CHINA'S TRADE AND INVESTMENT RELATIONSHIP WITH AFRICA

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China's trade and investment relationship with Africa is important to both trading partners. For China, Africa represents a growing source of raw materials –most importantly crude oil, iron ore/concentrates, and copper-- which have helped fuel China's rapid infrastructure development. For Africa, China represents a major trading partner and investor that provides it with cheap consumer products, buys its natural resources, and helps build its infrastructure. This briefing describes China's trade and investment in Africa's major raw material markets, and addresses the roles that Chinese state-owned enterprises (SOEs) and special economic zones have played in this relationship. This bilateral trade relationship is relevant to U.S. firms, as changing Chinese demand and supply conditions can impact global commodity prices and competitive conditions for U.S. firms operating in Africa.

Although Africa accounted for only 4% of China's global trade in 2011, Africa's relevance as a Chinese trading partner has been noticeably growing. Over the past decade, Africa's two-way trade with China grew by a compounded annual growth rate (CAGR) of 30%, from US$10.8 billion in 2001 to US$150.3 billion in 2011 (Figure 1). While the composition of China's exports to Africa has broadly resembled China's global exports (mainly communication equipment, machinery, electronics and vehicles), the composition of China's imports from Africa has been relatively concentrated in natural resources (similar to its imports from Latin America). Petroleum (64%), iron and other metal ores/concentrates (16%), and copper (6%) represented China's largest imports from Africa in 2011. Chinese firms, both state-owned and non-state owned, have heavily invested in these sectors in Africa to diversify and secure their supply of these primary commodities.

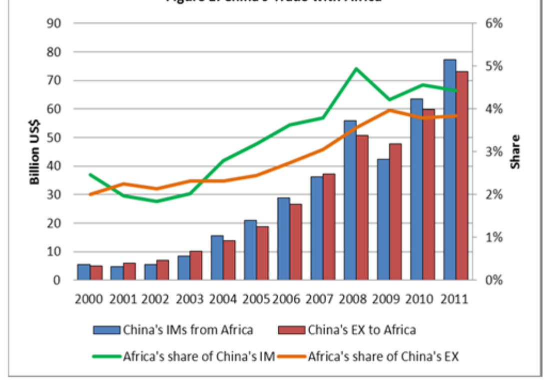

Figure 1: China's Trade with Africa

Source: Global Trade Atlas

Petroleum Oil

Demand Factors: China is the world's second largest oil consumer behind the United States. Oil consumption in China grew at a CARG of 7.2% over the past ten years, driven mainly by increased demand from the transport and industry sectors. Producing 5% yet consuming 10% of the world's petroleum, China has increasingly relied on imported oil to meet domestic consumption need (Figure 2). China's strong demand for oil left significant impact on global oil prices, which rose sharply from $25 per barrel in January of 2000 to $104 per barrel in May of 2012.

Oil Imports from Africa: In 2011, China imported $275.6 billion of oil. The majority came from the Middle East (39%) and Africa (18%). Over the past decade, China has diversified its import sources away from the Middle East and Southeast Asia towards Africa and Latin America. As such, China's oil imports from Africa grew by a CAGR of 34% between 2001 and 2011, and Africa's share of China's oil imports reached as high as 25% in 2007 (Figure 2). Angola, Sudan, Congo, Libya, Algeria and Nigeria together accounted for around 90% of China's oil imports from Africa. In recent years, Chad and South Africa experienced robust oil export growth to China as well. Over 90% of African oil was imported by Chinese SOEs between 2000 and 2010.

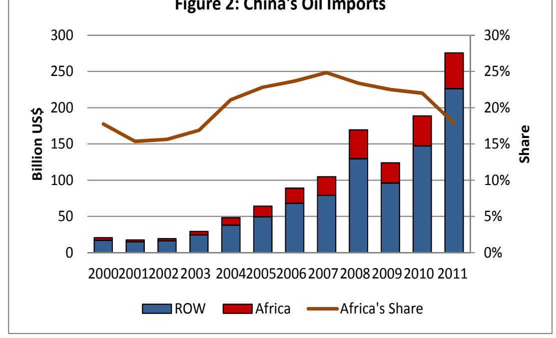

Figure 2: China's Oil Imports

Source: Global Trade Atlas

Investment: In 2003-2010, over half of China's foreign direct investment (FDI) in Africa was directed towards the oil sector. Nigeria, Sudan, Angola, Egypt, Chad and Niger were the major recipients. Over 90 percent of the FDI came from China's large SOEs (Sinopec, China National Petroleum Corp., China State Construction Engineering Corporation, and China Metallurgical Group Corporation) which formed partnerships with African state oil companies and large multinationals. Low exploration cost and loose regulatory environment have incentivized Chinese investment, as has China's "Go Out" national policies given their emphasis on securing energy supplies for China.

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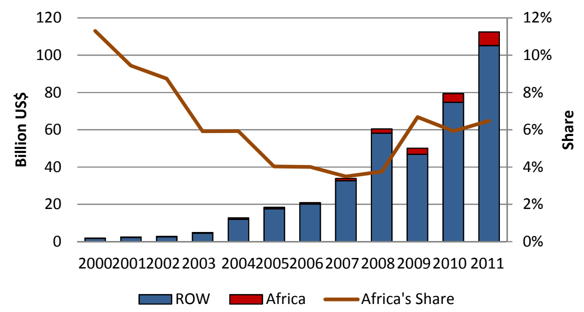
Iron Ores and Concentrates

Demand Factors: China is the world's largest importer of iron ores/concentrates. Its demand for the commodity stems from its growing iron and steel consumption from property and infrastructure constructions, high-end equipment manufacturing, and automobile productions. As the world's largest steel producer, China consumes approximately 60% yet mines only 25% of the world's iron ores/concentrates. Thus China's imports of the commodity have been rising. China's strong demand for iron ores/concentrates has left strong impact on the global prices for the commodity that rose from $12.45 per metric ton in January of 2000 to US$136 per metric ton in May of 2012.

Iron Ore/Concentrate Imports from Africa: In 2011, China imported US$112.4 billion of iron ores/concentrates; 6.5% of them came from Africa (Figure 3). South Africa is the largest supplier in the region, supplying 88% of China's imports of iron ores/concentrates from Africa, though declined from 100% in 2000. Iron ore/concentrate exports to China is significantly important for South Africa, because China has become its second largest export market (behind EU27), and nearly half of its exports to China were in iron ores/concentrates (2011). Chinese SOEs have dominated China's iron ore/concentrate imports; however, its share declined from 87% in 2000 to 67% in 2010, as imports by private enterprises and joint ventures grew by faster rates.

Figure 3: China's Imports of Iron Ores/Concentrates



Source: Global Trade Atlas

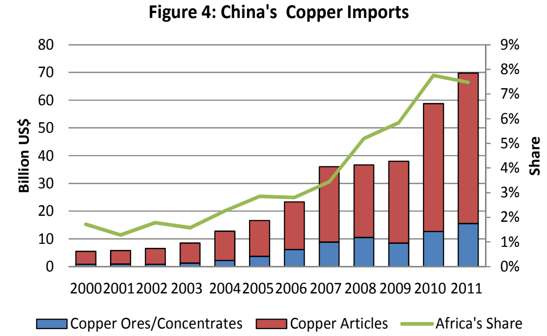
Investment: China's current iron and steel policies strongly encourage Chinese FDI in overseas metal extraction and processing sectors, which have helped secure supplies and prices. Chinese firms, mostly large SOEs, have recently invested millions of dollars in resource-rich African countries. For example, Baosteel Group invested US$50 million in Zimbabwe's mining operation in 2003; Sinosteel invested US$768 million in South Africa in 2008 and 2009; and Wuhan Iron & Steel Co invested US$242 million in Madagascar. All three firms are large state-owned steel-makers.

Copper

Demand Factors: China is the world's largest copper consumer and importer, and the world's largest producer of refined copper and key copper-based products. China's demand for copper stems from the robust growth in its building construction, infrastructure development, and electronic product manufacturing, since the commodity is a major input for telecommunication wiring, plumbing, piping, power generation and transmission. Consuming 40% of the world's copper yet mining only 6% of the world's copper ores/concentrates, China has been dependent on imports of copper ores, copper waste/scrap, and copper cathodes. China's robust copper demand has driven up the world's copper prices: the price of copper cathode (grade A) increased from US$1,844 per metric ton in January of 2000 to US$7,897 per metric ton in May of 2012.

Copper Imports from Africa: In 2011, China imported US$15.5 billion of copper ores/concentrates, and US$54 billion of copper articles, with Africa's shares at 4.6% and 8.3%, respectively. China's copper-based imports from Africa grew by a CAGR of 44% from 2000 to 2011. In 2011, Africa supplied 56% of China's imports of unrefined copper/copper anodes for electrolytic refining and 8% of refine copper/alloy. Zambia (56%) and Congo D.R. (34%) are the main suppliers. In 2010, Chinese SOEs (45%) and Sino-foreign joint ventures (41%) were the dominant importers of copper ores/concentrates. The importation of copper articles was evenly distributed among private enterprises (35%), foreign-invested enterprise (24%) and SOE (22%), and Sino-foreign joint ventures (16%).

Figure 4: China's Copper Imports



Source: Global Trade Atlas

Investment: China's foreign investment in Africa's copper industry has been primarily directed to Zambia, owing to its rich copper deposits. China Nonferrous Mining Co. (CNMC Group), a large Chinese SOE, engineered the establishment of the Zambia-China Economic and Trade Cooperation Zone in Chambishi for mineral processing and related industries that allowed the company to make full use of the Chambishi copper mine.

References: BRIMM, Brookings, Chinese Customs Data, CIA, Congressional Research Service, FDIMarkets.com, Global Trade Atlas, IAGS, IEA, IISD, Reuters, US Geological Survey, USCC, World Bank, WITS, Indexmundi