Africa looks west once again

China's slowing economy is making the US a more attractive investor, writes Alex Vines

For the first time in more than 15 years, Zimbabwe's 91-year-old president, Robert Mugabe, openly asked for western re-engagement in his 'state of the nation' address in August. A decade ago, Mugabe told a packed rally at the Chinese-built national sports stadium in Harare: 'We have turned east, where the sun rises, and given our back to the west, where the sun sets.' Angola's equally long-serving president, José Eduardo dos Santos, has also encouraged better relations with the United States in 2015.

Why this sudden change of mind? The fall in commodity prices, brought about by cooling demand for oil and minerals from China, and an improving US economy partly explain it. China imports nearly 60 per cent of the world's iron ore and about 30 per cent of the world's copper. A slowdown in Chinese demand hits exporting countries such as Zambia and South Africa.

China is Angola's main customer for crude oil and low prices together with Beijing's cutting back on imports are hurting. The result has been a depreciation in the value of the Angolan kwanza, rising inflation and a growing liquidity crisis. Sonangol, the state oil company, has had to deny that it is short of cash, and the government has rejected reports by the Angolan state media that President dos Santos visited Beijing in June to ask for a repayment holiday on Chinese loans. Li Keqiang, the Chinese premier, acknowledged during his May 2014 visit to Angola that 260,000 Chinese were working in the country. China has backed up it oil imports with building loans and Chinese construction sites have spread across the country.

Low oil prices, high production costs and other management problems have forced Chinese national oil companies to reappraise their portfolios. This March auditors sent by China's National Audit Office to screen financial statements of the state company Sinopec's overseas investment arm found that billions of dollars of investments made in five Angolan oilfields had underperformed. Sinopec has suffered a net loss of $1.6 billion in three of these oil blocks and is trying to extricate itself from opaque joint-venture deals.

Chinese investment will continue to grow in several sectors such as construction, infrastructure and manufacturing, however. Some of this investment could slow down, but Ethiopia and Tanzania are expected to remain favoured investment targets. China is also seeking deeper involvement in Mozambique due to its gas reserves.

Imports of Chinese goods to Africa will continue, and more competition from Chinese manufacturers is expected as they benefit from a devalued renminbi.

Although developments in China are important, they should not be seen in isolation from other global events and the calculations of African policymakers. Currency volatility since mid-2014 is also linked to events in Europe and the US, and may get worse if US interest rates rise. That would put more pressure on some African governments' liquidity.

The 2015 World Investment Report, issued by the UN Conference on Trade and Development, said in June that foreign direct investment in Africa remained flat at $54 billion, decreasing in North Africa and rising in sub-Saharan Africa to $42 billion. What this report illustrated and what African governments have increasingly appreciated is that the US, Britain and France remain leading sources of foreign direct investment. Private equity firms such as KKR of the US and fellow Caryle group in 2014 have also made their first sub-Saharan African investments and this trend will grow. Foreign investment is still

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A Chinese supervisor oversees Zambian workers in a copper smelter in Ndola, Zambia

highly concentrated in a few resource-rich countries such as South Africa and Nigeria but this too will change over time.

South Africa appears to be pulling in an opposite direction from its southern African neighbours of Angola and Zimbabwe despite the importance of western investment for its economy. South Africa is China's largest trading partner in Africa and Pretoria seeks to deepen this partnership. This is partly ideological, cementing its position as a member of the BRICS – Brazil, Russia, India, China and South Africa. President Zuma visited Beijing in September and this December the sixth Forum on China-Africa Cooperation will be hosted in South Africa. As many African states try to widen their international choices, South Africa risks becoming trapped in its BRICS narrative. Membership of the BRICS has become important for the ruling African National Congress, and anti-US rhetoric is cooling relations with Washington.

This century may well be Asia's, but the sun is not setting in the west as quickly as Mugabe predicted, while China is increasingly seeking good governance and probity for sustainable longer-term investment in Africa. Despite China's official 'non-interference' policy, Beijing does engage in stability and peace-building in Africa. A greater realism is emerging from African governments which recognize that they too need diversified partnerships to navigate a changing world order. China remains part of this calculation but improving relations with the West is back in fashion. President Obama's trip to Nairobi in July and his meeting with Nigerian President Buhari in Washington both highlight this, while Burundi, Togo, Guinea and Mauritania have all opened embassies in London over the past couple of years.

Today, it is far from being a zero-sum choice between the East or West and diversification of partnerships is the favoured strategy of many African governments.

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