributed a total of USD37.3 bn to global development programmes and institutions, 40% more than total US ODA to developing countries for the same year (Figure 18).

China's maturing aid stance in Africa

Cognisant of the need to imbue commercial endeavours in Africa with a softer more developmentally aligned hue, Beijing has made distinct efforts to elevate its role as a non-traditional donor partner to a wide range of African states. Perhaps China's most vital developmental offering for the continent has been its financing and construction of infrastructure nodes across the continent, often in exchange for access to natural resources in countries such as Angola, the Democratic Republic of Congo (DRC) and Zambia.

Yet, beyond infrastructure, China is providing substantial assistance in Africa. The thrust of this support has tracked the tremendous rise in trade and investment since the turn of the century, with pledges solidified most profoundly at the 2006 Forum on China Africa Cooperation (FOCAC) summit in Beijing. A range of assistance was pledged in fostering deeper cooperation in agriculture, healthcare, education and skills development. Importantly, China exceeded debt relief efforts by the G8 countries by cancelling USD10 bn worth of bilateral debt owed by African countries in 2005.

Figure 18: US ODA and private philanthropy, 2008



Source: Hudson Institute

At the fourth FOCAC summit in Sharm el-Sheikh, Egypt, in November 2009, the Chinese government expanded the FOCAC 2006 offering by pledging USD10 bn in concessional loans to Africa between 2009 and 2012. In addition to this, Premier Wen Jiabao announced at the summit that China would phase in zero-tariff treatment for 95% of products from African least developed countries (LDCs) within the next two years.

To quantify the nominal value of Chinese aid to Africa is deeply problematic. Taking a wider definition of development assistance, including pledges of aid, loans and particular government-sponsored investments, Lum et al. (2009) estimate China's contribution to developing countries at around USD25 bn in 2007, of which USD18 bn (over 70%) targeted African countries.

However, this figure is potentially biased towards the upside, and is countered by an estimate by China-Africa scholar Deborah Bräutigam, who, taking only Chinese official figures, claims that the annual budget for Chinese development assistance reached only USD 1.4 bn in 2007, roughly 44% of which (USD620 mn) is estimated to have targeted African countries (Bräutigam, 2008). Including concessional loans from the Export-Import Bank of China, Bräutigam concludes that total Chinese aid to Africa in 2007 could have reached USD1.6 bn (Kragelund, 2010).

Conclusion

Much is made of the symbolic importance of when China will outpace the US to become the largest economy in the world. Yet, this is less important than the manner in which China and the US adapt to the fast-rising new reality prevalent in global commerce. For Africa, there are clear advantages in maintaining intimate ties with the US, still by far the world's most powerful economic engine. Small successes in AGOA show that African nations can secure access to US consumers. Meanwhile, the US remains the continent's most profound export partner, and a vital, and rising, source of investment to fuel the continued unlocking of the African consumer vista.

Most importantly, African nations must guard against outdated models of engagement that place ideology ahead of commerce. The reshaping of the global economic map has led to new poles of influence supplementing, rather than replacing, those which have largely chartered Africa's course in international affairs since the middle of the previous century. African states must engineer a new foreign policy based on this understanding, balancing rather than selecting between the US and China.

Given the analytical underpinning of this report, three policy suggestions emerge:

- China's rise supplements, rather than supplants, the role of Africa's traditional partners in the continent's present and future commercial terrain. Cognisant of this reality, African governments must guard against a simplistic shift in allegiance from 'west' to 'east' in contemporary foreign policy; a multi-polar globe insists on a more mature and inclusive approach to the world's new reality.
- While China's rise has been sufficiently swift to eclipse the US in Africa, African states must remain acutely aware of the separate benefits to be gained from seeking deeper alliances with the world's most powerful economy. For one, the US is a substantially more profound importer of African goods. Furthermore, US state and private development assistance to African states provides, at times, a crucial crutch to socio-economic prosperity.
- Africa must ensure reciprocity. Leveraging US-China frictions rather than succumbing to a race to the bottom. The relative (and varied) merits of engaging with both must be measured and capitalised on.
- African must channel poles of influence into regional economic objectives, in light of domestic priorities. At times, niche areas of synergy will be national, such as green technology and mineral beneficiation and others, like infrastructure, may reside in the transnational sphere.

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