

Chinese Investment in Africa

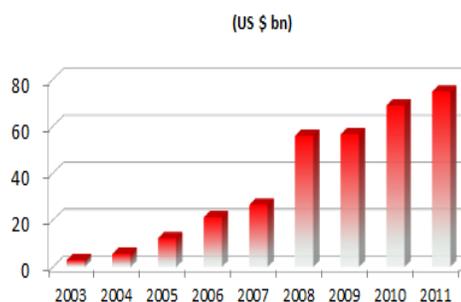
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Chinese imports and exports, outbound investment, aid, and export finance are all sharply on the rise. For example, trade between China and Africa rose from \$10 billion (bn) in 2000 to \$166.3 bn in 2011. Latin America experienced a similarly steep increase, crossing the \$100 bn mark in 2006 and rising further to \$241.5 bn in 2011. Chinese companies have rapidly expanded their foreign direct investment (FDI) abroad as well as their sales in new markets. Globally, as Figure 1 demonstrates, Chinese FDI flows rose from \$12 bn in 2005 to \$75 bn in 2011, and the majority of these flows are into other developing countries (*China Commerce Yearbook 2011*).

China has also ramped up its finance for exports and overseas contracts. Disbursements of export buyers' credits from China's chief export credit agency, the China Export Import Bank (Eximbank), rose from RMB14.9 bn (\$ 2.27 bn) in 2006 to RMB43.9 bn (\$ 6.75 bn) in 2011 (China Eximbank 2011). In 2005, Chinese president Hu Jintao announced that his government would make \$10 bn in concessional loans and preferential export credits available to other developing countries (Brautigam, 2011).

Figure 1: Chinese Global FDI Outflows



How much of this new Chinese finance is coming to Africa? In 2006, Hu announced the intention to “double aid” to Africa by 2009 (without specifying the baseline) and to provide \$5 bn in concessional loans and preferential export credits over three years. In November 2009, Premier Wen Jiabao told an African audience that China would offer \$10 bn in new concessional loans and preferential export credits to Africa over the next three years (2009-2012). Three years later, Chinese leaders announced a goal of \$20 bn in finance to African countries by the year 2015 (FOCAC 2012). If carried out, an average of between \$6 and \$7 billion would flow to Africa per year, most likely on a non-concessional basis. While large, this would still be below the level of finance (including aid) from the United States government, which has been averaging around \$9 billion a year in official development assistance commitments to Africa, as well as the World Bank, which committed an average of over \$7 bn per year for the period 2009-2011 (OECD, 2013).

How much foreign direct investment (non-bond equity investment) has China sent to Africa? Since 2002, China's Ministry of Commerce (MOFCOM) has used the standard OECD/IMF definitions to track foreign investment (Cheung, et al, 2012). MOFCOM has reported Chinese FDI figures, country by country, annually for several decades. Yet it is difficult to grasp the true extent of Chinese FDI to any particular country, for various reasons. One difficulty is that some acquisitions have assets in Africa, but also in multiple other countries. When a Chinese company purchased the petroleum firm Addax, for example, it gained assets in Nigeria, Cameroon, Gabon and Iraq, but the investment appears as FDI to Switzerland, where Addax was domiciled.

Furthermore, significant numbers of Chinese companies invest through subsidiaries located in offshore financial centers such as Hong Kong, the Cayman Islands, or the British Virgin Islands. This makes it difficult to track the ultimate destination of these funds.

According to official figures from MOFCOM, Chinese FDI to Africa is a small proportion of total FDI (Figure 2).

Again using official figures for both the United States and for China, investment into Africa appears to be considerably higher for the United States in all years save for 2008, when the Industrial and Commercial Bank of China (ICBC) purchased 20 percent of South Africa's Standard Bank for close to \$5 bn (Figure 3). This remains the single largest realized investment by a Chinese entity in Africa.

Figure 2: Chinese FDI to Africa, % of Global FDI

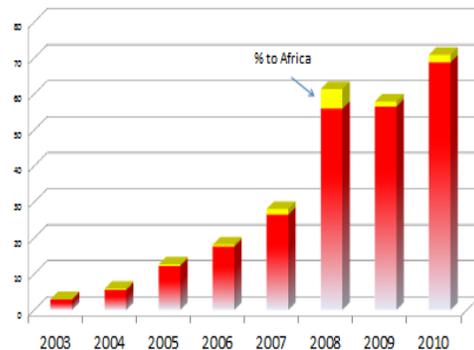
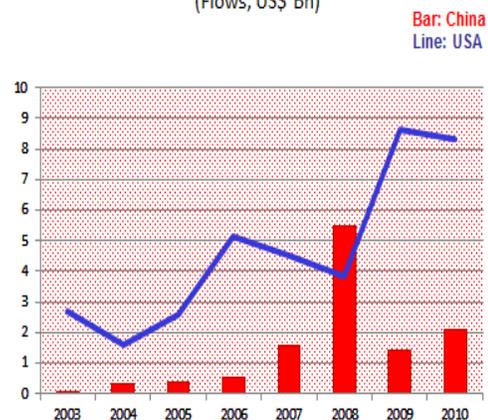


Figure 3: Chinese FDI vs. US FDI to Africa (Flows, US\$ Bn)



What is driving Chinese investment in Africa? Natural resource hunger is often presumed to be the sole Chinese interest in Africa. Yet as the example of Standard Bank demonstrates, interest is far broader than this stereotyped portrait. Some companies are driven by the search for markets. Hazan invested in Nigeria to make shoes for West African consumers. Sinohydro and China Railways Engineering Corporation (CREC) have invested in construction services to position themselves to compete in Africa's

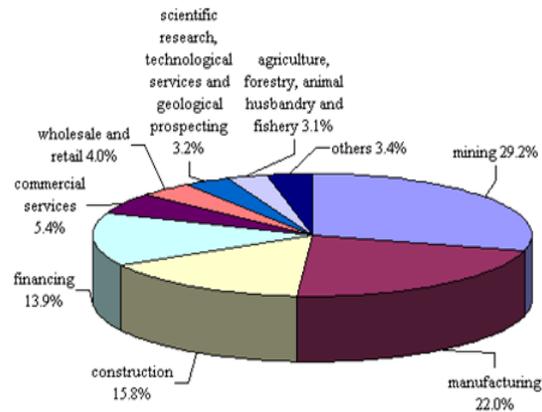
teeming infrastructure tenders. Some firms, such as telecoms giant Huawei, look at Africa as a competitive area to gain critical experience before expanding into more demanding markets. ICBC wanted to access Standard Bank's contract finance experience. Others, particularly manufacturing firms like Huajian shoes in Ethiopia, are seeking cheap labor and access to protected markets from Africa. Some investments linger from an earlier period as foreign aid projects; China Friendship Textile Factory in Tanzania, for example.

Again according to official figures, Chinese investment in Africa is broadly diverse. Figure 4, from an official report on Chinese economic relations with Africa, suggests that manufacturing makes up some 22 percent of the stock of investment in Africa (State Council, 2010). (This figure undoubtedly includes petroleum and mineral refineries built on the continent.)

Although it is widely believed that Chinese companies have been leasing land across Africa, the number of large-scale, confirmed Chinese agricultural investments in Africa (i.e. over 10,000 ha) is quite small, and can be counted on the fingers of one hand (Brautigam, 2012). Chinese firms appear to find Asia and Latin America more conducive for agricultural investments.

Other sources of data exist for Chinese investment. The most prominent is the China Global Investment Tracker (CGIT) hosted by the Heritage Foundation (Scissors, 2012). Figure 5 provides a

Figure 4: Sectors of Chinese FDI in Africa (stocks), 2009



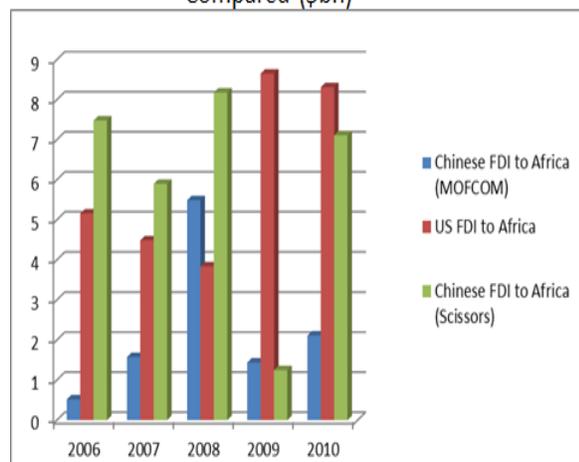
Source: State Council, 2010

snapshot of three pieces of data: Chinese official data on FDI flows to Africa (red); US official data on FDI flows to Africa (blue) and the Heritage Foundation China Global Investment Tracker numbers for Africa (green).

The China Global Investment Tracker only includes projects with a minimum value of \$100 million. The data are not recorded using the OECD and IMF standard, so they are not strictly comparable. The Heritage Foundation records the full estimated value of the intended investment, while both the US and Chinese governments only record the annual flow. Thus, on an annual basis, the Heritage data is an overestimate in one important sense (it reports investment commitments rather than actual flows). In another sense, it underestimates FDI, as it does not include any transactions valued under \$100 million.

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Figure 5: Chinese & US FDI Flows to Africa, Compared (\$bn)



The Heritage Foundation provides a useful service by enabling researchers to track the outcomes of major investment attempts by Chinese companies, through its database on “troubled transactions”. In Africa, for example, multiple investment and contract finance transactions that were announced in the media (usually not by the Chinese) have never come to fruition. These include China Sonangol’s alleged \$8 billion diamond deal in Zimbabwe; a \$7 billion investment agreement between China International Fund and Guinea; Chinese finance of \$2.3 billion for Mozambique’s Mpanda Nkua dam; a \$10.4 billion China Eximbank “loan” in Ghana; Chinese telecoms firm ZTE’s “3 million hectares” (more accurately, 100,000 ha) for oil palm in the DRC; or a \$686 million railway project in Mauritania. A closer look at many of these cases reveals that Chinese investment efforts are less successful and prominent in Africa than is commonly believed.

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