

Africa Current Issues

China's Post-Corona Future in Africa

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Global geopolitical tensions are rising amid the mounting human and economic toll of COVID-19, most notably between the world's two largest economies, the United States (US) and China. Friction between the two countries was on the rise well before the outbreak, due to a trade war. The virus's Chinese origin and that country's opaque management of its spread stoked even greater distrust between the two powers. US President Donald Trump¹ and Germany's Bild newspaper even proposed that China pay restitution to affected countries.²

Anger played out at a societal level, with reported incidents of anti-Chinese sentiment or behaviour³ - across the globe. Unexpectedly, incidents of coronavirus-related victimisation and discrimination against black Africans surfaced in the Chinese city of Guangzhou. The resulting backlash raises questions about the superpower's longstanding solidarity with the African continent. China provides funding and investment to African countries in exchange for their raw materials and minerals. But xenophobia, when combined with the sharp economic downturn resulting from the pandemic, threatens to undermine this tacit understanding. These disruptive trends hold important implications for the nature of this strategic relationship in a post-COVID-19 world.

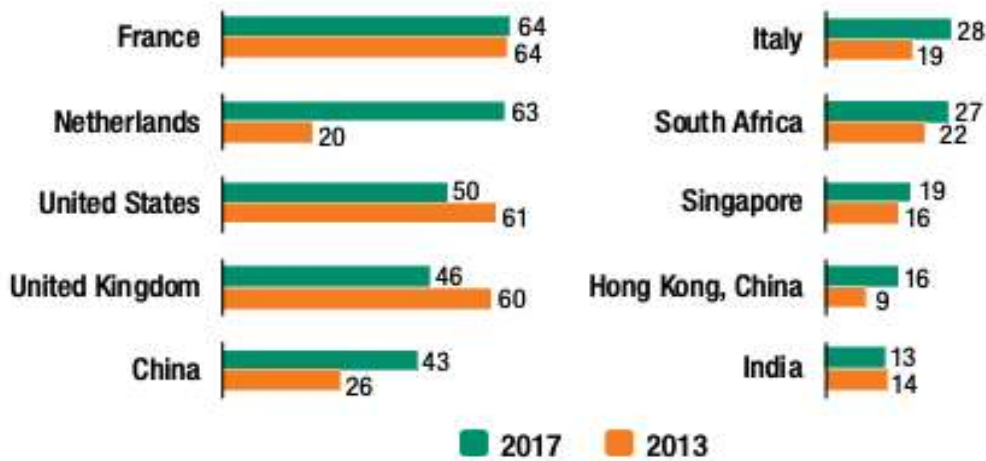
Will the coronavirus and xenophobic events dent China's favourable image in Africa? Will their historically strong relationship with the continent be derailed, potentially jeopardising its participation in the Belt and Road Initiative (BRI) and Chinese financial support? Lastly, what should African states be doing to capitalise on opportunities arising from the inevitable shift in global supply chain contingencies? These are key questions, not just for policymakers, but also for those in the private sector that seek to understand the fluid dynamics of the current environment.

Africa's relationship with China is complex and deeply intertwined. Some African countries are desperately indebted to China and all are in need of financial relief and aid to fight the virus. The future relationship will be shaped in part by how China helps Africa navigate its current debt predicament, which it helped create. The geopolitical impact of the coronavirus still has a very long way to play out, and rather than being a threat to China's continental ambitions, could instead be a boost. An understanding and supportive stance by China could deepen its already strong ties on the continent, thus emboldening an acceleration of BRI in the region to the benefit of all. While implementing workable solutions is in the interest of both regions, the balance of power, for now, is skewed in favour of China. The Chinese approach will be calculated.

Will the coronavirus fallout dent China's positive image in Africa?

China has long held its partnership with Africa as strategically important, not just for its abundance of natural resources (gold, coal, oil, iron-ore, copper) but for the enormous market potential for Chinese produced goods presented by its 1.2 billion consumers⁴ – China was the fifth largest investor in Africa by foreign direct investment (FDI) stock in 2017 (Figure 1).

Figure 1: Top 10 investor economies in Africa by FDI stock, 2013 and 2017 (\$bn).



Source: UNCTAD

Good standing on the continent also offers China chances to establish its military and logistical presence along critical maritime trade routes along the east coast of Africa, increasing the geographic reach and influence it needs to realise and protect its Belt and Road Initiative (BRI).⁵ Whatever the underlying motivations, the country meticulously crafted its image on the continent, not as a condescending benefactor, but as a partner that intends to enable its economic progress.

Particularly damaging to that positive image was the recent outbreak of xenophobia in Guangzhou. Footage emerged in mid-April of authorities evicting black African nationals from their residences and forcing them either to the streets or to quarantine facilities despite testing negative for COVID-19.⁶ Black Africans faced disproportionate scrutiny and surveillance, and in several instances, were denied entry to hospitals, hotels, shops and food outlets⁷ with little to no support from their own governments for repatriation.⁸ China belatedly blamed the actions on overzealous independent actors whose behaviour was not in line with the strong bond between their nation and Africa.⁹

Nigeria, Uganda, Ghana, Kenya and South Africa summoned Chinese ambassadors to their countries to explain the incidents and express their disapproval. Nigeria went so far as to pass a motion on “Maltreatment & Institutional Racial Discrimination Against Nigerians Living in China by the Government of China” which seeks redress in Nigerian or international courts for the maltreatment and proposes verifying the validity of immigration documents for all Chinese people in Nigeria.¹⁰ The diplomatic rebuke from several African states was an unusually blunt remonstrance from countries that more typically toe the Chinese line, fearful of upsetting one of their main benefactors.¹¹

China’s image in Africa also faced mounting criticism from the likes of the US and the UK over its management of the crisis and the tremendous health and economic damage it will inflict globally. The severe economic toll of COVID-19 on African countries motivated some western powers to become substantially more critical of China’s “debt trap diplomacy,” which plies emerging markets with unaffordable debt that leaves them perpetually beholden to lenders. According to an internal Chinese report, global anti-China sentiment is at its highest since the 1989 Tiananmen Square crackdown.¹²

As part of efforts to defuse tensions and repair the reputational damage¹³ China mobilised its public and private sector (Jack Ma’s Alibaba foundation is one example) donating 100,000 coronavirus testing kits, 500 ventilators and 100 tons of personal protective equipment (PPE) to Ethiopia for distribution to AU member states¹⁴, yet the anger persists.

Oby Ezekwesili, former Vice President for the Africa Region at the World Bank and co-founder of Transparency International, strongly advocated that China pay compensation for the damage COVID-19 inflicted on lives and livelihoods in Africa.¹⁵ In such an environment, it would not be a huge leap to see African countries shift their tone from requests for debt relief to demands for reparations.

The environment remains emotionally charged. Reactions from all parties, China included, highlight an uneasy interdependence. Africa needs China for its investment and funding, and China needs Africa for its minerals, growing markets and to realize its geostrategic ambitions. Any spill over in the form of Sinophobia toward Chinese Africans or Chinese businesses on the continent would fundamentally threaten the relationship, and all parties should use all available economic and diplomatic channels to dispel notions of racism or exploitation.

As the full extent of COVID-19 fallout begins to take hold, the dynamics of the relationship will shift to more immediate concerns. Africa needs China to provide relief from its high debt burdens, while China needs Africa solvent enough to protect its BRI infrastructure ambitions and continue paying off its debt. At least for now, a diplomatic standoff due to the xenophobic incidents seems unlikely in light of their interdependencies, but may provide African countries with ammunition in what is likely to become a debt impasse.

Will China provide debt relief to African sovereigns in distress?

African countries are awash in extreme financial and economic stress in the wake of the pandemic. Several stakeholders propose a moratorium on Africa's debt repayments.¹⁶ These include many voices from Africa such as Ghana's Finance Minister Ken Ofori-Atta and South African President and Chair of the African Union, Cyril Ramaphosa.¹⁷ Some concessions have already been made. The G20 agreed to suspend debt service payments for the world's poorest countries until 2021.¹⁸ Fearing that this relief will be insufficient, some call for the cancellation of Africa's debt by developed economies. China is less than enthused by the idea of debt forgiveness.¹⁹ Despite agreeing to a debt standstill along with the Paris Club for the world's poorest countries, it excluded BRI infrastructure loans through the China Export-Import Bank from its G20 debt relief plan only days later.²⁰

Publicly, China cautions of the moral hazard forgiving loans that were misspent would create, only to have the same borrowers line up again for more debt. Internally, however, it is far more likely that China is concerned about losing preferential access to the BRI infrastructure it helped finance and the geostrategic influence it allows.

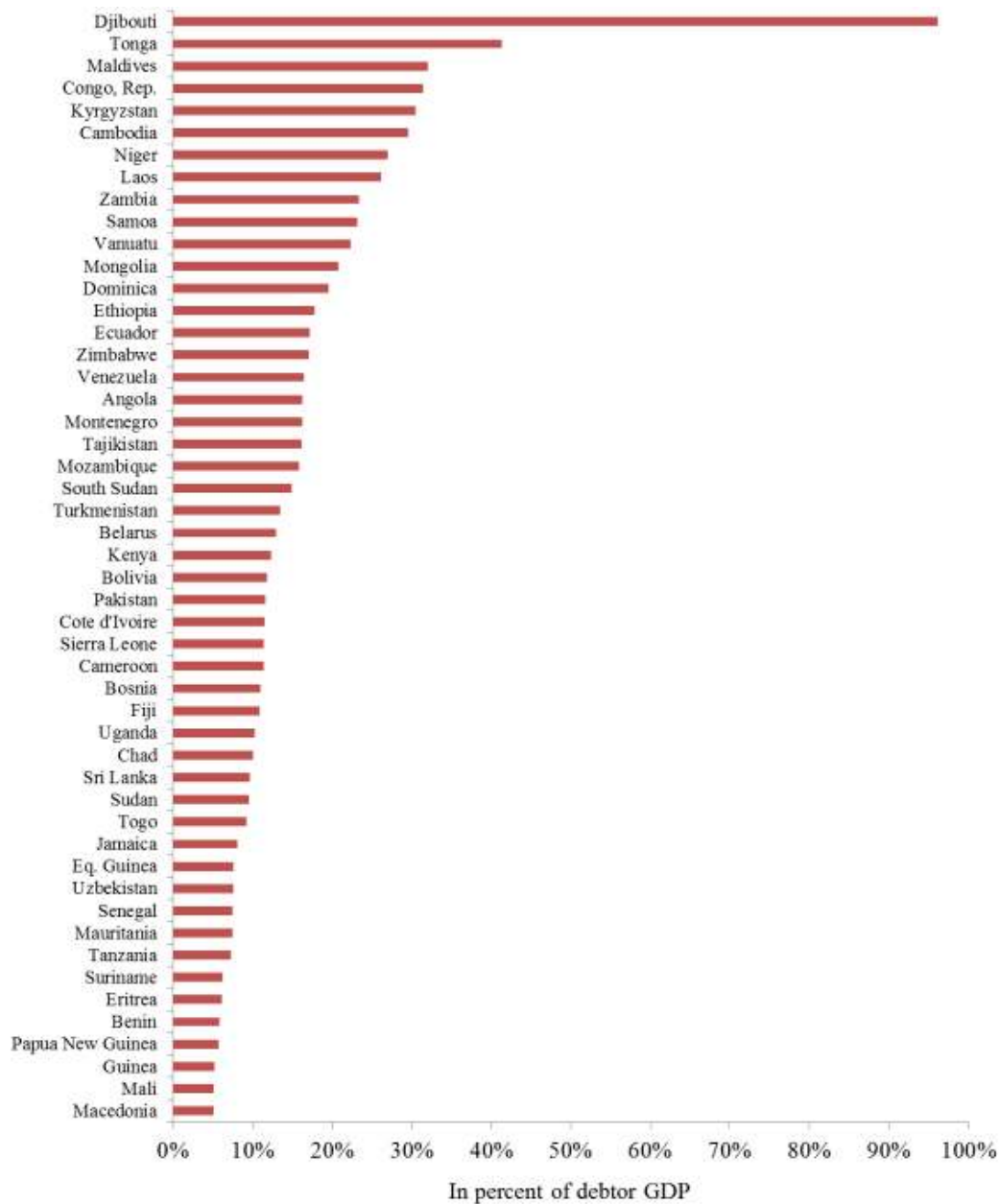
The country's willingness to extend credit, and the terms on which they do so have come in for sharp criticism from the US and some European countries, who accuse China of "debt trap diplomacy", lending money to states they know will not be able to repay the loans, and ensuring they remain beholden to the Chinese. The US and EU unease is partly justified but also reflects a concern that their own African influence has been waning in the face of China rapidly advancing its strategic interests on the continent.

One of the most often cited cautionary tales is that of the Sri Lankan port of Hambantota that was sold to Chinese investors when the country fell behind on repayments of \$1.5bn debt. Similar debt / equity swaps have played out in the Democratic Republic of Congo and elsewhere on the continent, prompting detractors to warn that African nations are in danger of ceding their sovereignty to the Chinese.

China is Africa's largest trading partner, and holding about one third of the continent's total sovereign debt, its largest creditor.²¹ Researchers from John Hopkins University's China Africa Research Initiative estimate that China has extended more than \$150 billion in loans to Africa over the past two decades.²²

Much of the funding has gone toward infrastructure projects such as electricity generation capacity, roads, ports, rail links and dams, which while advancing African interests, handily serve to benefit China's Belt and Road initiative and extend its influence on the continent (Figure 2).

Figure 2: External debt to China as % of GDP (debt stock as share of GDP)



Source: Brookings Institute

While the Chinese do have a track record of cancelling debt²³, the write-offs are typically for small amounts and for interest-free loans. The reality is the Asian powerhouse has cancelled only \$4bn of African debt in the last 20 years, preferring instead to renegotiate terms.

There are two primary reasons that the idea of debt forgiveness is unlikely to gain traction with China. Firstly, it would undo two decades of progress the Chinese have made cosyng up to African states, and open the door to US and UK loans made cheaper and easier by unparalleled liquidity through their quantitative easing programmes. Indeed, China’s generous lending spree to African states was made possible by the debt forgiveness afforded to Africa by advanced economies two decades ago. They are

unlikely to make the same mistake regardless of how much pressure the international community ratchets up.

Secondly, it would erase any leverage / bargaining power the Chinese have over many African countries, leaving infrastructure funded by Chinese loans open to those countries that were reluctant to fund them in the first place. Retaining control and influence over these projects is ever more urgent now that international lenders like the IMF and World Bank are having to provide assistance to African economies, which may ultimately bring greater scrutiny and oversight of country finances.

Herein lies China's predicament. Despite its power, China can't politically and strategically afford to withhold support and have African states default on their loans. Not only would this cascade through China's financial system, but it would reverse the goodwill they have built with African countries, potentially forcing them into the arms of the US and Europe. China needs to keep these competitors at bay to achieve its ambitions for global supremacy.

They also can't afford to forgive African debt unconditionally. This would deprive them of the financial leverage and influence they need to drive their BRI initiative on the continent. The US and the EU are seemingly aware of this predicament hence their calls for China to write off African debt under the guise of humanitarian grounds. The only alternative, apart from an equally unpalatable (to African sovereignty) debt to equity swap is to dramatically restructure the tenors and interest rates toward far more favourable terms.²⁴ In short, China's approach is likely to be to keep their debtors afloat, while keeping them indebted.

Africa needs to collectively seize on this opportunity and drive debt negotiations through the African Union and not as individual nations as China prefers. The terms of China's debt deals are notoriously opaque. Collective negotiations would prevent China from exploiting the vulnerabilities of individual countries. Given the economic and strategic importance of the BRI to China, Africa may for once hold the stronger hand at the bargaining table.

How will Africa's strategic role in the Belt Road Initiative be affected?

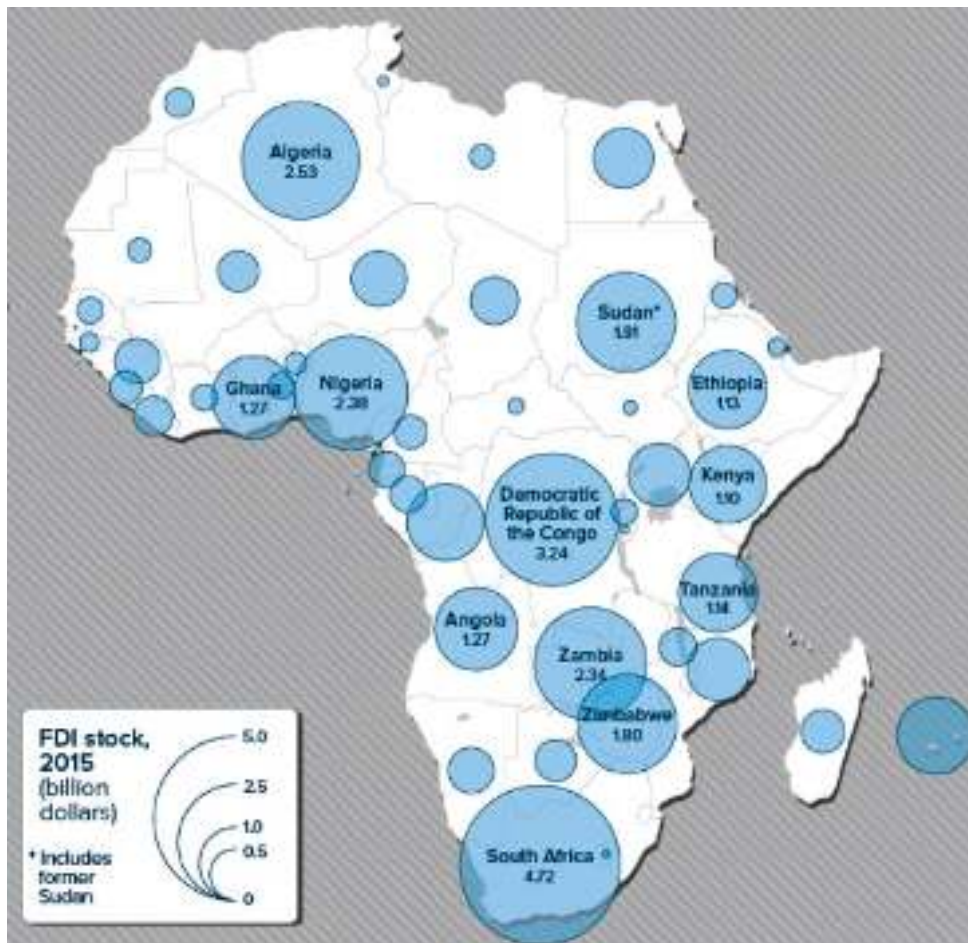
China's flagging economic growth represents the primary source of risk to Africa's continued prominence in the BRI initiative. To reverse the slump in its domestic market, China has a few possible courses of action. The first is to pursue a more nationalistic focus, concentrating financial and political resources internally at the expense of continued BRI momentum to maintain economic and political stability. This path would almost certainly put Africa's agenda on the backburner. It might also threaten the strong relationship built up between the two regions over recent decades.

Alternatively, China may react to the hastening trends toward retreating globalism and the rise of nationalism in western economies to dramatically accelerate its African influence and BRI ambitions. This route is contingent on China improving its domestic economic fundamentals. The more likely outcome is a hybrid model. This would require China to divide its available resources between reigniting domestic growth and continuing to build its BRI foundation, albeit at a more gradual pace. The latter option would satisfy domestic political stability yet allow China to maintain its influence on the African continent and keep US and EU advances at bay.

China has far too much at stake to let its BRI momentum wane, despite the complications brought by COVID-19. Africa's place in the BRI looks set to remain, even if China is more selective in its country attention. However, the economic consequences of the pandemic will push out timelines and trim budgets for infrastructure investment.²⁵ Africa's importance to the BRI is largely geographic, as it provides a maritime thoroughfare between China and Western Europe. Some African countries have the additional advantage of holding the mineral resources necessary to realise the initiative. These countries, along with those providing strategic passage, attracted the bulk of China's funding.

South Africa (coal, gold, iron ore) Angola (oil) DRC (oil) and Zambia (copper) have received investment primarily to support extraction and transport of the resources they offer. Kenya, Ethiopia, Sudan and Djibouti by contrast, have little in the way of natural resources but are strategically important to the maritime component of the BRI, and received significant funding. Smaller countries like Chad, CAR, the Ivory Coast and Senegal, which offer neither, are in danger of falling off the Chinese radar, which is primed for maximum returns in these particularly trying economic times.

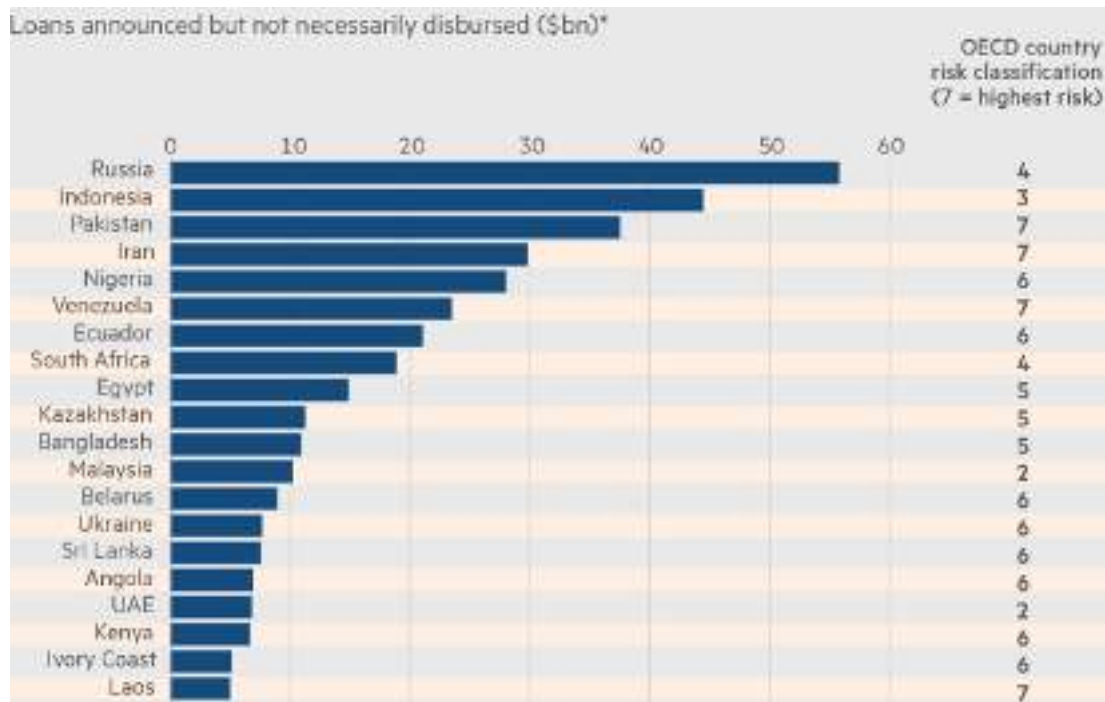
Figure 3: China's Belt and Road Investment Links in Africa



Source: Daily Brief

To be fair, China's BRI lending strategy was inherently risky, given that it would advance loans to some of the world's most fiscally precarious countries (Figure 4). While the Chinese could never have foreseen the dramatic consequences of a global virus outbreak, they are quite likely to have anticipated and provided for nonperforming loans, although the available data around this issue is at best opaque.

Figure 4: China's Belt and Road loans by country (\$ billion)



Source: Financial Times

The biggest risk to Africa's participation lies in the extent to which their efforts rely on further funding from China. Facing debt restructures and significantly weaker growth than that projected only a few months ago, China may scale back or delay some of the BRI projects planned on the continent. China will, however, be reluctant to allow space for other powers to make further inroads on the continent.

The UK, US and France have already laid out their ambitions for increased partnerships and influence in Africa, while India has made significant progress in securing an operational presence along the west coast of the continent. Russia and Turkey will also be quick to fill any vacuum left by China, undermining its goal of securing continental-wide influence.

With this in mind, China still holds extensive influence and African states must resist overplaying their hand at the debt negotiation table, and instead seek the most mutually beneficial outcome over the longer term. Undoubtedly, the best outcome for both would be a continuation of the relationship through mutually acceptable debt restructuring, but on more balanced terms for Africa (potentially converting BRI loans to interest free lines). China must expressly avoid a perception that paternalism is taking hold. For their part, African states must accept that the Guangzhou incidents were isolated, and that incidents of Sinophobia regularly occur in Africa, even though they are not as widely publicised.

Can Africa exploit opportunities arising from Chinese supply chain disruptions?

The current global turmoil provides a window for African countries to re-evaluate their overreliance on China. Africa depends on China not only for funding, but also as a primary market for Africa's commodities. China's role as the world's biggest manufacturer²⁶ meant that offtake alternatives were scarce. The pandemic soon led to producers with excess inventories and a plunge in commodity prices.

The COVID-19 induced shutdown of China's factories disrupted global supply chains and rocked the economies of many African countries. International enterprises around the globe realised the need to

take greater control of their supply chains, and to spread sourcing of intermediate goods to hedge against future shocks. In the technology, automotive, electronics, pharmaceutical, medical equipment and consumer goods sectors, nearly all supply chains trace back to China. To mitigate risks that single-sourcing poses to national industries, some governments provided incentives to encourage their manufacturers to exit China.

Japan allocated \$2.2 billion of its COVID-19 economic stimulus package into shifting production outside of China. Other countries, such as the United States, plan to move production of essential pharmaceuticals and medical equipment from China.²⁷ In other cases, the virus outbreak may simply accelerate pre-existing plans to reduce supply chain dependence on China²⁸ such as those in response to trade tariff hikes imposed on US imports from China.

More than 80% of fashion brands plan to reduce sourcing from China, according to a July 2019 U.S. Fashion Industry Association report.²⁹ Nigeria, among other African economies, might find this an interesting opportunity given its well-developed textile industry. Consumer technology is another potential target. The chairman of Wistron Corp, an iPhone assembler, told analysts that the company plans to relocate 50% of its capacity outside China by 2021.³⁰ Toyota, Honda and Samsung also recently announced plans to speed relocation of production due to the pandemic.³¹ South Africa and Morocco both with sizeable auto sectors, stand to benefit.

Although financing these new capabilities will require sustained attention, MNCs that adopt a “China+1” strategy and seek to diversify their risks are likely to see Africa as an opportunity rather than an expense. Investors are now far more likely to worry about supply chain robustness and the capabilities of companies to hedge risk in the event of “second wave” outbreaks.³²

African producers must ensure they are top of mind as alternatives to Chinese production. Countries with strong port facilities and infrastructure are geographically well placed for global distribution to the east (Asia), west (North and South America), north (Europe), and to the south (Oceania). Well-developed education standards and strong language proficiency (English, French) in many countries also present an upside to European and US firms. The primary benefit, however, is cost. Economics and needs for profitability mean that low-cost producers will always have an advantage in attracting business. The notion that China is always the lowest cost producer, especially in labour-intensive activity, is a misperception. The low cost of labour in Africa leaves producers on the continent uniquely positioned as a viable alternative to low-cost Chinese sites.

Now more than ever, Africa should lay the groundwork for beneficiation of its minerals rather than simply extracting resources to ship to China. Local value adding will reduce concentration risk, help diversify and enhance revenue streams, lead to job creation and raise the continent’s growth trajectory. This path will require political foresight, financial commitment, and maturity. African policymakers should incentivise foreign fixed investment across their countries. This will require tax relief incentives, attractive regulatory environments, more flexible labour markets and preferential electricity and water rates. These changes will attract investment, lower production costs, increase producer margins and provide diversification in sourcing.

To be sure, African nations must build up the power and transport infrastructure needed to make this feasible, but several of Africa’s more advanced economies are not far from realising this potential. Why should they not simply strengthen relations with China, who have already invested heavily in African infrastructure? Such a move would offset production losses from foreign companies looking to reduce exposure and provide Africa with on-going support for infrastructure development. Despite the turmoil, Africa has a real chance to recalibrate its relations with China, establish fair and balanced partnerships, and thus align China’s success more closely to Africa’s.

The global trade landscape is likely to change dramatically, as countries begin to process and mitigate the risks of overreliance on Chinese production and imports (onshoring). The crisis could become the incentive Africa needs to accelerate continental manufacturing, e-commerce, digitisation and food security. Each of these areas will create investment opportunities, generate new jobs, and drive regional

economic growth. A well-supported AfCFTA regime provides a viable path along which African nations and their businesses can collectively realise the continent's development ambitions.

Conclusion

The COVID-19 pandemic has thrown the world into turmoil bringing China's seemingly unstoppable economic progress into question. While China's opaque handling of the outbreak and related xenophobic incidents dented the country's image, the country's relationship with Africa is likely to remain strong, albeit with tweaks to the power dynamics. For enterprises, the immediate impacts of the pandemic range from the strategic to the operational.

The impact of COVID-19 across Africa is likely to continue through end 2020. Where the virus spreads rapidly, affected countries may lock down, enforce quarantines, impose travel bans, and close their factories. Investors and policymakers can expect high short-term uncertainty regarding investment opportunities in Africa, on the continent's overall productivity, and on consumer and industrial demand. Similarly, consumer, employee and customer confidence will all be adversely affected. Such trends may affect the value of deals currently in progress and will certainly inhibit the due diligence activity needed to finalise them.

China cannot afford to let Africa fail. Africa can't afford to turn its back on a country on which it depends so heavily for funding and to purchase its commodities. While diplomatic tension between the two regions is likely to be higher than before, particularly through the inevitable debt restructuring discussions, Africa has a great deal to gain from China's continued economic success and the BRI – provided African states are able to exercise agency and craft 'win-win' solutions. The current period may well allow African states to improve their balance of power with China, but until such time as the continent becomes far more self-sufficient, the pattern of interdependency looks set to grow.

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