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A Change in Africa's Heavy Dependence on China?

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It is 10 years since China adjusted its RMB exchange rate regime from a fixed system to a managed floating that is based on a currency basket. During this period, exchange rate of the RMB against the dollar appreciated by more than 30% and its margins for daily fluctuation in the market were much widened. The internationalization of the RMB has largely progressed as is seen in an increased share of the RMB settlements in the Chinese trade and expanding network of currency swap agreements with many countries and regions around the world for supplying the RMB. On the other hand, the speed of its economic growth has moderated during the ten years with the real GDP growth rate slowing down from its peak of 14% in 2007 to 7% in the first half of 2015. Concerns are now rising over the movements of asset prices of real estates and stocks, etc.

In contrast to the weakening domestic economy, China is increasing its presence in many corners of the world. An obvious example can be seen in Africa. China has imported crude oil from such oil exporting countries as Angola and Nigeria and purchased various mineral resources from African countries. At the same time China has provided finance to African countries within a framework of development assistance, thereby winning development projects for infrastructure building. Outstanding among them is a large amount of investment and lending made to Angola which had failed to gain credibility of Western nations and had difficulty in negotiations with the IMF and other international development assisting agencies. As a result of these relations through trade and investment and loans, dependence on China of African countries including resource-rich countries have been much strengthened. Currently their dependence on China is working negatively to further deteriorate the economies of African countries which have already been badly affected by lower prices of natural resources.

On July 7, the New Development Bank BRICS, a bank subscribed by 5 BRICS states including China and India held its first general meeting. According to the first president of the bank Mr. Kamath, it will start lending operations in April 2016, initially with a limited targeting

at 5 BRICS countries, but its scope of target will be broadened to include their peripheral developing countries. Although the bank is seen to have a contention problem in Asia, especially with the AIIB, a new bank led by China as well as the ADB, there will be no such concern in Africa. Given an immense need for development in Africa, there is a possibility that a positive lending will be made to Africa following the 5 countries of BRICS. If realized, China will also have an indirect route of lending to Africa through the NDB BRICS.

On the other hand, Japan is now stepping up its effort to increase assistance to Africa and expand business there. On July 10, the Ministry of Land, Infrastructure, Transport and Tourism announced that it will hold in Ethiopia and Kenya public-private meetings to promote Japanese exports of infrastructure to Africa. They will be joined by many companies in various lines of business that include construction, trading companies, and engineering, and they aim to jointly win orders for infrastructure projects in such areas of roads, railroads, and distributions by appealing “quality infrastructure investment” where Japan has high specialization. In 2016, the sixth meeting of the Tokyo International Conference on African Development (TICAD)* in which Japan has been playing a leading role is scheduled to be convened for the first time in Africa. As Japan’s role in infrastructure building and development assistance expands, the excessively high dependence of African nations on China will tend to diminish. Since China is now in its transition phase to new normal and it is not expected to continue the high growth it had once enjoyed, it is highly expected that Japan’s public-private partnership initiative will help the African countries both in promoting their infrastructure building and in shifting their dependence on China to others.

(*) An international forum to discuss themes on African development. Since 1993, Japan has had a key role in organizing the conference in cooperation with the UNDP, the AUC and the World Bank. At the fifth TICAD meeting held in 2013, Japan showed a positive attitude to address the assistance to Africa by declaring its intention to provide government development assistance of 1.4 trillion yen over the next five years and up to the maximum amount of 3.2 trillion yen combined with the private financing.