Chinese Foreign Direct Investment in Africa: The Case of South Africa and Nigeria

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Abstract
China’s resurgence into the modern international system came after the successful take-over of political power by the Communist Party in 1949. And then after, through successive economic, administrative and social reforms, China managed to become the second largest economy of the world in 2010. The burgeoning national economy accompanied with modernization of the military, active engagement in International Organizations and expansion of Chinese diplomatic influence are among the implicating factors of the rise of China in this nearly unipolar international system. Among the indicators of China’s resurgence into the international system is the country’s ever increasing trade and investment activities across the world. And the sub-Saharan Africa is among the Chinese trade and investment recipient regions. Thus, this article tries to assess the trend and sectors of Chinese investment in Africa focusing on the two continental economic giants’ i.e. South Africa and Nigeria. It was found that the Chinese investments in South Africa and Nigeria are more resource-seeking and dominated by state-owned companies.

Keywords: China in Africa, Nigeria, South Africa

1. Introduction
The 21\textsuperscript{st} century came with dramatic strengthening of the socio-economic and political relations between Africa and the emerging Asian giant; China. Trade, investment, cultural and political relationships between the Peoples Republic of China and Africa showed remarkable upsurge in recent years. More specifically, China continued to rapidly ramp-up its trade and investment relations with the African countries. Though still smaller as compared to the western world, Chinese investment in the region is deep entrenching these days in terms of sectors of engagement, size and number of recipient or host countries.

Put in general terms, this article is concerned with assessing the size and sectors of Chinese investment in Africa focusing on South Africa and Nigeria which are the two largest economies and also the two largest recipients of Chinese Foreign Direct Investment (FDI) in the region. By doing so, the characteristic features of Chinese FDI in Africa are examined. Thus, the article attempted to answer:

1. What are the features of Chinese investment in South Africa and Nigeria in terms of trend and sectors of engagement?
2. Is the incoming Chinese FDI is resource seeking or market seeking?
3. Which group of investors, state or private, dominate Chinese investment in the two countries and the continent?

Methodologically, the study is largely qualitative with moderate use of numerical data in order to substantiate arguments using more concrete evidences. In terms of methods of the study or data sources, the study totally depend on secondary information in consultation of books, journal articles, news reports and occasional papers.

This article has four sections: an introduction and two main sections along with the conclusion. After a brief introduction, FDI as a concept and literatures about FDI flow to the (Sub-Saharan) Africa are examined. The third section is the major section of the study where features of Chinese investment in Africa are examined focusing on South Africa and Nigeria. Lastly, the article will end with the concluding remarks.

2. Understanding Foreign Direct Investment (FDI)
FDI is a type of investment that involves physical investment by a corporation or business enterprise outside its own home state. Broadly, it can be defined as:

“[establishment of] a lasting interest by a resident enterprise in one economy in an enterprise that is resident in an economy other than that of the direct investor.... the direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship” (OECD in Smitha Francis, 2010, p.1.)

From these definitions, some major features of FDI can be identified. First of all, FDI is international capital flow in which a firm in one country creates and/or expands a subsidiary in another country. Second, FDI involves lasting interest or long term relationship between the investor and the directly invested enterprise or firm. Third, the investor has significant degree of influence on the activities of the firm with greater than or equal
to 10 percent of the shares. Lastly, FDI is not only financial relationship but also consists technology, management skills, access to markets and entrepreneurship.

2.1 FDI and Economic Growth
There are controversies regarding the contribution of FDI to economic growth and development. Critics argue that FDI lowers domestic saving and investment rates by shifting competition through exclusive production agreements, failing to reinvest much of their profit and inhibiting the expansion of firms that might supply them with intermediate goods (Griffin and Enons, 1970; Weisskof, 1972). In addition, the management and entrepreneurial skills provided by foreign firms may have little impact on developing local sources of the scarce skills and resources and may inhibit their development by stifling the growth of endogenous entrepreneurship (ibid). Furthermore, the contributions of fiscal revenue is usually less than what it should be due to liberal tax concessions, transfer pricing and tariff protection by host governments (ibid).

On the other hand, there are arguments in favor of FDI’s contribution to economic growth and development. So, it is argued that FDI significantly contributes to growth and development due to its direct impact on increasing capital formation, by rising level of employment and government revenue, and through its spill-over effects in the area of technology transfer, human capital and export (Dunning, 1988; Kumar, 1999). Though the link between FDI and economic development is very controversial, it can be concluded that FDI has both positive and negative impacts on the economy of a host country.

2.2 Determinants of Foreign Direct Investment
Inflow of FDI to any country is subject to number of influencing factors. The major determinants of FDI include:

I. Size of the Local Market. Market size, both in terms of population number and consumption capacity, is one of the major determinants of FDI inflow. As result, those countries with larger and expanding domestic markets and greater purchasing power usually host larger FDI (Demirhan and Masca, 2008, p.357).

II. Openness. Another determinant factor of FDI inflow is the degree of openness of a country for international trade and other economic relations. Though, it is dependent on type of investment, trade protection and restrictions have negative impact on FDI whereas open economies attract more FDI (Seim, 2009).

III. Labor Cost and Productivity. Labor cost, if higher, discourages FDI particularly in labor intensive and export-oriented investments (Demirhan and Masca, 2008, p.360). But, if the investments are not labor intensive and the number of labor, as result the cost, is insignificant, what matters most is the skill or productivity of the labor (ibid).

IV. Infrastructure. Infrastructure, which includes roads, ports, railways, telecommunications services and institutional facilities (like legal services), affects FDI inflow as their availability means higher productivity potential of investment in that particular country (Khadaroo and Seetanah, 2005, p.3).

V. Economic Growth. Generally, there is positive correlation between economic growth and FDI inflow as rapidly growing economy provides relatively better opportunities for making profits than the ones growing slowly or nor growing at all (Demirhan and Masca, 2008, p.361).

VI. Political Stability and Institutional Quality. Political risk and administrative efficiency were among the factors which implicate on FDI inflow. Thus, political instability and institutional inefficiency, best characterized by lack of good governance, adversely affect inflow of FDI (Walsh and Yu, 2010).

VII. Macroeconomic Factors. Macroeconomic factors which affect FDI inflow include inflation, indebtedness and exchange rate stability. Generally, stable and sustainable macroeconomic environment boosts the confidence of foreign investors and hence affect inflow of FDI positively, while macroeconomic instability affect FDI negatively.

VIII. Availability of Natural Resources. Existence of natural resources and raw materials is one of the most important determinants of FDI. Particularly, it is general fact that the resource seeking investors more engage in resource rich countries, even disregarding other factors like the size of local market.

2.3 Foreign Direct Investment in Sub-Saharan Africa
Africa, particularly the Sub-Saharan Africa, witnessed higher FDI inflow in the immediate post-colonial period of 1965 to 1973 with an average growth in volume of 6.4 % annually (UNCTAD, 1996, p. xvii). Investment shares were rising steadily every year, from less than 14% of GDP in 1965 to over 18% in late 1990s for the region as a whole; even exceeding 20% in some countries due to the implementation of supportive schemes (ibid). In spite of these, Africa’s share of world FDI inflow remained low even compared to other developing regions. The following table clearly shows this fact.
Table 1: Africa’s Share of World FDI Inflow (in percent), 1970-2008.

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As clearly shown in the table, Africa’s share of global FDI is very low not only in comparison to developed countries but also the developing regions.

I. Sectoral Distribution

Till recently, Sub-Saharan Africa has failed to attract a pattern of resource flows that would lead to competitive upgrading of the productive or export structure. Even countries that have reformed their economies have failed to attract FDI to manufacturing and service sectors. During the 1980s and 1990s, 60-80% of FDI in SSA was resource seeking or was sent to the primary sector (Asiedu, 2003). As a result, the resource endowed countries, mainly oil and minerals, have been the largest recipients of FDI in the region. But now days, FDI in secondary (manufacturing) and tertiary (service) sectors is increasing, particularly in telecommunications, electricity, managerial services and trade.

For example, in 2002 the primary sector maintained its lead with about 54 percent of total FDI inflow but the share of secondary and tertiary sectors increased to 21 and 25 percent respectively (UNCTAD, 2002). Even in some countries like South Africa and Mozambique, FDI in service and manufacturing sectors has overtaken the primary sector (UNCTAD, 2005).

II. Geographical Distribution

In terms of regional distribution, Southern, Northern and West Africa attract far largest amount of FDI compared to Eastern and Central Africa. For example, Southern and West Africa received USD 27 and 26 billion FDI in 2007 respectively, whereas it was only USD 6 and 4 billion for Eastern and Central Africa respectively (UNCTAD, 2009). The distribution of FDI inflow to SSA is changing across the countries. For instance, the two big economies in SSA, South Africa and Nigeria, accounted for about 64.9% of total FDI inflows during 1995-1997; but this figure has decreased to 31.2% and 24.2% during 1998-2000 and 2002-2004 respectively (UNCTAD, 2003). The decline in the share of the two big economies is due to the fact that other African countries are attracting an increasing amount of FDI.

III. Countries of Origin

Regarding countries of origin of FDI to SSA, developed countries like United Kingdom (UK), France, Germany and the United States (US) are the key sources of FDI to the region. For example, in 2006 UK, US, Germany and France invested USD 30, 19, 5.5 and 4.4 billion in Africa; whereas the Chinese FDI to the region was USD 1 billion (UNCTAD, 2009). Now day, investors from emerging economies, such as China, India and Brazil, are rapidly entering into the region. The most visible engagement of emerging countries is in the natural resources sector through state-owned enterprises like China National Offshore Oil Corporation (CNOOC) and India’s Oil and Natural Gas Corporation (ONGC) (ibid).

The Chinese FDI in SSA is largely resource-seeking and infrastructure focused carried out by medium and large-scale state controlled enterprises in a closely bundled manner with aid and trade (Kratzsch, 2011, p.10). There are also small scale private Chinese investors in the region which were engaged in service and manufacturing sectors focusing on local markets mainly (ibid). India is another very important source of FDI to SSA with greater focus on the chemical, wholesale, food and beverage sectors (ibid). Recently, there are signs of a more overt strategy to secure India’s access to Africa’s natural resources and commodities, which converges to that of Chinese state-driven FDI in the continent. In addition, to China and India, South Africa has become another important source of FDI in SSA, particularly in Southern Africa.

In general, FDI in SSA is low compared to other developing regions; it is highly concentrated in few countries and largely targets the primary or natural resources sector.

3. Chinese FDI in Africa: The Case of South Africa and Nigeria

3.1 Background on China-Africa Relations

The relationship between China, officially called Peoples Republic of China, and Africa is both historical and multidimensional. China and Africa, particularly eastern and south eastern coastal areas, have had trade relations dating back to 200 B.C. But, the relationship from 15th century onwards is relatively well recorded. The most pronounced event in this regard is the voyage of Chinese admiral Zheng He, between 1416 and 1423, towards the eastern coast of Africa covering from Mozambique to Somali coastal areas (Mathews, 2012, p.4). This voyage was followed by long period decline of Sino-Africa relations which was only to be renewed after the communist takeover of political power in 1949 in mainland China.
Since then, for over the past six decades, Sino-Africa relations are significantly strengthened. During those days of anti-colonial struggle, China helped national liberation movements in countries like Angola, Mozambique, Zimbabwe and South Africa (ibid, p.5). In 1971, Peoples Republic of China assured permanent seat in the United Nations Security Council, replacing Taiwan, supported by African states. By 1978, China established diplomatic relations with 40 African countries (http://www.focac.org/eng/xxx/832788.htm).

China-Africa trade relation is rapidly increasing and as of 2010 it exceeded USD 120 billion (http://english.cri.cn/7146/2011/07/25/1942s650250.htm). Chinese investment in Africa reached around USD 13 billion in 2010 and projected to reach USD 50 billion by 2015 (ibid). Chinese low-interest debt provision, debt cancellation commitment, aid and development assistance are also features of rapidly growing China-Africa relations.

3.2 Characteristic Features of Chinese Investment in SSA

Chinese FDI in Africa, which started in 1980s following massive economic reforms in China, has currently reached 49 countries in the continent. Generally, China’s FDI in Africa and in SSA particularly has the following major features.

I. It is rapidly growing

Though still low as compared to total FDI inflow to the region and also to China’s total FDI outflow, Chinese investment in the SSA is rapidly raising. For instance, it was only USD 56 million in 1996; but rose to USD 7.80 billion in 2008 (AfDB, 2010, p.7). In 2008, total FDI inflow to the region was over USD 85 billion (Anf, 2010, p.1). So, these two set of data shows that though Chinese FDI to the region is rapidly rising, it is still very low as compared to the total FDI inflow.

Another showcase of increasing Chinese FDI in Africa is the number of companies active in the continent. In this regard, the total number of Chinese companies in Africa was less than 80 in 1988; but reached 900 in 2006 (Kragelund, 2007, p.4). In addition, it is said that over 900 projects have been invested on by Chinese companies and currently the total number of Chinese business firms in Africa reached over 1600 (Mathews, 2012, p.11).

II. It is widely distributed but highly concentrated

Though Chinese investment in Africa has reached almost all the countries across the continent, it is highly concentrated in few countries. For the period between 2003 and 2008, the main recipients of Chinese FDI in Africa were South Africa (64%), Nigeria (9%), Zambia (5%), Algeria (5%) and Sudan (4%) (AfDB, 2010, p.8). This shows that only five countries in the region received around 87% of Chinese FDI to the region within the period of six years.

III. It covers wide range of sectors but unbalanced

Chinese investment in Africa covers large number of economic sectors like mining, manufacturing, service, agriculture, transportation and others. But, the hard fact is that the share of sectors is unbalanced. For instance, Chinese FDI to Africa was USD 681 million in 2000; of which manufacturing, mining and service sectors constituted 46.3%, 27.6% and 18.3% respectively (EIU, 2012, p.7). In 2006, the main sectors of Chinese investment in the continent were the mining sector (40.74%), business services (21.58%), finance (16.45), transport and communications (6.57%), wholesale and retail trade (6.57%) and manufactured goods (4.33%) (AfDB, 2010, p.8). And in 2010, services, mining and manufacturing sectors received 42.3%, 29.2% and 22.0% of Chinese investment in Africa (EIU, 2012, p.7).

IV. It involves diverse investors but state dominated

Even though it is dominated by state-owned large and medium scale firms, Chinese investment in Africa involves private enterprises and individual investors. The state-owned firms invest in strategic sectors, to mean resource extraction and infrastructure; whereas private enterprises and individual investors largely focus on medium scale manufacturing, retail trade and other such sectors which require relatively low level of capital, manpower and other requisites (Kaplinsky and Morris, 2010, p.2).

V. It is closely related with other aspects of (Economic) relationship

Chinese investment in Africa is highly complemented by trade, aid and other forms of financial flows. Particularly, Chinese FDI and aid to Africa are closely integrated. When China agrees to provide aid, for example for infrastructural projects, to an African state, this doesn’t mean that the money will be transferred to the accounts of the benefiting state. Rather, the funds are transferred from the Chinese Export-Import (EXIM) bank to the firms which have won the tenders for that particular project (ibid, p.6). And the funds paid for the project are repaid by the recipient country as drawn down on commodity exports back to China (ibid). This mechanism is called “resource for infrastructure model” or “the Angola-model” after it was largely applied in Angola before any country in the continent. In spite of the fact that it is the dominant form of Chinese investment and aid to Africa, “the Angola model” is not the sole channel of resource flow from China to Africa.
3.3 Chinese FDI in South Africa and Nigeria

I. Chinese FDI in South Africa

South Africa is the largest recipient of Chinese investment in Africa with total Chinese FDI inflow of USD 2.3 billion in 2009, which is almost 25% of total Chinese investment in the continent, and USD 4.1 billion in 20111. China is not the largest investor in South Africa. Rather, European countries and the US being in far front, China’s share of total FDI inflow to South Africa is only 0.06 percent in 2007 and 4.2 percent in 2008 (Gelb, 2010, p.12).

In terms of number of firms, the number of Chinese companies in South Africa is very small as compared to the total number of foreign business firms in the country; but it is consistent with the China’s share of total FDI inflow to South Africa. These days, the number of Chinese firms is significantly increasing as an indicator of bourgeoning Chinese investment in the country. To show the trend, in 1994, there were only 5 Chinese companies in South Africa; where as in 2010, their number reached 49 (ibid, p.17). State-owned firms play significant role in Chinese investment in South Africa. For example, out of 49 Chinese companies in 2010 in the country, 25 are state-owned, 13 are private firms and ownership of the remaining firms couldn’t be confirmed (ibid, p.15).

Chinese investments in South Africa are spread across various sectors of the economy such as mining, finance and infrastructure. The mineral sector is the major area of Chinese investment in South Africa. The biggest Chinese investment in this sector includes buying of 25% share of Wesizwe, South African Platinum Mining Company. Additional examples include acquisition of 20% share of Ridge Mining, the country’s platinum giant, by Zijiu Mining and Sinotoel’s takeover of 50% stake of another South African mining company, Taste Smelter (Baah and Jauch, 2009, p.315).

The major non-mineral sector of Chinese investment in South Africa is the financial sector where Chinese state bank bought 20% share of the South Africa’s Standard Bank for USD 5.6 billion in 2007. And this acquisition is the single largest Chinese investment in South Africa to date. In construction sector, there is also growing presence of Chinese companies such as China Overseas Engineering Company (COEC) which is running huge projects across the country. Chinese companies managed to outsmart foreign and local firms in construction markets and tender processes by presenting, on average, 20% lower cost than their counterparts (ibid, p.313). The Chinese consumer electronics firms, like Hi-Sense, have set-up local subsidiaries in South Africa for assembling and distribution purposes. Chinese involvement in manufacturing sectors, both heavy and light, is also significant. The specific areas in this regard include automotive assembly and metals processing. Last not the least, the Chinese are also actively engaged in retail trade and distribution activities in South Africa.

II. Chinese FDI in Nigeria

Nigeria, an emerging African economy with over 140 million populations, is another major investment destination of overall FDI in Africa in general and that of the Chinese investment in particular. The country is the second top destination, only after South Africa, of Chinese investment in the continent in between 2003 and 2009. Chinese total FDI in Nigeria was USD 1.03 billion in the period; while it was USD 9.3 billion for the continent (Egbula and Zheng, 2011, p.9).

To speak of the general trend of Chinese investment in Nigeria, it is showing significant increase from time to time. For instance, total Chinese FDI in the country showed a tenfold increase between 1999 to 2006 from USD 0.55 million to USD 5.5 million (Salter, 2009, p.5). Though, Chinese FDI in Nigeria showed such an upsurge, it was only 0.13% of the total inflow of FDI to the country in 2006 (ibid, p.11). Thus, despite the fact that it is rapidly raising, Chinese FDI in Nigeria is very low as compared to that of the European and North American countries investment in the country.

Chinese investment in Nigeria cover multitude of sectors but largely concentrated in the oil industry, construction and telecoms (Egbula and Zheng, 2011, p.9). The share of oil and gas sector was about 75% of the total Chinese FDI in Nigeria in 2005 (Salter, 2009, p.4). In addition to the oil sector, Nigeria is increasingly becoming one of the China’s most important telecom markets hosting the two giant players in the sector, Zhong Telecommunications Equipements (ZTE) and Huawei. These two Chinese companies managed to dominate Nigerian telecom market providing low cost service at about 5% to 40% lower than that of European telecom companies like Nokia and Ericsson (Egbula and Zheng, 2011, p.12).

Chinese are also highly involved in Nigeria’s infrastructure sector. The Chinese run projects include construction of railways, hydropower plants, roads and airports across the country. The best example is China Civil Engineering Construction Corporation (CCECC), which has over 50 projects, with investment amounting USD 10 billion, in the country including USD 850 million railway project linking Abuja, the capital, with the northern city of Kaduna (ibid, p.14).

Chinese investment in Nigeria involves both state and private investors. Solely-state owned or joint venture companies focus on the natural resources and infrastructure; whereas Chinese private investors focus on

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Developing Country Studies
ISSN 2224-607X (Paper) ISSN 2225-0565 (Online)
Vol.7, No.2, 2017

agro-allied industries, manufacturing and telecommunications sectors (ibid, p.9). Chinese state-owned petroleum giants, Sinopec and China’s National Petroleum Company (CNPC), are actively engaged in oil drilling and production in Nigeria. In May 2010, a USD 23 billion Memorandum of Understanding was signed between Nigeria’s National Petroleum Company (NNPC) and China State Construction Engineering Corporation (CSCEC) for construction of refineries and fuel complex (ibid, p.13).

4. Concluding Remarks
In this short article, I tried to depict the basic nature of Chinese investment in Africa taking South Africa and Nigeria as the cases in focus. As it was discussed, the trend of overall Chinese FDI stock is rapidly increasing in both countries and at the continental level. It is also projected that this trend will continue in the near future. But, it have been mentioned that in spite of its upsurge, Chinese investment in South Africa and Nigeria, and in Africa at large, is still very low as compared to other countries of origin of FDI.

In terms of sectors of engagement, Chinese investment is more concentrated in few sectors which are of strategic importance to the country. In the case of South Africa, the mineral sector is the major destination of Chinese investment. For Nigeria, it is the oil industry which takes lion share of Chinese FDI in the country. It needs to be noted that though the primary sector receives the largest share of Chinese FDI to these countries, the share of other sectors is also significant and increasing.

Throughout the article, it is clearly set that state-owned enterprises take the lion share of Chinese investment in South Africa and Nigeria as well as in the continent in general. The large scale state-owned companies focus on the primary sector; while the private enterprises and individual Chinese investors are active in secondary and tertiary sectors.

Regarding distribution of Chinese investment across the countries in Africa, it was seen that Chinese investment is highly concentrated in few countries which are endowed with natural resources, simply to mean oil and minerals. In this vein, South Africa and Nigeria are the two major recipients of Chinese investment in Africa. So, it can be argued that the primary motivating factor of Chinese investment in these countries is their resource endowment than the size of the local market.

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