**Business Intelligence News**

# China sell-off offers opportunities and risks for Africa

*The sell-off on Chinese stock markets offers Africa opportunities – such as a few debts getting cheaper to service – but the continent must hope that China does not crash.* ***Harry Clynch*** *reports.*

Africa faces both risks and opportunities as a result of the sell-off on Chinese stock markets that is prompting a sizable fiscal and monetary response from authorities in Beijing. Investors are currently approaching Chinese markets with caution owing to a real estate crisis in the country, relatively slow growth, and worsening geopolitical tensions between China and the United States. Since stock markets in China and Hong Kong peaked in 2021 more than $6 trillion has been wiped from their value. On 8 January China's benchmark CSI 300 Index dropped to a five-year low.

While policymakers are reported to be considering injecting $278bn into Chinese markets to stabilise stocks, instability has already spilled over into foreign exchange markets, with the Chinese yuan (CNY) weakening against the dollar since the start of the year.

Charlie Robertson, head of macro strategy at FIM Partners in London, tells *African Business* that although the vast majority of Africa's debt is priced in dollars, a weaker yuan could boost African countries, such as Egypt and Zambia, which have some yuan-denominated debt. A weaker yuan would make debt repayments less expensive.

"I would guess that yuan-denominated debt is a relatively small portion of Africa's debt to China so far, but at the margin a weaker CNY helps on that front," Robertson says.

## Aspirational loans

Jared Osoro, an economist based in Nairobi, adds that "yuan-denominated loans are mainly aspirational, in the sense that a few central banks now have yuan clearing facilities, for example, but the overall volume of yuan activity is very small. This means that whatever is happening in the context of economic policy in China may not have instant implications to businesses in Africa in either a positive or negative way – the impacts will be less direct," he adds.

Osoro points to the longer-term risk for Africa that, if China's economic troubles continue, the yuan could become progressively weaker. This would make Chinese products more competitive on international markets and encourage more businesses on the continent to purchase China's goods, further widening a trade deficit that already stood at $47bn in 2022.

"If the Chinese currency continues to devalue, that of course enhances the country's competitiveness," Osoro tells *African Business*. "That could end up widening the trade balance between African countries and China." In the immediate future, Robertson suggests that the main issue for Africa is determining how deep China's economic problems are. He notes that China sees manufacturing and exports as a crucial part of the answer to its economic malaise. This could offer a boost to countries such as Zambia, the Democratic Republic of the Congo and Angola that export the raw materials which support Chinese industry, such as iron ore and steel.

Robertson says making precise predictions about Beijing's likely demand for commodities is "a tough call, given the debate about the veracity of China's data: for example, is China's steel industry shrinking or booming – with very different implications for Africa's iron ore exports?"

He adds that "I would think China's efforts to export its way out of trouble might offer some lift to Africa, via imports of raw materials to support those exports. I suspect what is most important for Africa is that China does not crash."