Many reports have described Chinese engagement in Africa as “neo-imperialism” and “authoritarian capitalism”, exploiting resources and local labour while undermining democracy. On the other hand, Chinese demand for natural resources has sometimes been credited with boosting growth and resource prices across the African continent. Using the best available data, we put these claims to the test and find three key results, which are briefly summarised in this article.

First, Chinese investment is smaller, more diverse and more growth-oriented than is often believed. It still accounts for a small but increasing share of Africa’s inward Foreign Direct Investment (FDI) and a stagnant share of China’s outward FDI. The construction and manufacturing sectors play an increasing role in Chinese investment in African countries, contrary to perceptions that natural resources are the exclusive focus. Chinese investment is not limited to resource-rich countries, but also extends to some of Africa’s most promising, high-growth and economically diverse nations. These patterns are not unique to Chinese investment. Instead, the patterns of Chinese and Western countries’ investment in Africa appear to be converging.

Second, investment is not the most important form of economic engagement between China and African countries. Trade is much more important for many African countries in monetary terms, whereas Chinese construction companies are highly involved in building Africa’s infrastructure.

Third, Chinese investment on the continent has the potential to support growth and productivity if it creates jobs, supplies local markets and transfers knowledge to local firms. Future research should focus on understanding how African governments can best leverage this potential, while mitigating potentially harmful effects.

1. African countries make up a small share of China’s global trade investment and loan portfolio, but represent a large part of China’s construction projects
2. FDIs have the potential for larger effects on growth than trade in goods
3. In the last 15 years, Chinese investment inflows have increased at a higher rate than total FDI flows from all countries in most high-growth African countries.
4. This investment has not been limited to natural resources
I. How Important is Africa to China?

African countries make up a very small share of China’s investment, global trade and Chinese banks’ loan portfolio, but Chinese construction companies did roughly a third of their business in Africa in 2015.

We first investigate the role that economic engagement with African countries plays for China. China’s economic engagement with the world accelerated rapidly after the country joined the World Trade Organization in 2001, and Foreign Direct Investment (FDI) is no exception.

FDI is a form of investment that is made with the goal of having a long-term say in the management of an enterprise operating outside of the country of the investor. The investment can be made by buying a company in the target country or by expanding the operations of an existing company into the target country. For most definitions, some degree of equity capital ownership is required to qualify as a foreign direct investor. The International Monetary Fund suggests a minimum of 10% of equity ownership. Forms of investment which are classified as FDI are equity capital, reinvestment of earnings and the provision of loans between parent and affiliate enterprises. See https://unctad.org/en/Pages/DIAE/Foreign-Direct-Investment-(FDI).aspx for a formal definition.

Since 2001, the Chinese government incentivised domestic investment abroad through a "go-out" policy. This was motivated by large amounts of foreign reserves accumulated by China, the domestic need for raw materials and aimed to improve firms’ competitiveness with Western multinationals. Figure 1 illustrates this rapid increase in total Chinese FDI stocks worldwide and the share of it going to countries in Sub-Saharan Africa. The purple line shows that African countries only account for a very small share, about 3% in 2015, of Chinese global investment. In comparison, more than half of Chinese investment is directed towards Hong Kong, while Europe, South America and Asia all receive more FDI than Sub-Saharan Africa. We use official statistics provided by China’s Ministry of Commerce and National Bureau of Statistics for data on Chinese FDI, and from the United Nations Conference on Trade and Development (UNCTAD) for other countries’ investment into Africa. We consider this Chinese data the best available since it only includes realized investments as compared to the much larger value of planned investments. It is also relatively reliable since the Chinese government requires all firms to regularly report on their investments abroad. However, this data does miss smaller projects under USD 10 million value and investments going through offshore tax havens.

FDI Stocks vs. Flows

FDI stocks measure the total level of foreign direct investment at a given point in time. The outward FDI stock of a country is the value of FDI that domestic investors hold in foreign countries. The inward FDI stock of a country is the value of FDI held by foreign investors in the reporting country. FDI flows record the value of foreign direct investments made during a given period of time. Outward FDI flows of a country are transactions that increase the stock of FDI held by domestic investors in foreign countries. Inward
FDI flows of a country are transactions that increase the stock of FDI held by foreign investors in the reporting country. See https://data.oecd.org/fdi/ for formal definitions.

**Figura 1:** China’s FDI to Africa and to the Rest of the World - Stocks

![Graph showing FDI to Africa and the Rest of the World](image)

*Source: Authors' calculations using data from Table of “China’s Outward FDI Flows by Country and Region” in China Commerce Yearbook (various years) published by Ministry of Commerce (MOFCOM) - click here. The data is same as from China Statistical Yearbook: “Oversea Direct Investment by Countries or Regions.” - click here; and UNCTAD Bilateral FDI Statistics - click here.*

Further examination reveals that Chinese investment in the region is starting to diversify, both in terms of geography and sector. The growing red bars in Figure 2 show that, within Africa, the role of the primarily resource-rich large recipients of FDI (Democratic Republic of Congo (DRC), Nigeria, South Africa, Sudan and Zambia) in Chinese FDI has been decreasing in recent years, compared to other African economies. And while mining and construction continue to be the top two target sectors for Chinese FDI in African countries, Chinese FDI in African manufacturing has been increasing recently, as the red bars in Figure 3 demonstrate. This contrasts with some of the academic literature identifying natural resources and poor governance as determinants of Chinese investment (e.g. Kolsstad and Wiig 2011, Ramasamy et al 2012, Zhang et al 2013, Ross 2015), but is supported by more elaborate studies showing that Chinese FDI follows typical profit-seeking motives, is determined largely by firm-specific advantages and market access and has been converging with patterns of engagement by Western high-income countries (Chen et al 2015, Sindzingre 2016, Seyoum and Lin 2015).

Chinese investment, trade, contracted construction projects and loans often are interconnected, or “bundled” (Kaplinsky and Morris 2009). For example, Chinese FDI in the mining or construction sectors often goes together with loans from the Chinese government to African governments, which in turn contract Chinese firms to build infrastructure or extract resources. The repayment of these loans in turn is often tied to exports of commodities from African borrowers to China. Hence, it is instructive to put Chinese investment in Africa into context with these other types of Chinese engagement with the continent. In monetary terms, trade is the most important channel of Chinese engagement with the world as well as with African countries, as data from the United Nations Trade Statistics Database (UN COMTRADE) shows. Trade flows with African countries dwarf Chinese investment into the
continent: while China exported goods of more than USD 76 billion value to Sub-Saharan Africa in 2015, the total stock of FDI in the region amounted to only USD 31 billion in 2015 (see Figure 2). However, like investment, trade with Africa represents a very small share of China’s global trade, about 3.5% of Chinese exports and 4% of imports into China in 2015. In contrast, Africa accounts for a large share of construction projects abroad won by Chinese firms, representing nearly a third of the value of global contracts that Chinese companies engage in in 2015. This construction activity does appear to create jobs. Sautman and Yan (2015) find that 87% of employees in Chinese construction projects...
are local. In terms of loans, China’s influence globally has been increasing both unilaterally through its largest banks (the China Development Bank and the Export-Import Bank of China), and multilaterally through participation in funds such as the Asian Infrastructure Investment Bank. However, the volume of loans going to African governments and state-owned enterprises is small, amounting to only USD 86.9 billion between 2000-2014 compared to USD 684 billion of assets invested overseas by China’s two biggest banks. Most loans are made above market interest rates and hence cannot be considered concessional, though they may be cheaper than finance available from other sources. Overall, African countries make up a very small share of China’s global trade, investment and loan portfolio, but represent a large share of China’s construction projects overseas. Therefore, a slowdown of growth in Africa would likely have a minimal effect on the Chinese economy, though it would deal a significant blow to Chinese construction companies that are active in Africa.
II. How Important is China to Africa?

African countries are much more reliant on trade with China than on Chinese FDI, though Chinese FDI on the continent has been increasing and diversifying towards less resource-rich and high-growth countries recently.

We next look at the importance of Chinese activity to countries in Sub-Saharan Africa (SSA). At the same time that China opened up to the global economy in the early 2000s, many African economies experienced a growth renaissance. The average growth of GDP in 38 Sub-Saharan African economies between 2000 and 2015 was 4.9%, with many resource-poor economies performing above average. This growth spurt was accompanied by a large increase in incoming FDI, as the bars in Figure 4 demonstrate. As the dashed line in the same figure shows, the share of Chinese FDI as a share of total FDI stock in Africa increased steadily in this period, from less than 1% in 2004 to 6% in 2015. Nevertheless, this share is still small in relative terms. When breaking the data down into Africa’s five largest recipient countries of FDI (DRC, Nigeria, South Africa, Sudan and Zambia) and the rest of Sub-Saharan Africa, we see a more interesting pattern. Until about 2008, Chinese investment patterns in Africa mirrored investment patterns by the rest of the world, since Chinese FDI as a share of total FDI stocks was similar in the large recipient countries and in the rest of SSA (Figure 5). However, since 2009 China has become a more important investor in countries outside the top five recipients, with its FDI representing 8-9% of total FDI stocks in these countries in recent years. This indicates that China is diversifying its investments towards countries outside the large recipients and that this diversification is happening more rapidly than for other countries’ investments.

To put the numbers on FDI into perspective, we also look at trade. African countries appear much more reliant on trade with China than on Chinese investment. After a period of rapid increase, exports to China in 2015 represented roughly 20% of total exports for SSA, and imports from China accounted for about 25% of total imports into SSA in the same year. There is some evidence that the increased import penetration by Chinese products may have had negative effects on African producers and intra-African trade (Edwards and Jenkins 2015a, 2015b), though it might also have pushed some domestic producers to innovate (Sonobe, Akoten and Otsuka 2009, Abebe et al 2018). Unfortunately, data limitations preclude us from looking at Chinese construction activity and lending in a similar way.

In summary, the importance of Chinese FDI for African economies is much smaller than the role of trade flows, although Chinese investment has recently gained a more prominent role in African countries outside the top five recipients.

Chinese investment in Africa’s fastest growing economies

While GDP in Sub-Saharan African countries grew by close to 5% on average between 2000-2015, 16 countries had even higher growth rates. This subsection asks whether it is possible that Chinese investment played a role in driving this growth.

We find that domestic and foreign investment combined consistently grew at a faster rate than GDP in most high-growth countries between 2000-2015, in resource-rich and resource-poor countries alike. This indicates that investment was at least a prox-
Figura 4: Total FDI Stocks in Africa from China and the Rest of the World, and share of China

Source: UNCTAD 2017 click here.

Figura 5: Share of China’s FDI in Africa Total Inward FDI Stocks, Total Africa, Large Recipient Countries and the Rest of Africa

Source: Authors’ calculations using data from Table of “China’s Outward FDI Stocks by Country and Region” in China Commerce Yearbook (various years) published by Ministry of Commerce of the People’s Republic of China. Note: The five large FDI recipient countries are DRC, Nigeria, South Africa, Sudan and Zambia.

mate driver of growth for these countries and that the high GDP growth observed was not necessarily related to commodity booms. Between 2004-2015, total FDI represented an average share of 12.4% in total investment, but this share varied a lot across countries (between 60% for Sierra Leone and nega-
tive, that is FDI outflows, from Angola). We also find that Chinese investment inflows increased faster than total FDI flows from all countries in all but two of the high-growth countries when comparing the time periods 2004-2011 and 2012-2015. Nevertheless, the share of Chinese FDI inflows in total FDI inflows is still small for most high-growth countries. As the red diamonds in Figure 6 show, this share has been below 15% in 2012-2015 for all high-growth countries except Kenya and Chad, where it is around a quarter.

**Figura 6:** FDI Inflows in 16 High Growth Countries from the World and China, 2012-2015 Aggregation

![Bar chart showing FDI inflows in 16 high growth countries from the world and China, 2012-2015 aggregation.]

Source: Authors' calculations using data from UNSD (2017) for gross capital formation and UNCTAD for FDI flows.

To put these numbers into perspective, we also look at the role of Chinese construction projects in total investment in a country. The share of Chinese contracted construction projects in total investment increased in 15 out of the 16 high-growth countries from 2004-2011 to 2012-2015, with the average share rising from 7.7% to 12.9% between these periods. It also appears that countries with high total investment growth in recent years exhibit higher shares of Chinese construction in total investment.

Overall, the evidence indicates that investment has played a key role in the growth of Africa’s fastest-growing economies, and that this investment is not limited to natural resources. Although Chinese FDI was not a large share of investment in most high-growth countries, its role in financing investment has increased more rapidly in the high-growth countries than in the rest of Africa in recent years.

**Chinese investment in African manufacturing**

It is well understood that manufacturing has the potential to create jobs and stimulate economic growth through structural change (McMillan and Rodrik 2011). And while the manufacturing sector in African economies is still small, China’s recently growing investments in the sector raise the question of whether China’s engagement could have a transformative effect on the continent. This sub-section therefore focuses on Chinese investment in manufacturing in African countries and the extent to which these investments are linked to the local economy.

Special Economic Zones (SEZ) have been a feature of China’s outward economic strategy and its domestic growth. Five SEZs in Sub-Saharan Africa were approved in 2007. While most of these zones are not yet at capacity and have not yet realized their committed levels of investment, they seem to have created substantial local employment. Data for three zones in Zambia, Ethiopia and Nigeria indicate that there are six local employees for
every Chinese worker. However, supply linkages and transfer of know-how to local companies so far appears to be limited outside of Nigeria (Brautigam and Tang 2014).

**Special Economic Zones (SEZ)**

Special Economic Zones are areas that provide economic incentives to businesses located within the zone with the aim of attracting foreign or domestic businesses. The incentives provided vary but can include more liberal economic laws than in the rest of the country, better public services (e.g. customs and licensing) and infrastructure, fiscal incentives (e.g. subsidies or tax incentives) and others. While the term encompasses many different types of SEZs, SEZs are most often set up to attract FDI, promote exports or support industrialization. See PEDL Synthesis Paper Series No. 1 for a comprehensive discussion.

Brautigam, Tang and Xia (2017) provide additional evidence from interviews in four African countries with 90 Chinese firms (in total) that are active in entry-level sectors, such as leather processing, textiles, plastic goods, agro-processing. They find that more than a quarter of these firms had originally come as traders to the African countries they were active in and only later decided to invest in production to take advantage of access to local markets.

A large majority of these firms sell their products primarily on local markets, except for firms active in Ethiopia in the textile and leather sectors that target export markets. Firms that focus on the local market report that they are primarily competing with imported goods and foreign firms in the countries, instead of domestic firms. These firms can also benefit from trade-protctionist policies by host countries because they are located in the country. In contrast, exporters aim to take advantage of regulations that allow exporters based in Sub-Saharan Africa to gain preferential access to the US and European markets, such as the African Growth and Opportunity Act (AGOA) with the USA and the Everything But Arms (EBA) deal with the European Union.

Transfer of knowledge to local firms mainly occurs through the training of local workers, as Brautigam, Tang and Xia (2017) find. Only few joint ventures, technical partnerships and backward linkages, where local firms engage with Chinese suppliers, were reported. Nevertheless, Chinese firms procure a significant share of inputs from local firms and have thus pushed some local companies to improve machinery and processes to meet quality standards. Abebe et al (2018) investigate linkages for the Ethiopian case, using a study design that relies on exogenous placement and timing of new FDI plants between 1997-2013. While they are not able to separate the effects of Chinese FDI because of too few firms in Ethiopia, evidence on FDI generally in Ethiopia indicates positive effects not only in the form of knowledge transfers via labour flows, but also through communication between firms and linkages in the supply chain. Their study also finds that the Chinese firms in Ethiopia pay higher wages than domestic firms and, in line with Brautigam, Tang and Xia (2017), that they mainly hire local labour and source most of their inputs locally.

Overall, the Chinese firms interviewed in Brautigam, Tang and Xia (2017) were optimistic about future production opportunities in African countries, compared to rising production costs, overcapacity and a saturated market in China. This is echoed by the Chinese government, which officially committed to supporting African industrialization at the Forum on China Africa Cooperation in December 2015. While Chinese investment in African manufacturing is still small, the evidence in this section indicates that there is potential for African economies to benefit from knowledge transfers and employment growth.
III. Conclusions

Contrary to popular beliefs and the discussion in most of the academic literature to date, our analysis indicates that China’s influence in Africa is much smaller than is generally believed, though its engagement is increasing.

Chinese FDI into Africa accounts for only a small share both of China’s total outward investment and of most African countries’ inward investment. In recent years, Chinese FDI has diversified towards manufacturing and other non-resource sectors, and towards Africa’s high-growth economies. Nevertheless, bilateral trade with China is much more important in monetary terms than Chinese investment for many African countries, and contracts for construction projects in Africa remain the most important channel of engagement for the Chinese economy.

The recent increase in engagement indicates that there may be opportunities for African countries to reap benefits from Chinese investment, if it creates jobs, supplies local markets and transfers knowledge to local firms. Future research should focus on identifying the conditions under which these opportunities can be realized, while also taking into account concerns about potentially harmful effects of FDI in general that have been raised with regard to corruption, non-transparency of financial flows and support of authoritarian regimes. As Romer (1994) argues, FDI may have the potential for a larger effect on growth than trade in goods, due to the diffusion of knowledge from entering firms. Therefore, it is important to develop a further understanding of the role that FDI, from China and elsewhere, can play in boosting growth and living standards in Africa.

POLICY RECOMMENDATIONS

1. Currently, African countries make up a small share of China’s global trade, investment and loan portfolio, but represent a large part of China’s construction projects overseas. This construction activity appears to have positive effects in terms of job creation.

2. Similarly, while Chinese investment in African manufacturing is small, there is potential for African economies to benefit from knowledge transfers and employment growth.

3. FDIs may have the potential for a larger effect on growth than trade in goods, due to the diffusion of knowledge from entering firms.
References


† The PEDL Policy Insight Series (PPI) summarises the lessons of research on topics related to developing robust private sectors in low-income countries and fragile states.

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