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2020

Baliamoune, M. (2020). China' s investments in Africa – The changing landscape. Africa Current Issues, 15. doi:10.32655/AfricaCurrentIssues.2020.15

<https://hdl.handle.net/10356/142635>

<https://doi.org/10.32655/AfricaCurrentIssues.2020.15>

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Africa Current Issues

China's Investments in Africa – The Changing Landscape

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Introduction

In 2018, Africa attracted US\$46 billion in foreign direct investment (FDI). This was an increase of 11% over inward FDI in 2017, defying the global slump in FDI.¹ However, this represents only 3.5 percent of the world's total inward FDI, suggesting that the continent has the potential to attract larger shares of global FDI. China emerged as a major source of FDI to Africa in the early 2000s, and is currently the continent's main economic partner.

While developed nations such as the US and the UK recently turned inward, China dramatically increased its trade and outward FDI destined to African countries over the last several years. FDI from China to Africa increased at 40 percent per annum over the period from 2000 to date.² Through its investment activities in the continent, China could significantly contribute to the creation of a more investment-friendly environment, especially in developing infrastructure, strengthening upstream and downstream industry linkages, and upgrading skills.

Yet, China's presence in Africa has often been viewed as problematic, especially by observers in Western economies. However, evidence uncovered by recent studies points to significant changes in the Chinese FDI landscape in Africa. These studies generally find that Chinese outward FDI in Africa is increasingly diverse and more complex. The patterns of Chinese investments in Africa are shifting. For example, projects are increasingly undertaken by private enterprises rather than SOEs. Thus, claims that Chinese FDI activities negatively impact the African recipients seem for the most part to be greatly exaggerated or wholly invalid.

How much Chinese outward FDI is in Africa?

For the current amounts of FDI in Africa, the author uses the estimates presented in most publications, many of which rely on data published by Chinese sources. China's stock of FDI in Africa is rapidly catching up to the levels of the United States and the Africa's former colonial powers in Africa, France and the United Kingdom (Figure 1). In 2016 China had the fourth largest FDI stock in Africa. China ranks third (above France) by adding FDI from Hong Kong.

Figure 1: The top investor economies in Africa, 2011 and 2016
(Billions of U.S. dollars)

Source: UNCTAD, World Investment Report 2018

Prior to 2007, China's FDI in Africa was very low (Figure 2), reaching less than US\$500 million in 2006. However, Chinese FDI into Africa increased significantly since 2008, averaging about US\$3.08 billion annually over the period 2008-17. (Note that this number is heavily influenced by the US\$5.4 billion acquisition in 2008 of 20% of South Africa's Standard Bank by the Industrial and Commercial Bank of China.) Even so, the annual average since 2010 was around US\$3 billion.

The remarkable rise of China's FDI stock in the continent, growing from US\$491 million in 2003 to about US\$43.3 billion in 2017, reflects the dramatic rise in Chinese FDI to Africa.³ Yet, despite these huge increases, Africa receives a small share (10.7% in 2018) of China's outward FDI, as compared to the more substantial (but declining) shares going to Europe (40.4%), Asia (19.4%) and North America (14%).

Figure 2. Chinese FDI flow and stock in Africa
(Billions of U.S. dollars)

Source of data: SAIS-CARI online database (2019)

Common allegations regarding China's outward FDI activities in Africa

China's economic presence in Africa attracted much attention from the popular media and in published work, especially in Western countries. Early criticism alleged that China's outward FDI to Africa focused on the primary sector, mainly on extractive industries, with little or no investment in other sectors. Chinese firms were said to be mainly state-owned enterprises (SOEs) receiving substantial government funding or subsidies, thus required to implement Chinese government directives in the host country. There were accusations of accommodation of corrupt regimes, depletion of natural resources, and degradation of the environment. Furthermore, critics (from both inside and outside Africa) alleged that Chinese firms brought their own workers from China rather than hiring host-country workers, thus exacerbating high unemployment, and depriving host country workers of opportunities to acquire skill and knowledge.

Are allegations against Chinese FDI in Africa reality or myths?

Recent studies uncovered clear evidence that totally or partially invalidates at least some of these allegations regarding China's FDI activities in Africa. The field evidence does not substantiate many of these claims, while others may have once been accurate, but are no longer valid. Four examples of these myths are that Chinese FDI (i) is mainly carried out through SOEs, (ii) is concentrated in extractive

industries, (iii) uses mainly Chinese workers with very limited employment of local labor, and (iv) focused mostly on politically-less stable African states.

Increasingly, more privately-owned Chinese entrepreneurs are investing in Africa

While in the early 2000s, SOEs undertook a large portion of Chinese FDI, by the 2010s private companies were increasingly active in the continent. Currently, there are more privately owned Chinese firms operating in Africa than SOEs. Indeed, there has been a shift, with the majority (estimated at over 64 percent) of Chinese firms operating in Africa, once mainly state-owned, now mostly privately-owned. According to estimates⁴ in 2014 there were 1,762 non-SOEs operating in Africa versus 991 SOEs (owned by Chinese central or local governments). McKinsey reports that 90% of the more than 10,000 Chinese firms operating in Africa are privately owned.⁵

It is important to keep in mind, however, that Chinese SOEs are generally much larger and undertake more substantial investments compared to Chinese private firms operating in Africa and, thus, are more able to influence host country governments. Consequently, the argument that most Chinese FDI (in value) is by SOEs could still be valid for countries where FDI by SOEs is more predominant (such as DRC and Angola, for example), but less so in countries where investments by Chinese private firms are more predominant.

Chinese outward FDI to Africa is increasingly diverse and complex

It is a fact that slightly more than half the Chinese FDI stock in Africa is in mining and construction (Figure 3). However, in more recent years the sectors targeted by Chinese FDI have become increasingly more diverse and complex. Recent studies find that Chinese FDI in multiple sectors, including manufacturing, services (communication, transport, financial services, retail, etc.) as well as construction, agriculture and mining and minerals.

Figure 3. China's FDI stock in Africa by sector (2017)

Source of data: SAIS-CARI online database (2019)

In 2016, Chinese firms generated at least 12 percent of Africa's industrial output (valued at approx. \$500 billion annually). Nearly 30 percent of the Chinese firms in the eight African countries surveyed by McKinsey are in manufacturing⁶, roughly twice their 2013 share.⁷ Nearly a quarter of the firms surveyed are involved in services, and nearly 20 percent operate in trade, construction or real estate. The

proportion of firms operating in secondary and tertiary sectors (manufacturing and services) significantly exceeds US\$383 million in this industry. The company inaugurated a rim factory (one of two CITIC factories in Morocco) in June 2019 in Kenitra; about 54 km away from the Moroccan capital of Rabat. Chinese FDI also expanded to building materials in Zambia, Nigeria and Ethiopia, and renewable energy (in Nigeria).

Figure 4. Industrial composition of China's outward FDI into Africa, 2014

Source: UN-Habitat and IHS-Erasmus University (2018)

The higher proportion of private entrepreneurs (private Chinese firms) undertaking greenfield investment in Africa may contribute to the increasingly more diverse composition of Chinese outward FDI to the continent.

Sectoral FDI diversification varies across countries. In more developed and diversified (or diversifying) economies such as South Africa, Ethiopia and Morocco, the bulk of FDI inflows go to the manufacturing and service sectors and to infrastructure construction. In less diversified economies such as the Democratic Republic of Congo (DRC), a large portion (almost 50% in 2014) of Chinese FDI went to the extractives sector.

Chinese firms employ mostly local workers

Chinese firms in African countries generally employ more local than Chinese workers (Table 1).⁸ A recent field survey⁹ of Chinese firms operating in eight African countries in 2017 revealed that C privately-owned Chinese firms source 92% of their workers from Africa, with Chinese SOEs lagging a bit in this respect at 81%.

The survey reports that 95% of the labor force in the manufacturing sector is local contrary to earlier claims. About 85% of the work force is local for construction, real estate, and services. Additionally, infrastructure projects employ mostly local unskilled and semi-skilled labor. Given the magnitude of infrastructure construction on the continent, it is clear that Chinese investments are important for job creation, employing several million Africans.

Table 1. Chinese projects and jobs to local vs. Chinese workers (selected)

Country	Project	Year	Local Laborers	Chinese Laborers
Mozambique	Stadium	2010	1,000 (67%)	500 (33%)
Angola	Stadium	2010	250 (26%)	700 (74%)
Angola	Railway	2010	300 (50%)	300 (50%)
Republic of Congo	Dam	2010	2,000 (83%)	400 (17%)
Zambia	Coal Mine	2010	855 (93%)	62 (7%)
Kenya	Mombasa Harbor	2011	1,371 (97%)	45 (3%)
Rwanda	Roads	2011	2,000 (95%)	110 (5%)
Rwanda	Housing	2011	300 (86%)	50 (14%)
Rwanda	Conference Center	2011	500 (78%)	140 (23%)
Rwanda	Hospital	2011	150 (81%)	35 (19%)
Benin	Textile Factory	2011	1,100 (99%)	5 (1%)
Zimbabwe	Diamond mine	2011	1,490 (88%)	210 (12%)

Source: Gandolfo, 2015¹⁰ (based on Deborah Brautigam's blog "China in Africa: The Real Story").

Recent studies suggest that Chinese FDI may soon attract much more praise and less criticism than the late 2000s, with evidence showing that Chinese firms have started to provide training and create significant numbers of jobs on the continent. However, in-depth evidence on worker training is scant. Recent field survey-based evidence¹¹ suggests that many Chinese firms provide training to workers from host countries. Chinese investors increasingly paying attention to job training and technology transfer. Even though Chinese firms provide local workers with jobs and skills, few offer sufficient management positions to locals.

Significant FDI in politically-stable countries

A major allegation is that Chinese FDI focuses on the politically-less stable and undemocratic African states. The story goes that China, as a latecomer to Africa's FDI landscape, invested in underinvested economies mainly to avoid competing with the large number of well-established investors, especially from the US and Europe. Critics frequently relate Angola's low political stability due to civil war to its comparatively high level of Chinese FDI in support of this case.

This argument seems weak, especially when the pattern and volume of Chinese outward FDI to Africa is considered. China has invested heavily in politically-stable countries such as South Africa and Morocco. Their four-year (2014-17) cumulative record of FDI flow to politically-stable countries is substantially higher than that to less-stable states such as the Democratic Republic of Congo. In addition, the cumulative average amount of inward FDI to resource-poor Kenya is much higher than the four-year cumulative FDI going to the resource-rich countries of Algeria, Angola, DRC, Nigeria and Sudan (Figure 6). In fact, the 4-year cumulative FDI to Sudan (a country controlled by the military that experiences frequent social instability) was a negative US\$229 million, reflecting the huge divestment of nearly US\$690 in 2016.

Figure 6. Cumulative inward Chinese FDI, 2014-2017 (in US\$ millions)

Source of data: SAIS-CARI online database (2019)

This pattern is nuanced when we consider FDI from the receiving country perspective. FDI stock as a share of GDP (Figure 7) is high only in some of the countries that tend to be politically less stable (notably, DRC). Yet, politically stable South Africa, Ghana and Ethiopia are among the top five countries (those with Chinese FDI stock exceeding 2% of GDP) with large shares of Chinese FDI relative to GDP.

Figure 7. Chinese FDI Stock (% GDP), 2017

Source of data: FDI stock data are from SAIS-CARI online database (2019); GDP data are from the World Development Indicators online database (World Bank, 2019)

Why do Chinese firms invest in Africa?

Studies and surveys since the early 2000s uncover evidence that the motivations of Chinese firms to invest in Africa are shifting over time. Data from the 2000s tend to confirm the concentration of Chinese FDI in natural-resource based sectors (*resource-seeking FDI*). Chinese SOEs undertook most of these large projects, which targeted countries with less political stability.¹² However, more recent evidence suggests that the pattern of Chinese investments is trending toward more profit-motivated and *market seeking* projects.¹³ This likely results from the increasing volume of Chinese private FDI, which is more market seeking.

Interviews in over 90 Chinese manufacturing firms employing over 20,000 African workers in Ethiopia, Ghana, Nigeria and Tanzania reveal that while investment motivations varied by country, local market access was a common factor.¹⁴ This pattern is also echoed in other survey-based studies¹⁵ which report that while SOEs

“tend to be bigger, particularly in specific sectors such as energy and infrastructure, the sheer multitude of private Chinese firms working toward their own profit motives make Chinese investment in Africa a more market-driven phenomenon than is commonly understood.”

What opportunities for African businesses could recent trends in Chinese FDI create?

Chinese FDI through SOEs and private firms can potentially create important opportunities for African businesses, especially in the service sector. FDI targeting roads, bridges, railroads and such construction projects can potentially lead to the emergence of vibrant logistics operators who may not emerge in the absence of adequate infrastructure. Privately-owned Chinese firms in Africa cannot plausibly import everything they need from China. For perishable products and many immediate services, they must use local suppliers either from the region. This also may offer opportunities to African entrepreneurs in the areas of shipping, transportation and other logistics activities. It is reported that Chinese firms in Africa source less than 50% of their inputs from local suppliers.¹⁶ This implies significant untapped opportunities for African businesses to produce, sell and transport more inputs to Africa-based Chinese firms.

Although the evidence is still relatively scant, the training activities undertaken by some privately-owned Chinese firms operating in Africa may benefit African businesses in at least two ways. First, some local workers may leave their Chinese employer after they receive training, either for a better position with an African business or to start their own business. Second, African businesses may be forced to implement training to compete with Chinese firms for labor. These training activities may also link up with educational systems in Africa, as firms begin to demand specific types of vocational training, thus linking businesses to educational institutions as is the case in many European countries and in the U.S.

The rapid urbanization of many African countries may offer many untapped opportunities related to the construction projects undertaken by Chinese firms. As cities expand, and the size of the middle class grows, and demand increases both for existing and new services. For example, demand rises significantly for garbage collection, street cleaning, and water sanitation. Over the next few years, urbanization in Africa, at least partly driven by Chinese firms, can potentially create many other opportunities related to transportation and logistics: private buses and minibus services, electric motorbikes, food delivery and catering services, maid services, maintenance and repair of home appliances, and nursing and child care services. All these create new jobs.

Conclusion

China's role as an increasingly important source of FDI into Africa, while warmly welcomed by many, is criticized by others as an emerging form of neo-colonialism. From the host country perspective, Chinese FDI is a significant source of the capital needed to undertake those major infrastructural projects that will move the economy up the development path. Yet some critics allege that China's mainly resource-seeking relationship with African countries, by providing FDI through its state-owned enterprises (SOEs), is exploitative.

The sectors targeted by Chinese FDI are currently more diverse and complex and not mainly in the primary sector (or extractive industries), which makes most of the negative assertions about China's investments in Africa more like myths.

Some of the Chinese investments in Africa are targeting two interlinked and critically important areas: infrastructure and urban development. It is true that Chinese firms dominate today's investment

landscape in Africa's infrastructure, accounting for nearly half of the continent's internationally contracted construction market. However, this in itself is not necessarily bad for African countries. The countries receiving this large investment in infrastructure are for the most part those with a severe lack of adequate infrastructure. They absolutely need development of their roads, bridges, ports and airports.

This gap is at least in part, explained by the absence of investment in infrastructure in many African countries going back to colonial times. Western countries have invested little in this sector, yet their investment in geological exploration (for oil and other minerals) is substantial.

Private ownership and sectoral diversity of Chinese FDI in Africa are positive developments. However, African countries need a clear strategy to attract and retain inward FDI. Chinese FDI in general has become more diverse and complex, although FDI by Chinese SOEs, which is more important in total value, tends to be much less diverse, focusing mainly on large project and the primary sector (extractive industries). The trends toward private ownership and sectoral diversity of Chinese FDI in Africa are a positive development. These shifting trends potentially create important opportunities for African businesses, especially in terms of upgrading existing services and creating new ones in areas such as logistics, transportation, training, urban sanitary services, and a wide variety of mobile services.

To reduce the impact of China's political influence, African countries need a well-formulated strategy on how to deal with SOEs in Africa. In the long run, it may be more useful for African countries to pursue a strategy to attract and retain privately-owned Chinese firms, given the growing evidence of their positive contributions to employment, training and knowledge acquisition. Also, privately-owned firms have little, if any, political influence compared to SOEs.

However, the contribution of SOEs especially in large-scale and complex construction, infrastructure and urbanization projects in Africa should not be completely dismissed. These projects may create important opportunities (currently still relatively untapped) for African businesses to expand service activities and create new ones, especially in urban areas.

This article, by exploring criticisms of Chinese FDI, reveals a pattern of mutual interests rather than exploitation. While some criticisms of Chinese FDI are (or at one time were) at least partially true, it would be unrealistic to expect China or any other nation to act against its own interests. The evolving pattern of Chinese FDI into Africa appears to be one that meets the interests both of the investors and of the recipients.

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