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## **The distinguishing features and reasons of China FDI outflows to Africa**

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**Abstract:**China and Africa has a long history of friendly exchanges, and economic cooperation between China and Africa is a good example of "South-South cooperation". With the organization of The People's Republic of China (RPC), Sino-African's relationship has met new challenges and opportunities. China has made contributions to African country's political liberation, economic development and social progress within its capacity. Meanwhile, African countries provide supports to China in many areas. Based on the historical data of China-African economic cooperation, the distinguishing features are including the rapid growth of FDI but of a very small percentage, high investment coverage, mostly small and medium enterprises, joint ventures and focus on energy or infrastructure projects. The reasons of these distinguishing features are the support of governments, the complementation of natural resources, the need for industrial transformation, the sustainability of FDI and Better integration into the African market.

**Key words:** China-Africa economic cooperation, Africa, FDI

### 1. Introduction

China-Africa Cooperation history goes back to ancient times; this cooperation is not only reflected in politics, but also reflected in the bilateral economic cooperation. By means of all of the documents in the forum, such as Beijing Declaration of the Forum on China-Africa Cooperation, Programme for China-Africa Cooperation in Economic and Social Development, China-Africa Cooperation-Addis Ababa Action Plan(2004-2006), which have shown the positive future of China-Africa economic cooperation. As to 2006, China has signed Bilateral investment promotion and protection agreement with 28 African countries, The avoidance of double taxation and prevent tax evasion Agreement with 8 African countries. China's African Policy Paper, the first political document to a continent, was published by Chinese government and showed that The Chinese government reached great achievements to improve Africa and China-Africa relations.

China has become Africa's third largest trading partner since 2007, partly due to its FDI in Africa. Based on the prerequisite of "south-south cooperation", together with the going global policy of chinese government, China's FDI outflows to africa have been continuously increasing.

With the increasingly economic exchanges between China and Africa, scholars at home and abroad for China-Africa Cooperation and African issues of academic research have become more and more prosperous. For instance, as mentioned by Yao guimei(2005).

African economic development has taken on three main characters in recent years: economic increase coexists with severe poverty; economic diversification is under exploitation; and African development on their own and international coordination. Or mentioned by Shu yunguo(2001): There are some distinguishing features in economic and trade relation between China and Africa from 1949 to 2000. Firstly, the Chinese leaders paid great attention to it. The policies of equality, mutual benefit and sincere aid have been carried out. Secondly, the Chinese government adjusted the contents and forms of sino-Africa economic cooperation according to the different situation. Thirdly, the economic and trade relation between China and Africa developed smoothly, the trade amount got bigger, as the level got higher as well.

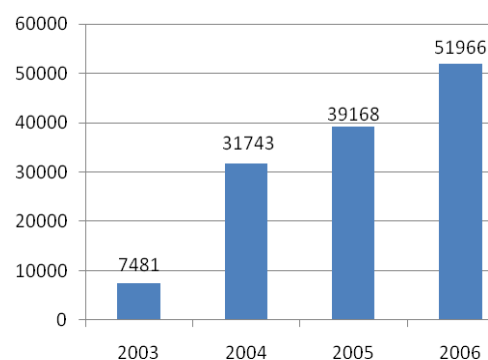
This paper aims to analyze China's FDI in certain characteristics through FDI data, explain the reasons for these features, and give advice and proposals to promote the further development of China-Africa Cooperation, which helps Chinese enterprises in Africa to have a better space for development.

## 2. The current situation of China's FDI outflows to Africa

In trade, investment and assistance, the relationship between Asia and Africa in the past 10 years has deepened significantly.<sup>1</sup>

In 2006, China's FDI(non-financial) outflows have reached 519.66 million U.S. dollars, and in 2003 is 74.81 million U.S. dollars seven times (see Figure 1). The Chinese government encourages

figure 1 China's FDI outflows to Africa



<sup>1</sup> Economic Commission for Africa, African Union. Economic Report on Africa 2008[R]. Addis Ababa, Ethiopia, 2008.3

Chinese enterprises and African countries carried out cooperation projects, At October 2005 China's African contracted projects and labor cooperation contracts are for a total 38.9 billion U.S. dollars, completed turnover of 27.3 billion U.S. dollars, China has not engaged in contracted projects and labor cooperation staff up to 78,000 people. In the first 10 months of 2005, Chinese enterprises in the contracted projects and labor cooperation contracts for 6.38 billion US dollars, completed turnover of 4.63 billion US dollars.

China has stepped up its aid mostly in the form of technical assistance, including training of Africans in Chinese institutions. It also provides loans with an interest subsidy. To 2006, existing loans and credit lines were estimated to be about \$19 billion. However, this aid is concentrated in a small number of oil and mineral exporters, such as Angola, Equatorial Guinea, Gabon, Republic of Congo, and Nigeria.<sup>3</sup> In addition, China invested estimated \$260 million for the Democratic Republic of the Congo(DRC), Ethiopia, Mali, Senegal, Togo, Rwanda, Guinea, and Uganda. It plans to double aid to Africa by 2009. The assistance is largely in infrastructure, such as energy, telecommunications and transportation, and construction. Most of the aid is provided in kind by Chinese companies, using Chinese inputs, including labour (Jacoby 2007).

### **3. The distinguishing features of China's FDI outflows to Africa**

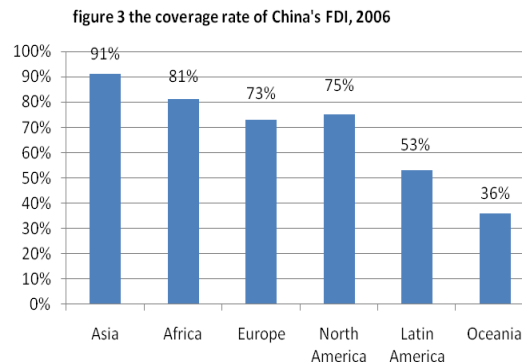
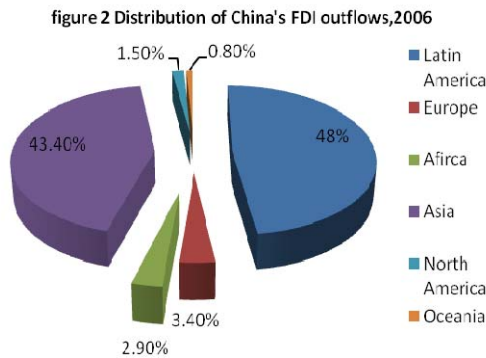
In recent years, China's growing FDI and investment as well as the geographical scope has been expanded, Chinese products in Africa will occupy the market and continue to increase.

#### **3.1 Rapid growth of FDI but still a very small percentage**

In 2002-2006 five-year period, China's foreign direct investment (non-financial) average growth rate annual was as high as 60 percent. In 2006, China's non-financial foreign direct investment outflows of 17.63 billion U.S. dollars, 90% of non-financial foreign direct investment in distribution in Latin America and Asia. (Latin American region for investment 8.47 billion U.S. dollars, accounting for 48 percent, Asia 7.66 billion U.S. dollars, accounting for 43.4 percent, the European 590 million U.S. dollars, accounting for 3.4 percent, Africa 520 million U.S. dollars, accounting for 2.9 percent, North America 260 million U.S. dollars, accounting for 1.5 percent, Oceania 130 million U.S. dollars, accounting for 0.8 percent (see Figure 2)). This shows that Chinese investment in Africa is accounted for rarely part of the total of China's foreign direct investment only.

### 3.2 High investment coverage

By the end of 2006, China's foreign direct investment enterprises (foreign enterprises) in Africa, although China's foreign investment accounted for only 2.9 percent of the total



investment, reached 81 per cent (see Figure 3). The distribution of investment projects in Africa cover 49 countries and regions, higher than the average coverage of foreign enterprises in China 71 percent of China's FDI coverage after the coverage of the first investment in Asia 91 percent.

### 3.3 Mostly small and medium enterprises

At present, reports suggest that there are between 700 and 800 Chinese companies, ranging from big corporates to small enterprises, that have invested on the continent and whose operations cover an array of industries. Large state-owned enterprises China's foreign direct investment as the main performance of account for a dominant position, the central management of enterprises and enterprises in the coastal areas of foreign investment in the increasingly play a leading role. At the same time, small and medium-sized private enterprises with overseas investment proportion of annual growth trend, has become China's foreign direct investment in the new force. China's foreign direct investment in SMEs in the country targeted mainly to developing countries. Foreign direct investment in SMEs preferred African countries, the proportion reached 32 percent in Southeast Asia is much higher than the second 20 percent in Latin America, 18 percent gradient with industry and transfer policies to encourage overseas processing trade basically consistent with the region.

Table 1 Sectoral distribution of china's FDI flow to Africa, 1979-2000

Sector/industry	Number of projects	Investment value (millions of dollars)
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agriculture	22	48
Resource extraction	44	188
Manufacturing	230	315
Machinery	20	16
Home appliances	36	25
Light industry	82	87
textiles	58	102
Other manu- facturing	34	86
Services	200	125
Others	3	6
total	499	682

source: UNCTAD, based on information provided  
by the MOFCOM

### 3.4 Mostly joint ventures

The general forms are greenfield investment and merger & acquisition, Chinese enterprises investing in Africa, increasing investment in the form of mergers and acquisitions for more than (M & A), with the establishment of joint ventures or cooperative enterprises. In the investment choice of investment in Africa, China's state-owned enterprises are mostly joint ventures with African companies to ensure that the source of goods. Now has more than 700 Chinese enterprises operating in Africa operation, mostly in the energy field.

### 3.5 Focus on energy or infrastructure projects

China's enterprises in Africa, the broader the scope of investment projects, including agriculture, mining, manufacturing, business services and so on, cover almost all of the industry (as shown in table 1). But on the amount of investment, resources for investment Abundant oriented industries, such as cooperation with Ghana gold mining projects, cooperation with South Africa chrome mine development projects, cooperation with the Zambian copper mining project, and so on. More investment in the manufacturing sector, most of them concentrated in the textile and light industry within. Most of these currencies can not freely convertible hard currency, not in international trade from the pay role, and Africa's financial markets are underdeveloped, China's financial investment in Africa and its little.

## 4. The reasons of above distinguishing features

Chinese investment in Africa is growing faster than investment in the total amount of investment in the share of small, high coverage of investment, the rapid rise of small and medium enterprises the main investment, joint ventures mainly in the form of investment, a

very wide area of investment, and other characteristics, which are the characteristics of Formation of its inevitability, the author of this chapter will analyze the causes of these characteristics.

#### **4.1 The support of macro level**

Africa has experienced the Council in the early 1990s the political reform and democratization, increasing stability, peace and development towards the direction of development. As the African countries for the reform and adjustment, Africa's macroeconomic environment also made some improvement. Over the past 10 years, despite fluctuating global economic growth, but maintained the basic African economic recovery in the slow growth in most countries continue to implement economic reforms and prudent macroeconomic policies, improved the financial, monetary and exchange rate and other aspects of management Capacity for the development of Sino-African cooperation to create a more stable political and economic environment. October 2001, African leaders meeting in Abuja, Nigeria, adopted the "New Partnership for Africa's Development" (NEPAD), special emphasis on Africa to increase private capital flows to overcome Africa's Development as the importance of a shortage of funds.

##### **a) the Chinese government policy support**

China's FDI scale and the continued expansion of the Chinese government policy support is inextricably linked, in recent years from the frequent exchanges between the Government also can be seen. June 17, 2006, Premier Wen Jiabao to Egypt, Ghana, Congo (Brazzaville), Angola, South Africa, Tanzania and Uganda-7 countries made an official visit. Period, a total of 71 agreements signed, involving political, economic, trade, infrastructure construction, culture, education, science and technology fields. Premier Wen's visit to Africa, not only strengthened Sino-African friendly relations, but also set off China's enterprises to invest in Africa, another boom. As of 2005, China and 25 African countries concluded bilateral negotiations on investment, and the four African countries reached a bilateral tariff negotiations , with 38 African countries reached an economic and technological cooperation agreement. And in 2006 published "China's African policy document" to declare China's African policy goals and measures, planning for some time to come the two sides in various fields of cooperation, and promote long-term stable development of Sino-African relations and mutually beneficial cooperation to a New level.

##### **b) Government's investment in African countries preferential policies**

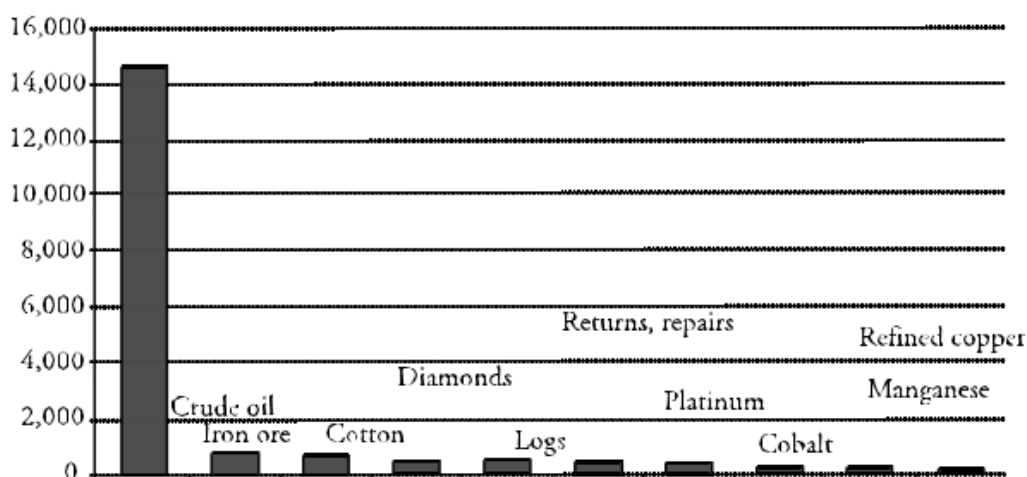
In order to speed up their economic development, many African countries have formulated preferential policies to attract foreign investment: Egypt in 1997 promulgated a new "Investment Law", abolition of foreign investment approval procedures, provides investors with 5-20 years of duty-free concession Conditions, also provides for the establishment of labor-intensive industries, or contribute to the development of high-tech

products export to a large number of projects, investors may be tax-free land. South Africa: Government attaches great importance to foreign investment, has formulated a series of preferential policies for investment, including preferential policies, such as industrial exports, special preferential policies for industries such as investment incentives policy. In addition, the South African investment products can enter duty-free and unrestricted, "the Southern African Customs Union" of other countries. These preferential investment policies, has greatly raised the Chinese enterprises, especially SMEs in FDI enthusiasm.

#### 4.2 The complementation of natural resources

China's foreign exchange reserves sufficient to fully with the "going global" conditions of the capital, but as a large population of the countries are faced with the problem of shortage of mineral resources. In the process of industrialization, resource constraints on China's sustainable economic development impact has become increasingly obvious, particularly with sustained and rapid economic development, the growing demand for resources. For related industries to maintain steady growth, domestic available resources both from the quality or quantity of view are far been unable to meet basic requirements. Africa is rich with resources, abundant mineral resources but has not yet been substantive development. Particularly in Africa, the oil production in the 21st century, the rapid increase in 2003 has increased to an annual output of 398 million tons, the world's total crude oil production of 10.8 percent. It is estimated that by 2020 Africa's oil production will account for 15 percent of the world. Africa is the world's major oil-exporting region. Because of its lack of industrial development, African energy consumption has been in a lower level, so most of the oil for export. On the other hand, African countries are short of capital, international debt problem is very serious, much-needed capital inflows.

Top 10 Chinese Imports from Africa, 2005 (Millions of US\$)



Source: World Atlas Data 2005.

China originally from Africa every year to import large quantities of oil, iron ore, cotton,

diamonds, cobalt, manganese and other mineral resources (shown in Figure 4), increase investment in this regard, can make up for the trade surplus.

### **4.3 The demand for industrial transfer**

Regarding China's mature industries, should be transferred out, mature industries in order to obtain a new market space at the same time, another domestic capacity to develop new industries. As China's manufacturing industry in the textile, home appliances, electronic machinery sector not only has a comparative advantage, but also large-scale processing assembly manufacturing capabilities, including a considerable number of product performance and quality of stability, it is suitable for the African market demand, With the African countries and regions, "gradient transfer" of the conditions. Africa and China's economic development and lower levels similar to some, this investment can be greater employment and expand to meet the needs of industrial restructuring, should be able to more easily get the support of the local government. Through labor-intensive industries to shift abroad, make room for the development of domestic high-tech industries, China can also make full use of idle production capacity.

For example, Shanghai SVA Group investment in South Africa in 1994 established a subsidiary, investment of 100 million, including 150,000 U.S. dollars worth of black-and-white TV production line, when China's domestic popularity has been a color TV, black and white TV production line in a long time ago Idle. Africa's demand for black-and-white TV still exists, so the old equipment will be transferred, in Africa, a subsidiary with an annual output of 100,000 black-and-white TV, in the African market on good sales. Similarly, in 1996, SVA African subsidiary created a color TV production lines, indeed to 1998, the African black and white TV for the reduction in demand, and increased demand for color TV. As of 2003, SVA African subsidiary of the income has reached 13 million U.S. dollars, and to provide more than 200 local jobs.

### **4.4 The sustainability of investment in Africa**

In the choice of investment location, we may consider to invest in developed countries, such as the United States or Europe, or invest in developing countries, such as investment in Africa. One of the factors in the choice of investment is essential that the sustainability of investment. China's SMEs to enter the African market, not only is their access to the market is more important to get the products in the market monopoly effect. Once in the new product was approved in Africa, will most likely have a monopoly interests, and for the further business of "going global" to establish a good foundation.

### **4.5 Better integration into the African market**

From the mid-1980s began, M & A gradually replaced by new investment, as the main form of foreign investment. Chinese investment in Africa has adopted most of the M & A, with the African local enterprises in the original joint venture cooperation and joint profits. M & A has many unique advantages, mainly reflected in the speed advantage and access to brand, technology, marketing networks, and other strategic assets, can make good use of their existing resources, quickly open the African market, and better integration into the African market. In need of special is that this strategy enterprises in the host country experienced external shocks (such as the financial crisis) or their own poor management is particularly used in the economy, this target corporate assets substantially diminished, low-cost access to high-quality assets, to achieve rapid expansion.

## 5. Advise for Chinese enterprises to further investment in Africa proposed

### 5.1 the choice of energy development

Chinese enterprises investing in Africa is a large part of energy development, with crude oil for the most. However, we note the increasing tension in the oil resources of today, some of the oil alternative clean energy is becoming the focus for global energy. Fuel ethanol and bio-diesel is a clean energy of the two species, there are many African crops can be used to produce fuel ethanol and bio-diesel, such as corn, cottonseed, palm oil, and so on. The world's largest corn producer and consumer countries of the United States, accounting for U.S. corn fuel ethanol fuel ethanol proportion of the total has reached 90 percent from top to bottom. 2007, the United States used in the production of fuel ethanol corn, the equivalent of U.S. corn production 27 percent. According to the U.S. President George W. Bush recently signed the "new energy bill," the United States would significantly increase the use of bio-energy, 2022 will reach 36 billion gallons.

Table 2 Indices of selected primary commodity prices,2001-2006(2000=100)

commodity	2001	2002	2003	2004	2005	2006	2007	2008
Crude petroleum	86.7	88.4	102.4	133.8	189.1	227.8		
Food and tropical beverages	100.4	100.8	103.1	116.7	127.0	149.6		
Maize	101.2	111.7	118.9	124.9	109.9	136.8	184.7	195.8
Rice	84.7	94.1	97.9	120.6	141.2	149.0	157.9	165.8
Sugar	105.6	84.2	86.7	87.6	120.9	180.6	121.0	117.4
Coffee	70.2	71.8	80.6	92.3	131.8	144.8	149.1	137.8
Cocoa	122.7	200.3	197.7	174.5	173.3	179.4	211.7	205.3
Palm oil	92.1	125.8	142.9	151.9	136.1	154.2	237.5	261.2

Source: UNCTAD 2007a; Estimates for 2007 and forecasts for 2008 based on UN 2008.

As such crops can be used to produce fuel ethanol and bio-diesel to replace the increasingly tense oil resources, these crops in recent years the prices are rising (see table 2). Corn prices in 2008 than in 2000 rose nearly doubled, while palm oil prices rose more than two times. Therefore, the proposed Chinese enterprises have invested in the look of oil resources, could also consider increasing agricultural cooperation, priority is given to corn, cotton, palm oil and other crops produce clean energy.

### **5.2 Strengthen pre-investment feasibility study**

African regional and inter-country there are many significant differences, should strengthen the country Building Members present distinction between the political, economic, social comprehensive survey on the basis of the African country's level of development, resources, production conditions, related policies, Laws and regulations, market conditions, market capacity, and other aspects of a detailed analysis system, according to study the situation carefully and then invest, in order to effectively avoid all possible risks. At present most African countries are in transition from a planned economy to a market economy transformation process, economic policies, investment policies, market rules, and so to be perfect, the African country-specific political, economic, social, legal and human environment, and other basic conditions of the absence of a comprehensive.

### **5.3 Choose right partners**

As Chinese -African enterprises are mostly invested in the form of joint ventures, choosing a suitable African partner is very important. African collaborators sales channels, the local business environment policies and level of understanding are very important in the study. Chinese investors for the African market, because of language and cultural barriers, often not be very good access to information. Good collaborators in this regard have its natural advantages; can make up for the shortcomings of Chinese enterprises, so that Chinese investors to more easily integrate into the African market to adapt to African countries and regional customs, and so on. Rather than the partners originally owned by the market resources, sales channels, I am also able to use so that the investment results more quickly.

## **6. Summary**

China is the world's largest developing country and Africa is the continent with most developing countries. Under the new situation, China-Africa traditional relationship is facing new opportunities for development. Since the RPC, the China-Africa economic ties have been in a good environment. With the China-Africa Cooperation Forum held in recent years, China's direct investment to Africa has grown significantly, and foreign investment value in developing countries formed a new bright spot. In 2006, "China's African policy document," the White Paper, published, which is to promote long-term stable development of Sino-African relations and mutually beneficial cooperation to a new level. Not only Africa needs China but also China needs Africa. Africa will become a China's FDI destination, for China's "going global" strategy.

The recent period, China's FDI showed the following characteristics: Chinese investment in Africa despite the rapid growth, but its total foreign investment of a very small percentage; Chinese investment coverage rate in Africa is high, reaching 81% , SMEs are rapidly rise in FDI enterprises in China , and mostly are joint ventures. Chinese investment projects in the area is very widespread, most of them are focus on energy development, infrastructure construction and business services. Because Africa's political and economic environment has been improved, the Chinese Government encourages small and medium enterprises "going global". The reasons are: the preferential policies of investment in African countries, the complementation of natural resources, the demand for industrial transfer, sustainability of investment and better integration into the African market.

In China's FDI analysis of the characteristics and causes, further investment advices are given. For example, in energy development options, not only consider the development of crude oil, but also consider the development of clean energy, which can be produced from crops; Strengthen pre-investment feasibility study; choose a suitable African cooperation Partner. So the better understanding of Africa market, the more rapidly does the African market develop.

China and Africa's economic cooperation is a win-win cooperation, not only Africa can get funds they need, China also need access to their resources and investment experience, industrial transfer, and so on.

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