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Chinese Investment in Africa: Checking the Facts and Figures

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Introduction

Chinese investment in Africa has become a salient issue in the political economy discourse. China's engagement on the black continent has triggered concerns which have mainly been raised by China's main competitor on the continent - the United States. Like the U.S., China seeks Africa's natural resources but it does not need – or want - to hide behind the veil of the promotion of human rights and democracy. China trades with Africa without any conditions; this approach stands at the core of 'Chinafrique'.¹ Also the European Union is getting sceptical, and it criticizes China for using 'development assistance' as a means allowing it to penetrate Africa with its FDI and economic interests.²

The-China Africa relation came to the fore in 2006 when 48 African leaders attended a joint forum in Beijing, but the history of mutual links is markedly older than that. China undertook significant aid projects in 1960s and 1970s, such as building of a railroad connection between Zambia and Tanzania. Since the start of the new millennium, China has supplemented development assistance with trade and investment - which should, nevertheless, please the proponents of 'trade not aid'.³

This paper provides a brief overview of Chinese investment in Africa by looking at available data. The debate on China's engagement in Africa culminated roughly about three years ago, so, with a benefit of distance, now seems to be the right time to examine it from a critical, fact-based perspective. The paper starts with the presentation of general features of China's investment abroad, then shifts its focus specifically to Africa and examines several specific features related to the investment there.

China's Overseas FDI⁴

Starting with a long-term trend of China's outward investment in Figure 1, we can see China had not been active in global markets until the beginning of the new millennium - more specifically until 2002 when it initiated its 'going global' policy promoting overseas investment. The policy was conceived to compete for a share in the global market and

¹ Shakembo Kamanga Clémentine, Ambassador of the Democratic Republic of Congo to Germany, *The Growing Prominence of China on the World Stage: Exploring Political, Economic and Cultural Relations of China and Global Stakeholders*, presentation held on 18th September 2011 in Berlin

² Dragsbaek Schmidt Johannes, *China's Soft Diplomacy in an Emerging Multipolar World*, lecture held on 18th September 2011 in Berlin.

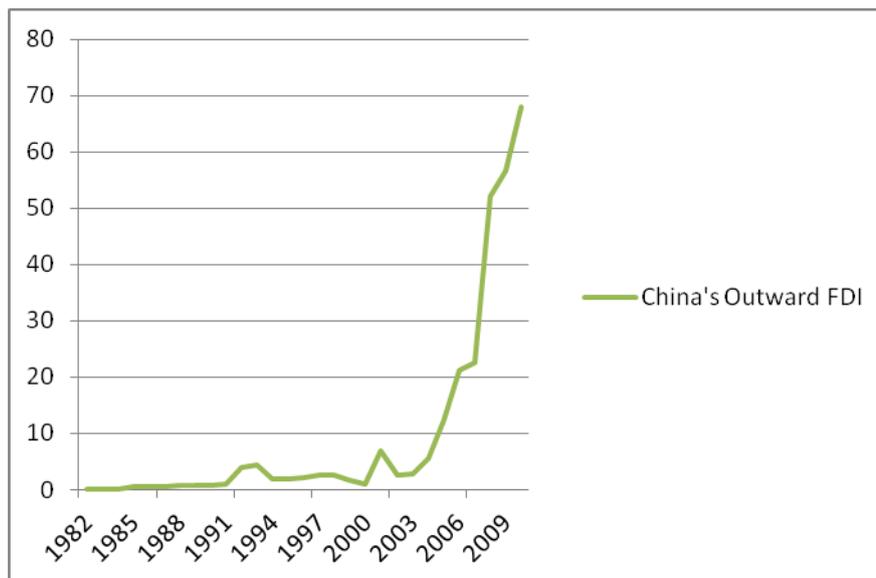
³ Economic development is a very complicated and cross-disciplinary problem that should not be constrained to trade. Nonetheless the fact that China has been offering "no-strings" aid policy (in form of trade) can be dangerous for it hinders institutional change and indirectly leads to the support of totalitarian regimes. Moreover, China has naturally never stopped non-trade influence in Africa, which can be clearly demonstrated by the number of Confucius Institutes there. By 2009, the Chinese have established 20 institutes and three classrooms. Many of them are situated in the countries where China has had investment interests, such as Nigeria, South Africa, or Sudan (Confucius Institute Online 2012).

⁴ Unless specified otherwise, this part is based on the data of outward FDI flows from the UnctadStat and 2010 Statistical Bulletin of China's Outward Foreign Direct Investment. It is important to notice that the bulletin provides a regional breakdown of Chinese investment since 2004 only whereas the overall amount based on UnctadStat dates back to 1982. Moreover there are certain discrepancies between both sources, the UnctadStat being the more "modest" one.



resources. As a result, China's investment increased from roughly 911 million USD in 2000 to 68 billion USD in 2010. However, the increase already started before the launch of the policy: in 2001 alone, China increased its overseas investment almost by a factor of eight compared to the previous year. In 2002, China's investment was actually roughly three times smaller than in 2001, but since then it has been rising steadily and rapidly.

Figure 1: General trend of China's outward FDI since 1982 (billion USD)



Source: UnctadStat 2011

Figures 2 and 3 offer a closer insight into the regional breakdown of China's investment. Each of the world regions has its unique pattern in terms of attractiveness for China. First and understandably, Asia has traditionally been China's 'investment backyard' and continues to attract the biggest share of its investment. In 2010, this peaked at 44,890 million USD, surpassing the former historical height of 2008.

2008 marked the highest flow of investment to Africa, too. Contrary to popular belief, Africa has not reached the 2008-levels since and since then the continent was characterized by de-investment. Unlike Africa, North America experienced its bottom in 2008 – likely due to the onset of the financial crisis and the United States' economic problems thereafter. Investment to Latin America was in 2008 as well, but has since experienced a sharp rise, which is likely to attract attention soon. The trend started in 2010 when Chinese money began flowing to Brazil, Argentina, and Ecuador.⁵

Interestingly enough, Europe was not high on the agenda until mid-2008. China has since been strengthening its presence in Europe but her true rationale remains unclear. Most analysts argue that China is not willing to play the role of a vendor of the last resort for the euro zone, and it is therefore hard to predict the trend for the upcoming years.

⁵ Derek Scissors, China's Investment Overseas in 2010, in *Web Memo No. 3133 February 3, 2011*, The Heritage Foundation. Retrieved on 8th January 2012 from < http://thf_media.s3.amazonaws.com/2011/pdf/wm3133.pdf>.

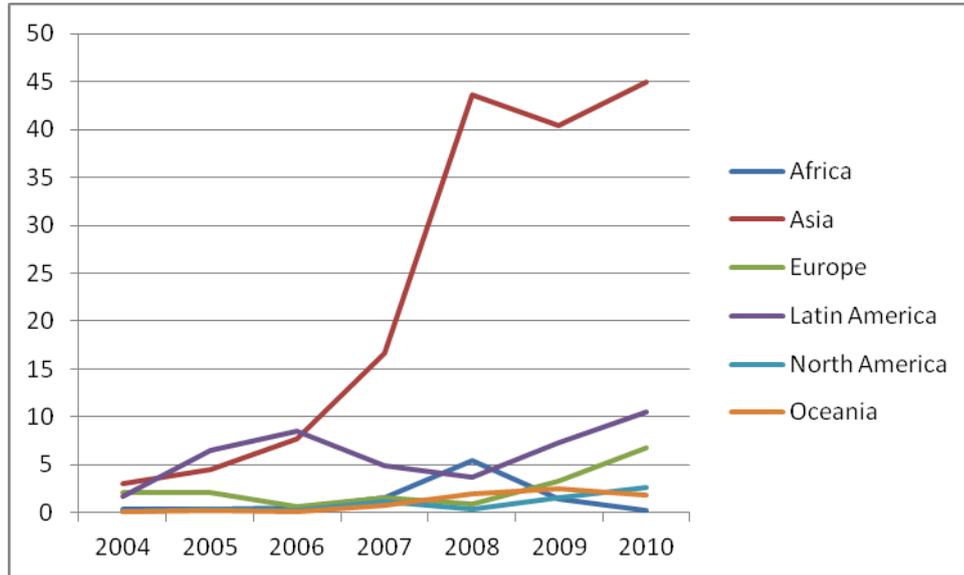


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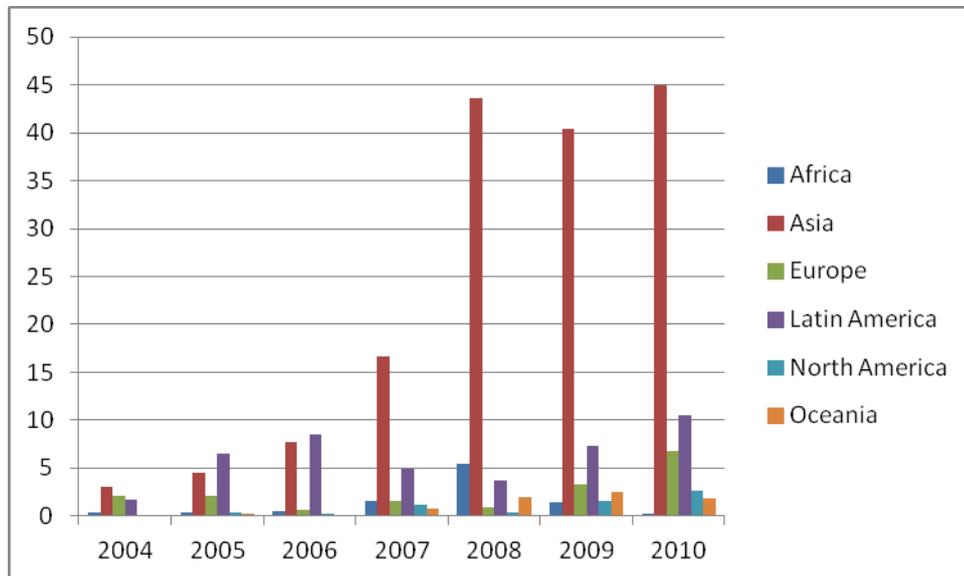
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Figure 2: The general trend of China's outward FDI according to world regions between 2004 and 2010 (billion USD)



Source: 2010 Statistical Bulletin of China's Outward FDI

Figure 3: A regional breakdown of Chinese outward FDI by amount between 2004 and 2010 (billion USD)



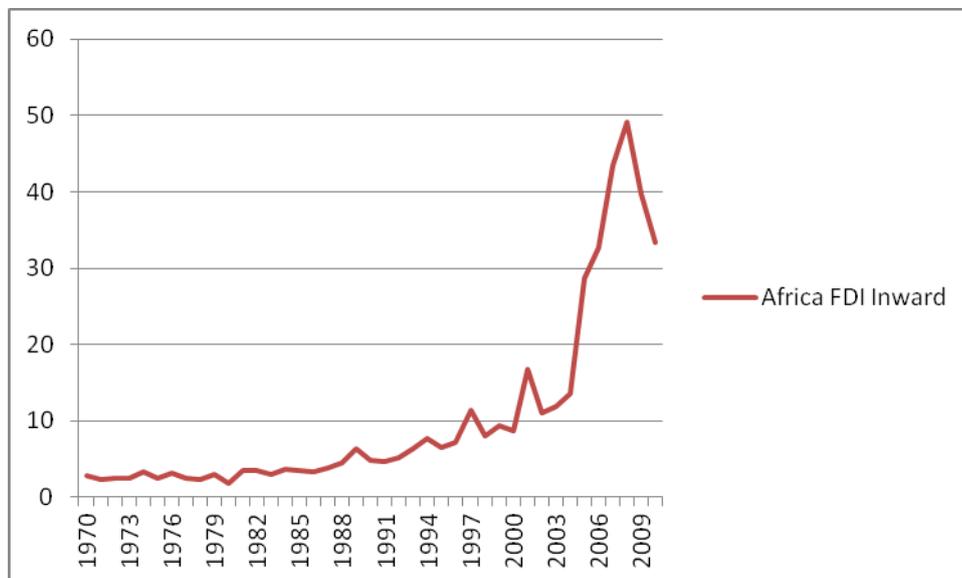
Source: 2010 Statistical Bulletin of China's Outward FDI



General Features of FDI in Africa

As presented in Figures 4 and 5, the annual flow of FDI to Africa remained well below 10 billion USD until 1997, making the continent an odd outlier on the global investment map. It is possible to observe that Africa gained attractiveness in the years following oil or energy crises, as seen after 1973, 1979, 1990 or 2000. Even the period from 1997 to 2003 was marked by great volatility of FDI inflows and Africa got on a relatively safe path only after 2003. Since then, inward FDI to Africa was rising sharply until 2008 when the increase radically broke off. In 2010, FDI absorbance returned to its 2006 level.

Figure 4: General trend of African inward FDI since 1970 (billion USD)



Source: UnctadStat

In Figure 5, it is possible to notice the chaos and volatility that has accompanied African inward FDI since 1970. Until 1985, the increase in FDI was basically flat and only in that year we can observe an increasing interest in North Africa. It is important to notice that North Africa accounted for about one third of all African inward investment for a substantial period of time⁶, followed by Western Africa since the eighties as well. In both regions, FDI mostly converged on a single asset - oil.

Another region that managed to become an investment recipient is Central Africa, with the economy of the Democratic Republic of Congo at its core. On the contrary, Eastern Africa has never reached the position of its regional counterparts. Southern Africa has not yet established a steady pattern and its pro-investment behaviour is nothing but chaotic.

⁶ World Investment Report 2011, UNCTAD.

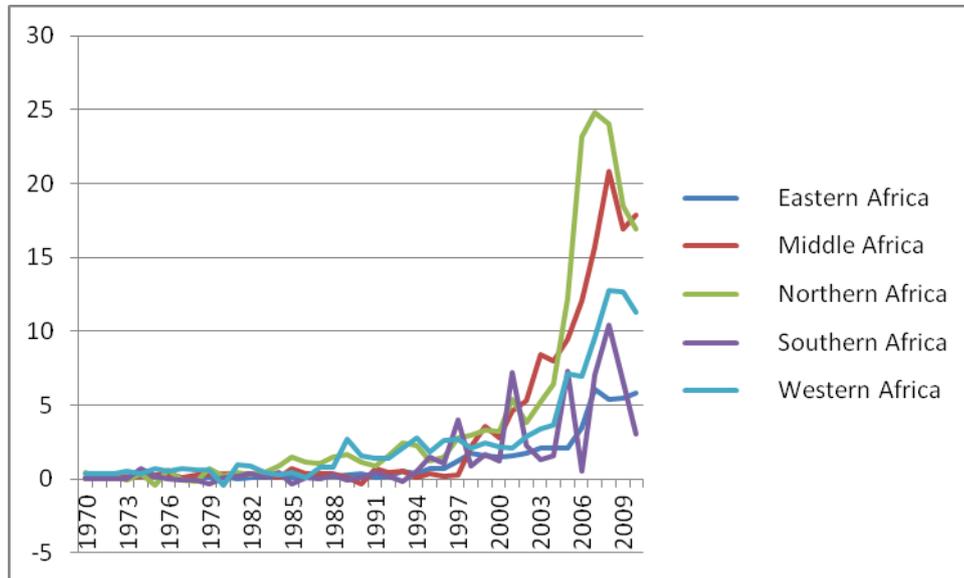


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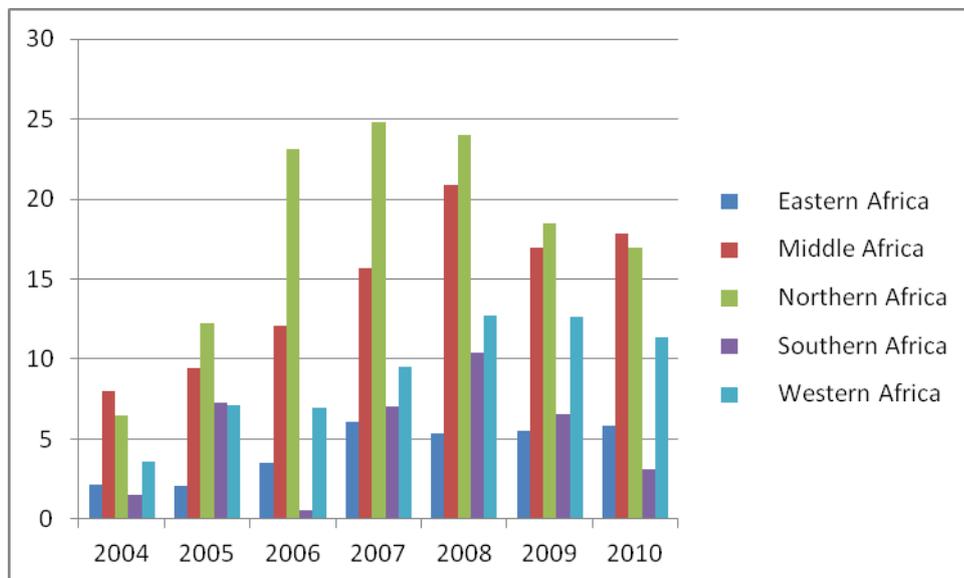
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Figure 5: A general trend of FDI inflows to Africa since 1970 (billion USD)



Source: UnctadStat

Figure 6: A regional breakdown of FDI inflows to Africa between 2004 and 2010 (billion USD)



Source: UnctadStat



Specific Features of Chinese FDI in Africa

First and foremost, the widely accepted opinion about the aggressiveness of Chinese investment in Africa is not necessarily supported by available data. All in all, Africa does not account for a big proportion of China's global activities.

Table 1:

	2004	2005	2006	2007	2008	2009	2010
China's FDI in Africa (% of China's total FDI)	4.3	2.8	2.9	5.9	9.8	2.5	0.3

Source: UnctadStat

As depicted in Table 1, Chinese investment reached its height in 2008 when Africa accounted for almost 10 % of its total global FDI, but in the following year the figure fell roughly fourfold and in 2010 the number was almost negligible.

In Table 2, you can see a country breakdown of Chinese investment in the African continent according to China's Global Reach of the Heritage Foundation.⁷ In 2012, China's investment in Africa focuses primarily on five countries – Nigeria, Algeria, South Africa, Democratic Republic of Congo and Niger.

Table 2: Breakdown by country (2012, billion USD)

	Country	Amount
1	Nigeria	15.4
2	Algeria	9.2
3	South Africa	6.6
4	D.R. Congo	6.5
5	Niger	5.2
6	Egypt	3.2
7	Lybia	2.6
8	Zambia	2.4
9	Sudan	2.2
10	Ethiopia	1.9

Source: The Heritage Foundation

Among China's major investors in Africa are CNOOC (Nigeria), Sinopec (Angola), China Railways Construction (Nigeria), Sinomach (Gabon), CITIC and Chalco (Egypt), China Nonferrous (Zambia), Minsheng Bank (South Africa), SinoSteel (Zimbabwe), CNPC (Niger, Chad), or China Metallurgical and Sinohydro (DRC). All of these enterprises invested in Africa actively in the period 2005–2008, but in 2009–2010 their presence was waning and in 2011 the only big Chinese investor in Africa was the China Railways Materials in Sierra Leone (260 million USD).

⁷ The Heritage Foundation, China Global Investment Tracker Interactive Map, January 2012. Retrieved 9th January 2012 from <<http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map>>.



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It is also important to notice that not all China's investment was successful. Indeed, one of China's main global investment failures took place in Africa when 8 billion USD of China's Civil Engineering upgrade of Nigerian railways shrank to \$850 million in 2006, which is the fourth most costly fall-through.⁸ Apparently the rush into sub-Saharan Africa saw promised investments and contracts that did not arise.

Conclusion

The aim of this paper was to survey the situation of the Chinese investment in China, mostly by using data from UNCTAD, Heritage Foundation, and the 2010 Statistical Bulletin of China's Outward FDI. We saw that each continent follows its "unique path" in terms of the attractiveness for Chinese investment, Asia remaining its prominent location. Africa marked its peak in 2008, but compared to other regions, its position was not unique. When examining Chinese FDI in Africa by the continent's regions, it is clear that not all of them. Not all Africa's regions are enticing to the Chinese equally, but rather those parts that are rich in natural resources. Third, Africa's specific features were touched, such as the country structure or Chinese investors.

In conclusion, the hypothesis that China's investing activity on the African continent is a means of geo-political and geo-economic struggle aiming at strengthening her position on the world stage does not seem to be strongly supported by the data on FDI as such. However China's position-building might involve also other aspects, which have not been the focus area of this paper.

⁸ After Chinalco's bid for a larger stake in Rio Tinto in 2009 (\$19.5 billion), CNOOC's attempt to buy UNOCAL in 2005 (\$18 billion), and China Development Bank's bid for Germany's Dresdner Bank (\$13.5 billion). Based on The Heritage Foundation, China Global Investment Tracker Interactive Map, January 2012. Retrieved 9th January 2012 from <<http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map>>.



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