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South Africa may be a winner from Chinese reopening as Nigeria misses the bus

By **David Whitehouse**
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South Africa's economy may be a winner from the decision by Chinese authorities to back away from their zero-Covid policy, while Nigeria has failed to position itself to take advantage, economists say.

China dropped lockdown restrictions at the start of December in the face of mass protests. The Chinese economy is likely to recover "relatively strongly" in 2023 which will be a "saving grace" for emerging market economies including South Africa, says Johann Els, chief economist at Old Mutual Investment in Cape Town. He forecasts Chinese economic growth of 5.2% in 2023, versus just 1.2% and 0.6% for the US and the euro-zone respectively.

Increased Chinese demand for mineral imports is likely to benefit reliable African suppliers such as South Africa. Chinese investment in clean energy in 2022 was the highest globally with over $90b of investment in R&D alone, according to the World Economic Forum.

That signals strong Chinese demand for critical minerals needed in the development of clean energy, such as bauxite, cobalt, copper, lithium, nickel, says Erwin Pon, head of Asia at Rand Merchant Bank (RMB) in Johannesburg.

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The demand may be about to **kick in amid an improving economic context for South Africa.** The global economic backdrop is "not as negative for the South African economy as we thought just a few months ago," Els says. Prospects for the country are "not as gloomy as they were in 2022 and certainly not as bad as many commentators make them out to be."

The cycle of South African interest-rate increase is close to or at its end, and inflation has already peaked, he says.

- South Africa's real GDP will grow by 2.0% in 2023, consumer spending will increase by 2.5% and fixed investment will climb 5.0%, Els forecasts.

- The end to the US Federal Reserve's rate hiking cycle will likely lead to more US dollar weakness, providing support for the rand, while lower oil prices will ease inflationary pressures, Els says.

Inflation will likely be back in the central bank's target range of 3% to 6% from March onwards and could even dip below 4% during the second half of the year, he adds.

Tourism recovery

The "jury is still out" on the strength of the Chinese recovery, but the results of policies aimed at stimulating the economy should be clear around the third quarter, says Pon at RMB. South Africa's central bank said on 26 January that the "growth outlook for China has improved but is likely to remain modest by historical standards."

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The impact of the Chinese policy shift should not be exaggerated, according to research from Ben May, Oxford Economics director of global macro research. **"We're sceptical that China will save the world from recession,** and we don't think the likely increase in Chinese demand justifies recent moves in prices for metals and other commodities," he writes.

The end of Covid restrictions in China will **lift 2023 GDP by just 0.15%,** May estimates. Even that might exaggerate the positive spillover effects as China's domestically focused service sector will be the main beneficiary of the new policy stance, he adds.

Tourism is a sector where Africa can benefit as affluent Chinese with money saved up finally resurface. Many non-African countries have put up obstacles for Chinese inbound travel for fear of importing Covid-19 infections, but very few African countries have followed suit, says Jacques Nel, head of Africa Macro at Oxford Economics in Cape Town.

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For Chinese travellers, the continent is a "relatively affordable holiday destination. With weak, if any, economic growth expected in the US and the euro zone this year, African tourism marketers will look to China," Nel says. Mauritius and Kenya, which are among the African countries with **the most under-utilised tourism capacity,** and South Africa, Tanzania and Rwanda, for which Asia is a significant source market, could see the biggest stimulus from Chinese tourism this year, he adds.

Nigeria

The Democratic Republic of Congo (DRC) and Zambia are set to **benefit from higher copper prices** driven by Chinese demand, Nel says. Still, "it takes a lot more than higher commodity prices to ensure that a commodity exporter benefits from this reopening."

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African governments "will have to take a hard look at their institutional environments and whether these are attractive enough to encourage borrowing and investment amid a global economic slowdown," Nel says.

"Nigeria **missed the bus** when it comes to last year's high oil prices, and while production has started to pick up, this is mostly just offsetting downward pressure in oil prices."

Harry G. Broadman, chair of the emerging markets practice at Berkeley Research Group in Washington, agrees. "Beijing's demand for African oil will moderate as Russian oil continues to make its way to China as a product of the West's sanctions on Moscow," he says.

Nigeria continues to make limited progress to diversify into non-oil sectors, especially manufacturing and advanced technology products, Broadman argues. "Remedying that should be policy number one for Abuja. Far too little progress on that score has plagued Nigeria for decades."

Bottom line

Diversification makes it easier for Africa's economies to rebound from global shocks.

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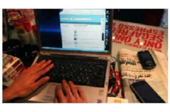

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