

Determinants of the Manifold Chinese Investments in African Countries

David Engelhardt¹

¹University of Leipzig, Institute of African Studies, Leipzig, Germany

david.engelhardt.global@gmail.com

In compliance with Sino-African trade which constantly mounted from USD 3.9 billion in 1998 to a recently announced volume of USD 114.8 billion in 2010 (Dec excl.), investment was proportionally on the rise. The PRC's FDI stocks in Africa increased by a factor of 19 in only seven years, from USD 491 million in 2003 to USD 9.3 billion in 2009. Observing the African investment destination countries for 2009, grand FDI stocks are detected for South Africa, Nigeria, Zambia, Algeria, Sudan, DRC, Egypt and populous Ethiopia.

This country grouping represents large potential as well as current markets for Chinese products, whereby the obvious investment driver of asset-seeking is supplemented by resource-seeking. A combination of both obvious motives is represented by the Chinese most favored investment destinations of RSA and Nigeria which jointly accommodate more than one-third of China's FDI stocks on the continent.

By value, the resource sector, dominated by financially well-backed Chinese state-owned corporations (SOCs) embedded in a long-term energy security targeting roadmap, appears to determine the investment agenda but requires some balance: 2006 Exim Bank data evidences the privately-held enterprises numerous dominance by 85% of estimated overall 2,000 firms widely seeking business opportunities in agriculture, forestry, food processing, fishing, furniture manufacturing, footwear, textiles and garment making, pharmaceuticals and services across 49 African countries. The mining and petroleum sector's ascendancy by value camouflages the intrinsic determinants of Chinese FDI.

This paper argues that China's investments in African countries are manifold in every aspect and reveals a multidimensional set of FDI determinants by testing the following hypotheses: (1) Securing resources and exploring new markets are very important motives, but especially privately-held enterprises pragmatically step into every sector promising business opportunities. (2) Numerically, bilateral GOV-GOV treaties and special economic zones on African ground favor just a few corporations. (3) Compared to (ignored or absent) host investment promotion agencies (IPAs) on the African side, Chinese companies' investment decisions are predominantly stimulated by their provincial governments' incentives. (4) Exim Bank, CDB and CADF largely constitute SOC's financial backing, whereas SMEs' businesses are mostly self-financed. (5) While SOC's use African economies as testing ground, the bulk of Chinese SMEs simply escape domestic competition.