

INTERNATIONAL MONETARY FUND

REGIONAL ECONOMIC OUTLOOK ANALYTICAL NOTES

SUB-SAHARAN AFRICA

At a Crossroads: Sub-Saharan Africa's
Economic Relations with China

2023
OCT



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October 2023 Regional Economic Outlook: Sub-Saharan Africa Analytical Note

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RECOMMENDED CITATION: International Monetary Fund (IMF). 2023. "At a Crossroads: Sub-Saharan Africa's Economic Relations with China" In *Regional Economic Outlook: Sub-Saharan Africa—Light on the Horizon?* Washington, DC, October.

JEL Classification Numbers:	F10, F21, F34, F42
Keywords:	China, Trade, Debt, Foreign Direct Investment, Spillovers, Trade Integration

¹ **ACKNOWLEDGMENTS:** The October 2023 issue of the *Regional Economic Outlook: Sub-Saharan Africa* (REO) Analytical Notes were prepared by the African Department, Regional Studies Division staff, under the supervision of Luc Eyraud, Annalisa Fedelino, and Catherine Pattillo.

At a Crossroads: Sub-Saharan Africa's Economic Relations with China

Sub-Saharan Africa has forged broadly beneficial economic ties with China over the last two decades. China has become the region's largest trading partner, a major credit provider, and a significant source of foreign direct investment (FDI). However, China's support to Africa has also faced some criticisms. Recently, China has retrenched its financing activities in sub-Saharan Africa amid a growth slowdown and reduced risk appetite. The projected future deceleration in China's growth is likely to affect African trading partners negatively over the medium term, mainly through reduced trade. Therefore, it is crucial that countries in the region strengthen their resilience and implement structural reforms to foster economic diversification, deepen intraregional trade, enhance competitiveness, and catalyze domestic growth.

What does a slowdown of China's economy mean for Sub-Saharan Africa?

At risk is
China scaling down 20 years of:



TRADE



INVESTMENT



CREDIT

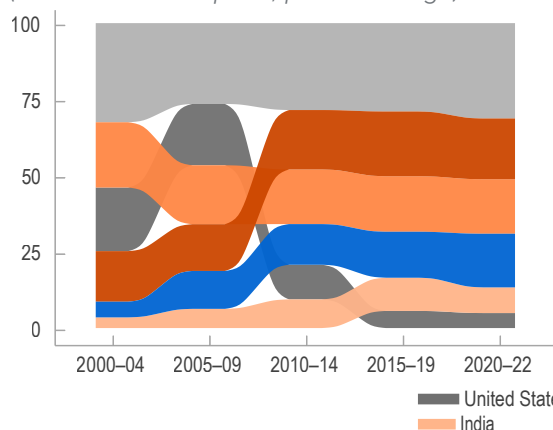
Sub-Saharan Africa and China have forged strong economic ties...

China has emerged as sub-Saharan Africa's largest individual country trading partner in the last 20 years. Today, one-fifth of the region's total goods exports go to China (Figure 1, panels 1 and 2). Metals, mineral products, and fuel represent about three fifths of the region's exports to China. Meanwhile, China has also emerged as the single largest source of imports for African countries, supplying manufactured goods and machinery. Following its accession to the World Trade Organization in 2001, China's rapid economic growth and large appetite for raw materials have spurred African exports of goods, which more than quadrupled in nominal US dollar terms between 2000 and 2022.¹ Trade has raised the region's incomes, mostly through higher export revenues.

Figure 1. Sub-Saharan Africa: International Trade Partners, 2000-22

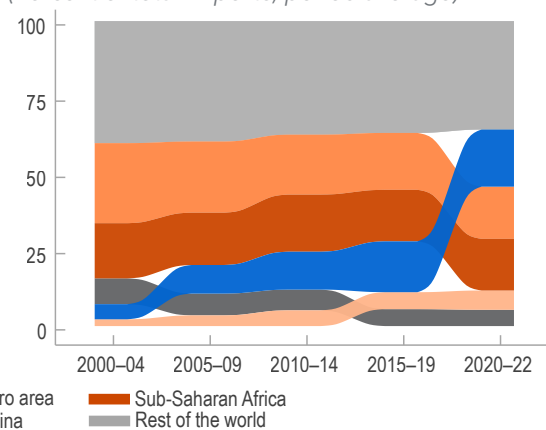
1.1. Exports of Goods

(Percent of total exports, period average)



1.2. Imports of Goods

(Percent of total imports, period average)



Sources: IMF Direction of Trade Statistics database; and IMF staff calculations.

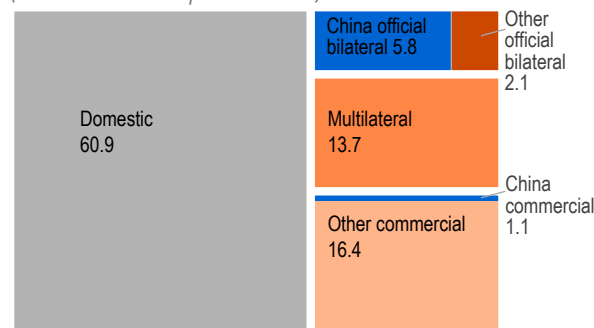
Note: The chart depicts five-year averages of the share of exports from and imports to sub-Saharan Africa for the top five destinations and origins, with the remainder combined in a residual category. Regions are listed from the largest (top) to the smallest (bottom). Euro area's definition excludes Croatia.

China has also become a major funding source for African governments since the early 2000s after initiating its official "go out" policy.² Chinese loans—mostly directed at financing public infrastructure projects—have risen rapidly in the region in the late 2000s. Consequently, China's share of total sub-Saharan African external public debt rose from less than 2 percent before 2005 to about 17 percent in 2021. This has provided African countries with a new source of infrastructure financing, and China is now the largest bilateral official lender to countries in the region.

However, China's share in sub-Saharan Africa's overall sovereign debt is still relatively small, at only about 6 percent of the total (Figure 2).³ The region's official debt to China is highly concentrated, according to the

Figure 2. Sub-Saharan Africa's Public Debt, End of 2021

(Percent of total public debt)



Sources: World Bank, International Debt Statistics; IMF, World Economic Outlook database; and IMF staff calculations.

Note: Multilateral includes regional development banks. China Development Bank is included in China bilateral debt but not in China commercial debt.

¹ According to IMF, *World Economic Outlook* data, total goods exports increased by about 60 percent in this period in volume terms. The large difference stems not only from the cumulative inflation since 2000 but also from the positive evolution of terms of trade for the region's exports.

² For more details on China's "go out" policy, see China Ministry of Foreign Affairs (2021).

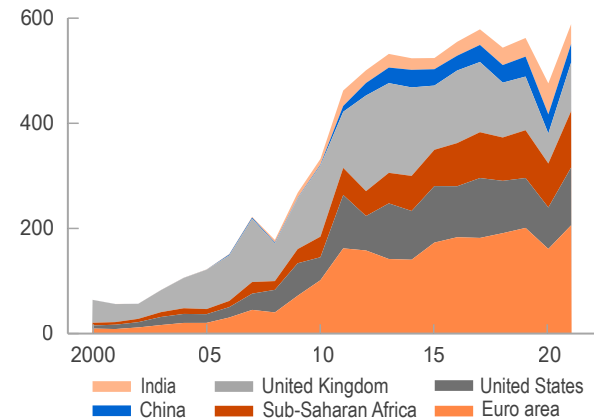
³ This figure includes sub-Saharan African countries' general government debt owed both domestically and to foreign actors (external debt), as reported in the World Bank's International Debt Statistics database, accessed on August 10, 2023.

World Bank International Debt Statistics. Five countries (Angola, Kenya, Zambia, Cameroon, and Nigeria, mostly resource intensive) account for 55 percent of official bilateral debt to China. There is a correlation between the prevalence of bilateral trade and lending disbursements between China and the region's countries, after controlling for GDP. But it is noteworthy that the debt owed to China has not been the principal contributor to the region's public debt surge in the past 15 years. About half the region's public debt is now domestic commercial borrowing with higher interest rates and shorter maturity.

China's FDI to sub-Saharan Africa has also increased significantly since 2006. The rise of China's FDI flows was impressive, reaching about 23 percent of annual FDI inflows (or about \$3 billion) to the region in 2021. However, when compared with the size of investments from other parts of the world, the stock of Chinese investments as a share of the region's total FDI is still relatively small, given its more recent accumulation—at about 4.4 percent in 2021 (Figure 3).⁴ Nonetheless, some resource-rich countries have seen relatively large inflows of Chinese FDI directed primarily toward construction and mining. Mounting evidence points to broadly positive effects of Chinese investments on the recipient country's economic outcomes (Mandon and Woldemichael, 2022).

Figure 3. Stock of Foreign Direct Investment from Selected Regions to Sub-Saharan Africa, 2000-21

(Billions of US dollars)



Sources: United Nations Conference on Trade and Development; and IMF staff calculations.

Note: Euro area's definition excludes Croatia.

...but recently, China's economic engagements have cooled down...

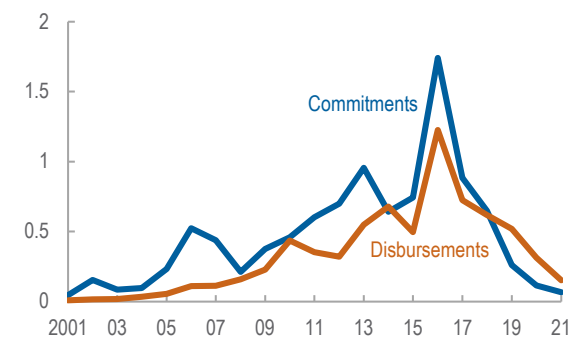
Following years of expansion, sub-Saharan Africa has seen a retrenchment of Chinese investment and lending since 2017. At the 2021 China-Africa Cooperation Forum, China announced its first cutback in financial support to Africa, from \$60 billion to \$40 billion over three years. Half of this reduction was due to a shift away from direct infrastructure financing toward more trade credit, possibly because of China's political priorities and many African countries' increased debt vulnerabilities.⁵

Chinese official total loan disbursements to sub-Saharan Africa have fallen precipitously, now representing about one-eighth of their peak value of 1.2 percent of the region's GDP in 2016 (Figure 4). Similarly, total loan commitments (promised lending arrangements), which rose from 0.2 percent of the region's GDP in 2005 to a peak of 1.7 percent in 2016, have also contracted dramatically to about 4 percent of their peak value.

The decline is also evident in Chinese companies' African construction gross revenues, which fell 30 percent from the peak of \$53 billion in 2015, based on China-Africa Research Initiative data. Additionally, at the third

Figure 4. Lending from China to Sub-Saharan Africa, 2000-21

(Percent of GDP)



Sources: Boston University, Chinese Loans to Africa database; World Bank, International Debt Statistics database; and IMF, World Economic Outlook database.

Note: Aggregate GDP for sub-Saharan Africa excludes South Sudan.

⁴ Data on FDI are sourced from the United Nations Conference on Trade and Development.

⁵ In contrast to the long-standing "go out" policy, the Chinese government announced plans to reduce overseas capital outflows in 2021.

China-Africa Economic and Trade Expo in June 2023, about \$10 billion of projects were signed (Africanews, 2023)—a 50 percent drop compared with 2019’s event, despite high-profile attendance.⁶

Chinese lending to sub-Saharan Africa has drawn considerable attention and criticism for imposing relatively harsh terms on debtors and using natural resources as collateral (Bräutigam, Huang, and Acker, 2020). Other concerns include the lack of standardization and transparency in public debt because Chinese lenders do not systematically document loans to individual overseas borrowers, leading to significant data gaps.

In this context, China provides some official loans on concessional terms, accounting for less than 10 percent of total bilateral loans received by sub-Saharan Africa from China at the end of 2020, based on the World Bank’s International Debt Statistics data. The share of the region’s total external debt-service cost attributable to China’s official bilateral loans is 12 percent as of 2019, based on International Debt Statistics data. Moreover, sub-Saharan African countries that are either in debt distress or at high risk of debt distress account for about 40 percent of the total public debt stock to China at the end of 2020. **China has been a key player in recent debt restructuring and negotiations** (unlike in negotiations leading to the Heavily Indebted Poor Countries Initiative, during which Chinese lending to low-income countries was minimal). It also contributed to the Debt Service Suspension Initiative, providing 63 percent of suspensions in 2020 and 2021, though owning just 30 percent of the claims (Bräutigam and others, 2023). But so far, however, debt restructuring for some countries (including under the Group of Twenty Common Framework) has been slow and challenging because of several factors, such as many different debt instruments and a more diverse creditor base (including China), which requires adaptation and coordination. The recent preliminary agreement between Zambia and its official creditors (notably including China) to restructure its external debt is a promising sign for future resolutions in other countries.

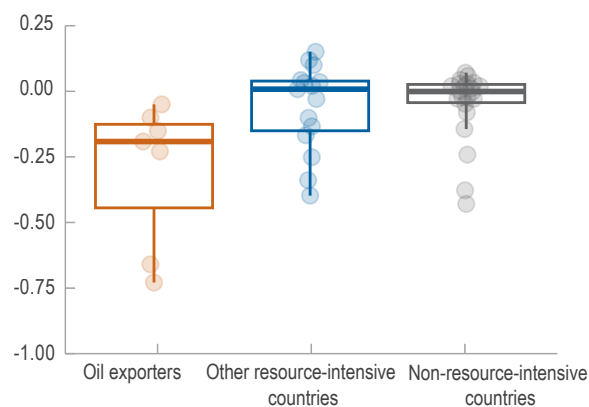
...and the region could face spillovers from China’s continued slowdown.

China has been experiencing a deceleration in economic growth since the early 2010s. This is due to a confluence of factors: slowdown in the real estate sector; demographic trends from an aging population; and more recently, volatility in the external environment, including trade tensions, geoeconomic fragmentation, and the COVID-19 pandemic. Although China’s annual growth rate averaged about 10 percent in the 2000s, it grew by less than 8 percent per year on average in the 2010s. China’s growth has declined even further since the pandemic, and the latest IMF projections show average annual growth of only about 4 percent in the next five years, with notable trends toward reduced investment and greener technologies.

Given the deep economic ties, a further slowdown in China’s growth in the medium to long term is likely to affect economic activity negatively in sub-Saharan Africa. Negative spillovers would emerge primarily from trade links, both from a deceleration in export volumes and from commodity price declines. Empirical analysis, detailed in Figure 5, shows that a 1 percentage point

Figure 5. Sub-Saharan Africa: GDP Response to China’s Growth Slowdown

(Percent of GDP)



Source: Abdel-Latif and El-Gamal, forthcoming.

Note: Dots denote individual countries. Box plots portray the median country effect as the thick horizontal line and the first and third quartiles as hinges. Whiskers extend in both directions by the closest of the maximum or minimum value and 1.5 times the interquartile range. Country groupings are detailed in the October 2023 *Regional Economic Outlook: Sub-Saharan Africa*.

⁶ Data from China-Africa Research Initiative, “Chinese Contract Revenues in Africa,” accessed on August 10, 2023.

decline in China's real GDP growth rate leads to about 0.25 percentage points decline in sub-Saharan Africa's total GDP growth within a year. When considering the effect on oil-exporting countries, the growth shortfall rises to more than 0.5 percentage points. For non-oil-exporting countries, the growth loss averages 0.2 percentage points (Figure 5).⁷ Therefore, countries that export relatively more to China are more likely to be affected negatively by a slowdown in China. This model focuses mainly on the spillovers through global commodity prices, trade linkages, and financial conditions, but there are potentially more complex feedback effects or supply-side reactions that are not captured. In particular, geoeconomic fragmentation could be detrimental to low-income countries, especially those in sub-Saharan Africa as shown in the analyses in the April 2023 *Regional Economic Outlook: Sub-Saharan Africa* and in the October 2023 *World Economic Outlook*, Chapter 3. These studies also highlight that strategic decoupling, in which countries in the region manage to maintain trade ties with all blocs, may present mild upside risks.

Sub-Saharan Africa has to adapt to evolving economic ties.

Sub-Saharan Africa has benefited from China's growth takeoff, but the region needs to adapt to China's growth slowdown and declining economic engagements. Navigating these new realities in a context of global uncertainty and amid increasing geoeconomic fragmentation will require building resilience and implementing structural reforms that foster alternative sources of growth, including through diversification and enhancing competitiveness.

Building resilience will help cushion against the negative spillovers from China's growth decline.

- **Increasing regional trade integration** offers African countries the opportunity to diversify export destinations and import sources. The African Continental Free Trade Area is particularly promising, but its implementation will require substantial reduction of trade barriers and improvements in the broader trade environment, including reduction of non-tariff trade barriers. If all are realized, the median goods trade within Africa could increase by 53 percent and with the rest of the world by 15 percent. This has the potential to raise the real per capita GDP of the median African country by more than 10 percent and lift an estimated 30-50 million people out of extreme poverty (El-Ganainy and others, 2023).
- **Rebuilding buffers and strengthening policy frameworks will help reduce macroeconomic vulnerabilities and external reliance.** This includes reviving efforts to boost domestic revenue mobilization to reduce dependence on external revenue and financing while strengthening spending efficiency and generating alternative and sustainable sources of funding for development priorities. Measures include improving revenue administration and tax policy reforms.

To offset China's declining economic engagement in the region, structural reforms are necessary to foster alternative sources of strong, sustainable, and inclusive growth, such as:

- **Promoting economic diversification**, which is vital for forging new trade relationships beyond China and can mitigate the repercussions from changing global trade patterns. Oil-exporting countries need to gradually manage the transition away from a heavy reliance on Chinese demand. Moreover, as the world embraces the green energy transition, the region can seize opportunities in the strong demand for critical mineral exports that support renewable energy development. Countries can strive to develop more local processing capabilities while moving up higher value chain segments. Essential reforms—including adopting best practices in mining laws and enhancing public financial management—are crucial to capturing the potential windfalls and optimizing economic benefits.

⁷ The regional or group average of the response of GDP growth to the shock to Chinese GDP growth was calculated using the share of each country's cumulative GDP between 2018 and 2022 as weighting factor. See Abdel-Latif and El-Gamal (forthcoming) for more details on the methodology.

- Reforms to create a **favorable business environment** (including by lowering entry, regulatory, and tax barriers) will help catalyze private sector growth and enhance the region’s competitiveness. It is also important to **deepen domestic financial markets** and improve access to finance, particularly for small and medium enterprises and entrepreneurs. Prioritizing human capital development and providing better **access to quality education** will contribute to developing a skilled workforce and enhancing domestic productivity. Combining these efforts with **infrastructure development**—including both traditional **physical infrastructure** (roads, railways, airports, and so on) and essential **digital infrastructure**—will expand economic reach beyond traditional markets and geographic boundaries.

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