Department of Economics and Finance

Economics and Business

Chair in International Economics

# CHINA'S INVESTMENTS IN AFRICA: AN OPPORTUNITY OR A RISK FOR THE CONTINENT?

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ACADEMIC YEAR

2018 - 2019

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## ACKNOWLEDGMENTS

Firstly I would like to thank my parents, that during this difficult track have never lost faith in me and gave me the opportunity to follow this important degree, always believing that I could do it , even when it seemed like it was not for me. I feel that I learned a lot from my mistakes, and I will try to my best abilities to not disappoint you no more.

Thank you to my brothers, and to my entire family.

A general thank you to all my friends, the ones who have been with me for a lifetime, and the more recent ones, the ones who helped me, and cared about me.

A final thank you goes to Professor Jona Lasinio for her patience and for her advices.

## LIST OF ACRONYMS

ADB = African Development Bank

AEC = African Economic Community

AFCFTA = African Continental Free Trade Agreement

AGOA = African Growth and Opportunity Act

AU = African Union

AMU = African Monetary Union

BRI = Belt and Road Initiative

CARI = China Africa Research Initiative

COMESA = Common Market for Eastern and Southern Africa

DRC = Democratic Republic of Congo

EAC = East African Community

EU = European Union

FDI = Foreign Direct Investment

FOCAC = Forum on China-Africa Cooperation

GDP = Gross Domestic Product

GDPH = Gross Domestic Product per Inhabitant

HIPC = Heavily Indebted Poor Countries

IMF = International Monetary Fund

NGO = Non- government organizations

ODA = Official Development Assistance

OECD = Organization for Economic Cooperation and Development

PRC = People Republic of China

SA = South Africa

SOE = State owned enterprise

SSA = Sub Saharan Africa

TFTA = Tripartite Free Trade Area

UN = United Nations

UNCTAD = United Nations Conference on Trade and Development

US/USA = United States of America

UNECA = United Nations Economic Commission for Africa

WTO = World Trade Organization

**ABSTRACT**

This paper intends to analyze the commercial and trade relations between China and African countries since the 1980s until the recent years.

During the last decade, two are the phenomena that have caught the attention of the economists and more in general of international observers : i) the slow but constant growth of the economic performance of many African countries and ii) the increase of Chinese long-term investments in Africa, as confirmed during the latest Forum on China-Africa Cooperation (FOCAC) held in Beijing the 3rd and 4th of September 2018 , where the Chinese President Xi Jinping announced that China will be providing $60 billion in financial support to Africa for the triennium 2019-2021 , highlighting the great efforts that the Chinese government is making towards the continent.

The aim of this dissertation is to investigate these two processes and their eventual connection, making an effort in order to understand if this increasing exploitation of African resources can be beneficial to the continent growth or if in the long run it will only benefit the Chinese economy.

Through an economic and political analysis of the Chinese engagement in financial and trade relations with the Black continent, this thesis tries to explain the reasons that convinced and pushed the Chinese to invest massively in the African continent. According to the "China Africa Research Initiative" developed by the Johns Hopkins School of Advanced International Study the value of China- Africa trade in 2016 reached a value of 128 billion dollars.

While the first chapter will cover the economic performance of the African countries in the latest years , looking at the main differences between the 20th century and the latest years , the second chapter will deal with the relationships that have been built over the years between the Chinese and the African countries , both in the public and in the private sector, focusing on the reasons on which these deals were implemented by both parties , and displaying the advantages and disadvantages resulting from both sides.

The final chapter is focused on the future outcomes of the Sino- African deals, the possible risks regarding the African economy and the potential effects on the world economy.

## INTRODUCTION

Since many years the African Continent has been land of conquers for many foreign powers, mainly European powers exacerbating the continent of their vast amount of raw materials and resources such as oil or diamonds that were monopolized by these colonial countries.

Although as many of the African countries started the process of decolonization from almost all the European countries towards their own independence, a new power has started to infiltrate into these countries: China. After a period of crisis indeed the Chinese government given the enormous amount of financial resources available has started a foreign agenda characterized by the massive use of Foreign Direct Investment (FDI) all around the world, and in Africa, increasing as well the commercial exchanges with the continent.

However, the Chinese, contrarily to those European powers who ruled over Africa for many years, did not pretend a direct control of the country, financing largely the construction of big scale infrastructures such as railroads, bridges, real estate complex, buildings , being received with open arms by the African head of states.

Chinese loans towards Africa , have been an indirect cause of a “debt trap” for many countries , as the accumulation of the previous debt contracted with other international players , added with the new Chinese debt , is causing some countries to experience severe economic problems, with most of the international players pointing the finger towards China.

# CHAPTER 1- THE AFRICAN ECONOMIC PERFORMANCE FROM THE 20TH CENTURY TO OUR DAYS

## 1.1 The tragedy of the African performance after the independence

The African economic performance of the second part of the 20th century can be defined lousy.

After years of conquers by the Western powers, mainly driven by the exploitation of the abundance of resources and raw materials of the Continent, the period immediately after World War II has been characterized by the attainment of most of the African States of their independency. Although, at the time of this achievement, of course many where the gaps to reduce both economically and socially with the Western society. This trend, like many scholars noted was not easy to reverse, resulting in an African "divergence" for most of the 20th century, except for some countries, such as South Africa and the North African states, that performed better, being economically more developed than the rest.

Along with the difficulties in finding a national identity, most of the new African countries were experiencing financial problems and evident cohesion difficulties, which brought them to look again towards Europe for financial aid. This form of out of country control, was defined as a "neocolonialism", as African countries attained their political independence, but not yet their economic independence. Trade was also influenced by the choice of African states to turn back to their former rulers, resulting in a steady increase in exchange of goods between European powers and African countries. According to many economists ,although, this trade partnerships were not fully beneficial to the African underdeveloped countries, but as explained in the dependency theory[1] , the stream of resources from underdeveloped states to most developed countries, enriches the latter at the expense of the former.

Despite this unfair term condition, it was noted how some countries were able to overcome the decolonization process with high growth rates: in 1967-1968 half of the African economies were in the middle of sustained growth decades, even though the growth rates were still low if compared to more evolved countries.

This colonial dependence was not beneficial from the GDP point of view as the GDP per capita did not grow as expected and inequality between individuals constantly grew, being the wealth in possess of few people in almost all the African countries, while the majority of the population struggled financially.

Indeed, as overall GDP increased in most of the African countries during the 20th century, it started to stagnate after 1970, following the oil shock crisis and the subsequent "stagflation" period that interested most of the

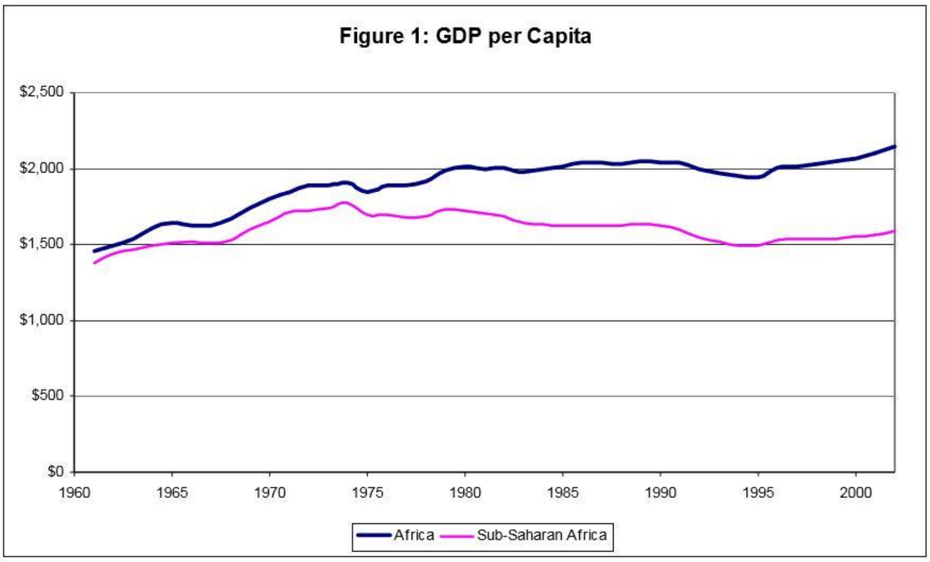
[1] The dependency theory originated in 1949, in two publications by Hans Singer and Raul Prebisch, in which the authors demonstrated how the terms of trade between underdeveloped states to developed states had deteriorated over time.

Western powers. The increase in overall GDP during the period before the shock, however, did not translate into a growth of the GDP per person, and of the GDPH[2] (Gross Domestic Product per Inhabitant) as reflected in the performance of the last quarter of the century, where most of the countries in the Continent were still as far as income level and wealth way under the world average.

In this paper we will mostly refer to the so called area of the "Sub Saharan Africa"[3] , still one of the poorest area of the world but with constantly rising growth rates , following the majority of the academic papers that do make this distinction , most of the times not considering the North African countries , that we will still be mentioning comparing their performances to the ones of the less developed countries.

From an accurate assessment of the graph (Figure 1 – GDP per capita), that compares the performance of the whole African Continent with the Sub Saharan countries as far as GDP per capita from 1960 to the start of the new century , we notice how the sample of the African countries performed better with respect to the States of the Sub Saharan, mainly given by the presence of more developed countries such as the North African Egypt , Morocco, Algeria and South Africa.

Figure 1: Gdp per capita over the years from evidence from African and SSA countries




Source: Artadi, Sala- i- Martin (2003)

Furthermore we can state how GDP per capita grew from the 1960 until the 1980, even though the first growth decline started around the 1970s and then stagnated for the following years as the political power and economic situation deteriorated due to the leadership changes into dictatorship regimes in many countries, consequence

[2] Equivalent of GDP per Capita

[3] Sub Saharan Africa refers to the area of the African continent located south of the Sahara Desert. There are 49 nations in the Sub Saharan region accounting for almost 770 million people of the over 1 billion inhabitants of the whole continent.

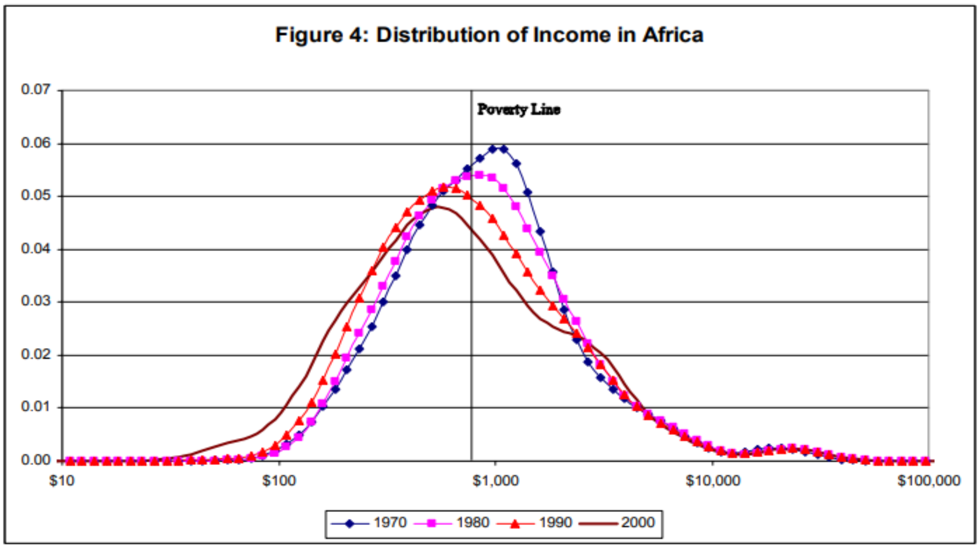
of the rising military conflicts and civil wars in the majority of the Sub Saharan countries, and also as previously mentioned following the crisis resulting from the oil shock crisis that involved mainly the most developed countries but that had a great impact as well on the less developed ones. While Africa experienced a growth collapse, nations of south Asia modestly improved their economic performance. [4]

It is important, when speaking about growth rates and GDP per capita to understand how spread is the wealth or in our case how unequal is the distribution of wealth.

The most efficient indicator in order to record the inequalities , the Gini coefficient [5], measures on a scale from 0 to 1 how inequality is distributed in a given area : if the coefficient is close to 0 it means that there is no inequality (which is impossible) , while if the coefficient gets closer to 1 it means that there is much divergence between individuals , meaning that only a few people are in possess of wealth while the remainder of the population is for the most part poor.

With the term "poor" we base on the World Bank definition, that introduced the extreme poverty in terms of consumption, including those individuals living with less than 1.90 $ a day. In 1970 10.5 % of the extreme poor individuals lived in Africa, while if we look at the data of the 2000s, we note how the numbers have drastically changed: almost 42% of the world total of extreme poor individuals lives in the continent[6].

Figure 2: Distribution of income in Africa from 1970 to 2000



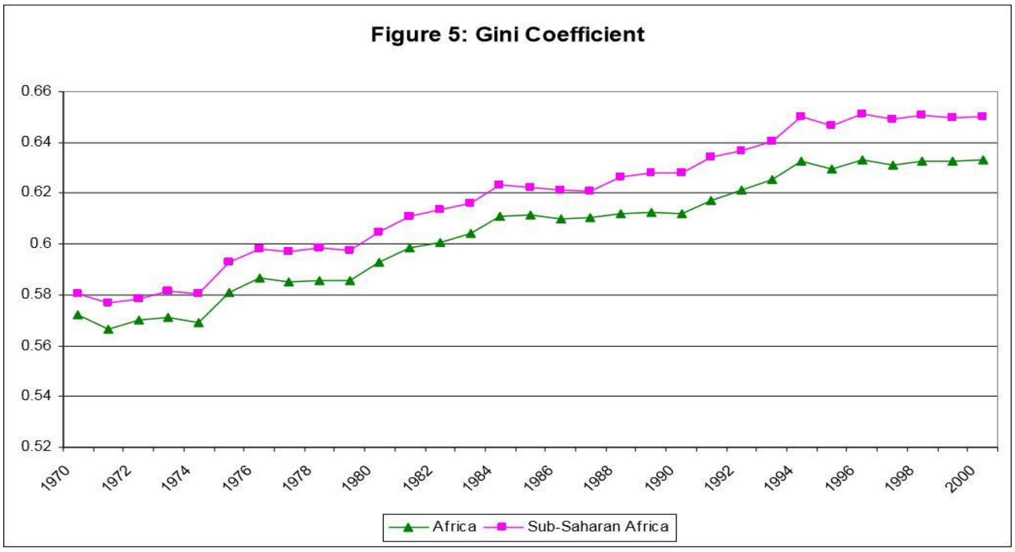

Source: Artadi, Sala- i- Martin (2003)

For the continent, the coefficient increased from a value of 0.57 in 1970 to a value of 0.63 in the year 2000, (a deterioration of inequality of almost 10%.) For Sub-Saharan countries, the numbers are 0.58 and 0.65

[4] (Gunning, Summer 1999)
[5] The Gini coefficient first introduced by Italian statistician Corrado Gini in 1912 is the most used measure to detect inequality.
[6] World Bank estimates

respectively. It is interesting to note that most of the inequality within Africa can be accounted for by inequality within countries rather than across countries. [7] (Figure 3– Gini Coefficient)

Figure 3: Gini Coefficient for Africa and SSA from 1970 to 2000




Source: Artadi, Sala-i-Martin (2003)

The main question we must ask ourselves is: why didn't Africa grow? In responding to this central question, the first thing academic research answers is that African countries did not grow as it did not invest enough. If we look at the data it attests that the investment rate, the ratio of investment to GDP, in Africa was not only narrow but it actually reduced over the last 40 years. Furthermore, the rate declined after 1975 to a record low of 7.5% for Sub-Saharan Africa and 8.5% for the whole continent in the first half of the 1990s. Conversely, investment rates for advanced OECD economies were between 20 and 25% while investment rates for Asian countries averaged 30%. Many economists are skeptical, that aggregate investment rates are to blame, believing that what should conduct to growth is public investment. Public investment, in most cases is cause for political corruption, as political leaders usually choose between investments based on non-traditional methods. Many are the examples of public infrastructures that had no effect on the economic performance of the country in Africa such as the steel plant in Ajakouta, Nigeria. The project was undertaken by Nigeria under a cooperation agreement with the Soviet Union in 1979. After several attempts to privatize the enterprise, the Nigerian government gained back the control in 2016. By December 2017 the Ajakouta Steel Mill has not yet produced a single sheet of steel as the project was mismanaged and remains abandoned, 40 years later from its initial construction[8].

[7] (Sala-i-Martin, July, 2003) "The economic tragedy of the XX century: growth in Africa" Elsa V. Artadi Xavier Sala-i-Martin

[8] The Ajakouta Steel Mill was planned to reopen in 2018, but as September 2019 it has not been yet restarted its production.

Overall investment rates in Africa were extremely low, as for the large part the projects were performed by the inefficient public sector, even if private investment increased slowly in the 1990s. This increase in overall private investment reflected a better economic environment resulting from some of the reforms enforced in the 1990s and may be one of the causes behind the small increase in growth rates in the first years of the new century. But the level of private investment was still not acceptable to be considered a driving force of sustained growth prospects for the following years.

Today the situation has changed considerably: if in 1970 10.5% of individuals extremely poor lived in Africa, the same survey made in 2000 showed that the percentage of "extremely poor" living in the black continent constituted 42% of the world total (Artadi & Sala-i-Martin, 2003). The term tragedy therefore does not appear exaggerated if we think of the consequences that disappointing growth has had on the living conditions of millions of people living in the continent.

The conditions that have played a decisive role in producing such a tragic scenario have been investigated in different occasions and numerous theories have been advanced to try to explain the reasons of this backwardness. A low and stable inflation, appropriate exchange rates and structural macroeconomic reforms capable to stimulate investments, constitute determinants of economic growth in most of the countries. If we reflect now how these, as well as other important economic variables, have had a positive influence on the continent only since a few years, we understand part of the reasons that, during the 20th century, have led Africa to disappoint the expectations of its inhabitants.

Although as many Africans individuals did not see their standards of living improve, many African countries have reached sustained levels of growth, led by private and foreign investments, boosting Africa’s growth, while filling the gap of lack of infrastructures. However, this increase in business confidence towards Africa must not be misled, as the whole continent still has to catch up with the rest of the world economically, as we will explore in the next chapter.

### 1.2 The development of the 21st century: economic growth and FDI

A few years ago, looking at the data on African performance, no one could have ever bet on a return to growth of the African Continent, however in the most recent years , since the start of the 21st century the economic state of the Continent has improved steadily. As of 2013 , 7 of the 10 fastest growing countries were in Africa. This strong growth experience by the Continent has also changed the perception of the academic literature about the Continent leading to a "Rising Africa" narrative.

This economic growth , also known as the "African economic boom" has been compared to the Chinese economic boom experienced in the 1970s, which has led China to decades of continous growth.

However, with respect to the past, the hopes of growth are now supported by the data. The data outlines a growing continent, indeed, to reiterate the words of the Economist, that defines Africa as : "the worlds fastest continent just now". The support provided by statistics is necessary to understand the trend change : per capita GDP has grown over the past ten years in a percentage equal to 30% while in the previous 20 years there was a 10% increase. Future prospects are even more optimistic; according to some World Bank estimates in fact the continent's GDP is expected to grow steadily over the next few years to an average of 5%.

Many were the reasons behind this increased economic growth of the continent . Firstly the population of Africa grew massively from 229 million in 1950 to 1.2 billion in 2015[9] and is expected to double in 2050 reaching 2.5 billion, accounting for a quarter of the world population. An explanation of the population size growth can be found in the decline in infant mortality rates , decreasing from the 80 deaths per 1000 live births in 1990 to 78 in 2016. [10], as well as in the still high fertility rates and in an improvement in the life expectancy numbers by almost 10 %, given by a drop in deaths caused by both Malaria and HIV have decreased in respectively by 30% and 74%. The progresses made in healthcare in some countries, highly helped by international institutions and by Non Governative organizations (NGOs)[11], has been fundamental for the debellation of some important diseases through the institution of dedicated vaccination programs, even though in most of the SSA countries the situation is still dramatic, as demonstrated by the recent cases of Ebola[12] in DRC[13] in the last years.

Second , the most important driver of growth for Africa has beeen the constant increase of Foreign economic involment and investment into the Continent . External financial inflows , play nowadays a fundamental role in African economies. The level of foreign FDI (Foreign Direct Investment) and ODA (Official Development

[9] World Bank, World Development Indicators (2018)
[10] World Bank, World Development Indicators (2018)
[11] NGOs are most of the times nonprofit organizations dedicated to the development in humanitarian areas
[12] The Ebola virus has killed over 2000 individuals and infected 3000, since its recurrence in 2018 according to the World Health Organization (WHO).
[13] Democratic Republic of Congo

Assistance) registered in the continent during the period from 2009-2015 reached 8.8% of GDP , a level much higher than that of Asia (4.5%) and Latin American countries (6.9%).[14]

Under the United Nations (UN) definition FDI is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the funds invested in the foreign economy, or total control.

Another important factor to account for the growth of the continent is the rapid evolution of school programs , with an improvement of the rate of enrollment in the secondary school by 48% in the years between 2000 and 2008[15] , mostly given by the process of urbanization of the countries, that has given the opportunity to many individuals to see its standard of living to increase , along with the already mentioned improvements in life expectancy .

FDI have increased over time as countries have started to invest more , rather than exchanging goods, believing that a direct inward investment could benefit better the economic performance of a given state. Although in trade between foreign countries and Africa record an higher amount than FDI.

During the period from 2000-2016 the African economies experienced a growth at an annual rate close to 5 % (5,5 % if we look solely at the Subsaharian countries), rates have decreased mainly during the global financial crisis (2007) and in the late 2015-2016 growth numbers have slightly decreased in some countries.

The picture would seem to be more than reassuring but there is still a lot to be done in order to avoid the danger that the turnaround of the economy lasts just for a few years. If we look at the 70s, before the years of the oil price boom, we see how African economies have experienced an historical phase characterized by economic growth sustained and it is noted that this growth did not constitute a lasting trend (McKinsey,2010). In light of the above there is no room to rest on the laurels. As growth numbers and living conditions are improving over time in the continent, many countries are poorer now than they were when their nations reached their independence. (Elsa V. Artadi Xavier Sala-i-Martin,2003).

Shifting the focus to today's context: one of the greatest risks to be faced by Africa is still the economic crisis of the European countries that have always been identified as his major trading partners (IMF, 2012), a crisis that could slow down or even halt African growth prospects through its repercussions on the black continent. In reality such an occurrence has already partly been verified since the African continent has experienced a growth slowdown after 2007, the year that marked the explosion of the global economic crisis , with the

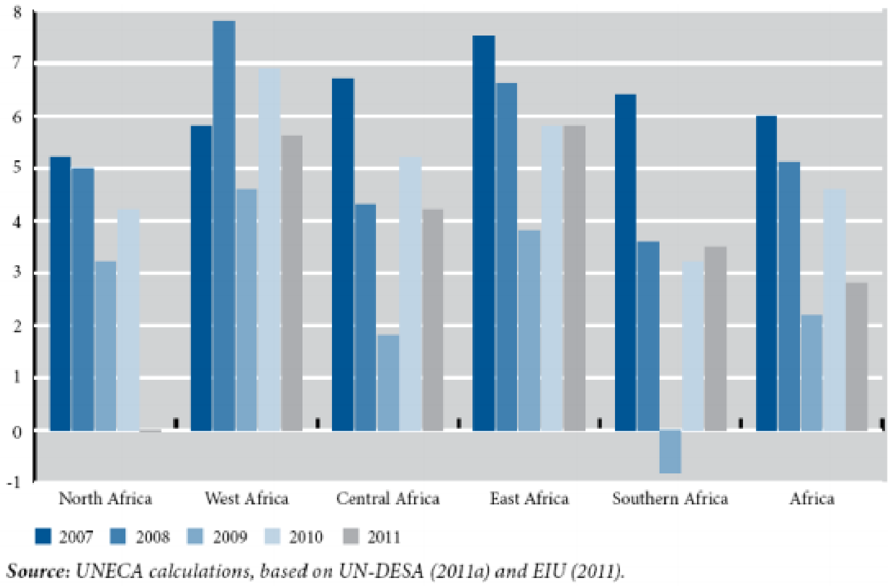
[14] (Carbone, 2018) “A vision of Africa’s future”
[15] (Sala-i-Martin, July, 2003) “The economic tragedy of the XXth century: growth in Africa” Elsa V. Artadi Xavier Sala-i-Martin

African economies following the Western economies in the crisis , and suffering from an impressive trade decrease , which consequently led to a growth decline.

This graph (Figure 4) helps to understand what is been said so far as shows how in the period after 2007 almost all the African regions have seen their growth rates slightly down compared to the peak reached in 2007. Such a drop testifies to the importance of ties with the West, an area capable to affect the growth of the entire continent.

It is also interesting to note how the growth rate close to zero registering in 2011 in countries of North Africarelies strictly on the political consequences following the "Arab Spring", a series of anti-government protests, and armed rebellions that spread across North Africa and the Middle East in the early 2010s. This data underlines how historical and political aspects can at the same time influence deeply the economic performance of a given area.

Figure 4 : Growth rates divided by regions from 2007 to 2011




Source: United Nations Economic Commission for Africa (UNECA)

Indeed as noted by many economists one of the most important characteristic of the African continent is its unpredictabilty, along with its variability. Being the countries different in many aspects , during the years they have all followed different development paths leading to a multi-speed growth scenario. Some countries are used to grow more than others because are more specialised in something and more economically developed like in the case of South Africa and the North Africa countries , while the poorest countries that can sustain their economy only through the selling of their commodities, such as oil or mineral commodities, can easily fall into an economic crisis as the price of that commodities either decreases or fall significantly (Sub Saharian countries). Almost all the States of the Continent have grown during the last decade , some more than others , but for countries such as Sierra Leone[16], Liberia[17] and Mozambique[18] the cessation of the involment in bloody civil wars has substantially changed the economic history of the country in a way that could have not been predicted 10 years before, even though the revival of their economies has been obviously much slower than the one of other nations.

The multi speed growth scenario has been facilitated, according to some scholars, by the inefficiency of the supranational institution that had been created in order to promote a united African continent: the African Union[19]. The African Union instituted in 1999 consists of 55 states that differ in religion , language and culture, and represents over 1 billion people in the continent. These diversities, according to many, are the main obstacles to the creation of an efficient supranational entity, along with the pursue of the single states of their own interests and the difficulties in promoting peace and security in some parts of the Continent where civil wars[20] and terrorism are still widespread.

Although the so much criticised African Union, favoured the conditions to implement the African Continental Free Trade Area between 44 of the 55 countries , the largest Free Trade Area in the world for contracting parties. The United Nations Commission for Africa estimates that this treaty will increase intra- African trade by 52 % in 2022. The AfCFTA[21] follows the success of another agreement : the Tripartite Free Trade Area linking 26 countries from Cape Town to Cairo between the countries of the COMESA[22] (Common Market for Eastern and Southern Africa) , the SADC[23] (Southern African Development Community) and the EAC [24](East African Community). The big success resulted from these agreements , is although stopped by the slow process of ratification by the National States, given the bureacracy difficulties , indeed as far as 2019 only 26 States have succesfully ratified the agreement.

These agreements are all part of a bigger plan : the AU'S Agenda 2063 : the Africa We Want[25], a strategic long-term plan presented in 2013 for the socioeconomic transformation of the Continent in the next 50 years. The Agenda is based on new and old initiatives , and was born by the realization of African leaders to renew

[16] The Sierra Leone Civil War lasted 11 years from 1991 to 2002
[17] The Second Liberian War ceased only in 2003
[18] The Mozambican Civil War lasted 15 years from 1977 to 1992
[19] The African Union was founded in 1999, including all the African states. Its headquarters are in Addis Ababa, Ethiopia
[20] Current civil wars include the South Sudanese Civil War
[21] African Continental Free Trade Area has been signed by 54 African states, but is now in force only in 22 states which are the ones who already ratified the treaty.
[22] Common Market for Eastern and Southern Africa (COMESA) is a free trade area constituting 22 member states from Tunisia to Eswatini.
[23] Southern African Development Community (SADC) is a regional organization headquartered in Gaborone, Botswana reuniting 16 Southern African countries.
[24]East African Community (EAC) is a regional organization formed by six countries in the African Great Lakes region in eastern Africa: Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda.
[25] The "Africa We Want "is an initiative launched by the African Union in 2013, affirming the long -term results that the continent wants to achieve by 2063.

Africa’s political and economic portfolio of the region ,with the aim of positioning the continent as a dominant player in the global market and to enhance the continents growth.

These trade and economic agreements, although have been slowed down so far by the differences in currencies between countries and the lack of a single currency as well as the one of a Central Bank. In recent years the efforts of the African Union, and in particular of the African Economic Community (AEC) , one of its organizations , of creating a single institution that would pave the way for a new single currency for the continent have converged into the proposition of the creation of an African Monetary Union (AMU) scheduled for 2028 , along with the implementation of a new single currency denominated “afriq” , in an attempt to imitate the successful launch of the Euro, that was however part of a long process and full of up and downs. Although looking at the actual scenario of the Continent this possibility at this moment still seems surreal to pursue given the severe fiscal problems faced by the majority of the African countries, and the significant diversities between the Member States.

As we mentioned before one of the main, if not the main reason of growth of the African continent has been the constant increase in FDI. It should also be noted that the increase in the number of direct FDI in Africa was balanced and affected various states and economic sectors. Although, as for the most part foreign investments remain to the resource rich states, even states with lower endowments have seen an improvement in the inflow of foreign capital.

But why did Foreign investments under the form of FDI consistently increased in Africa ?

Africa has attracted increased interest as an investment destination over the past five years mainly due to the following determinants:

– Lower growth expectations for the developed economies following the economic crisis

– A sensation that Africa has become more politically mature and easier to access

– Africa’s growing population and rise in consumption as a result of an increased demand and the opportunity for firms to enter into a new market much similar to other markets

– Africa’s unutilized land and significant mineral and other resources presence

In fact, the greater attraction exercised by the black continent is clearly linked to both the much enthusiastic environment and in general safer environment as also with the new and incisive rules able to create a competitive and highly dynamic atmosphere. Another element able to attract foreign capital is the greatest return that characterizes investments in African land, extraordinary performance when compared with that of Asian countries and Western countries. (McKinsey, 2010). The low cost of labor is a great characteristic of the African continent, that helps foreign firms to invest at a much lower cost and to see its profits grow significantly.

The presence of foreign companies translates not only in the greater capital accessible by African economy but also in the heritage of the extraordinary contribution of technology, knowledge and managerial skills that these firms make to the state in which they are operating. (Adams,2009)

At the meantime to a larger number of firms in the market clearly corresponds an increase in competition. It has been stated by many although that the competition exercised by foreign companies in Africa may damage local competitors; but it has been considered how this is true in the short term, and how in the long run the local businesses will have to adapt and learn to compete with the companies adopting most cutting-edge business practices, even though this theory seems far away from reality, as the foreign firms are more technologically advanced and capital funded , and will always be ahead of the local businesses , both from a production standpoint and also from a profit one.

But what is interesting in detecting FDI inflows is understanding the kind of impact that the inflows have on the economy of a country. The research of Samuel Adams[26] (2009) examines the effect of foreign direct investment and domestic investment on economic growth in SSA during the period from 1990 to 2003. In general, the results show a positive trend of foreign direct investment on economic growth. For the period from 2008 to 2014, Bhavish Jugurnath et. Al [27](2016) found a positive relationship between FDI and economic growth for a sample of SSA countries.

Seeing in Foreign FDI an opportunity for growth, most of the African countries have made attempts over the past decade to improve their investment climate. They have loosened their investment regulations and have offered incentives to foreign investors. According to UNCTAD, the United Nations Conference on Trade and Development, indeed a welcoming investment climate will increase the volume of investment, being the foreign country more secure of the profitability of their investment.

The way that FDI affects growth and development depends on the type and volume of it. Thus, when understanding its impact, it is important to understand what attracts FDI. The OECD [28]has identified how main determinants of inward FDI are affected by some factors such as the so called "General policy factors" which include the political stability or the privatization, the [29]"Specific FDI" policies such as FDI incentives, performance requirements, investment promotion and laws, international trade, Macro economic factors that include GDP , market size and growth , the "Firm specific factors", of which most importantly technological progress . There have been trends in most of these factors over the past decades and between them they can explain a large part of why FDI has gone more to some countries and regions than others. The important point

[26] "Foreign Direct investment, domestic investment, and economic growth in Sub-Saharan Africa ", Samuel Adams, Journal of Policy Modeling, (2009)

[27] "Foreign Direct Investment & Economic Growth in Sub-Saharan Africa: An Empirical Study", Bhavish Jugurnath*, Nitisha Chuckun, Sheereen Fauzel (2016)

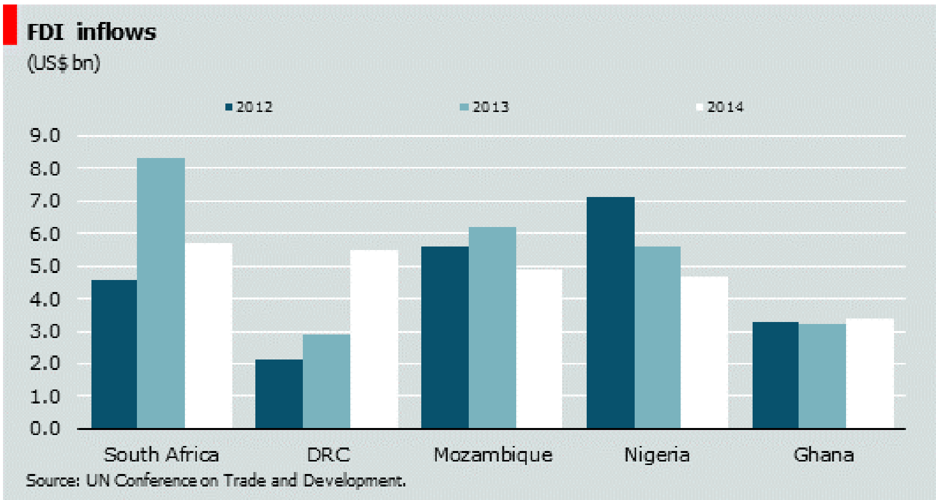
[28] FDI, Human capital and education Report in Developing countries – OECD, Paris, 2001

[29] The determinants analyzed have been discussed in the paper "Foreign Direct Investment and Development An historical perspective" commissioned by UNCTAD

is that all of these factors necessary in attracting FDI are also increasingly important in making FDI work successfully for the economic development of the region in which they are involved, as change in determinants may affect deeply the concentration of FDI in a country , and determine importantly the success of it.

The main aspect to take into consideration for potential investors is the political scenario and the business environment in the country where they are considering investing. The political situation includes political stability and security factors. The business environment includes factors such as infrastructure, corruption, and the bureaucracy, which in most cases when referring to African states is cumbersome. As can be seen from the reduced FDI inflows to North and West Africa during the last 10 years, armed conflicts, political uncertainty and security threats are the biggest obstacles to FDI inflows to SSA Africa. Countries that are politically stable and that have better infrastructure, lower levels of corruption and business environments usually attract higher levels of FDI. South Africa, which is considered as the most diversified economy in Africa and has a reputation of a perfect business environment to invest, achieved the highest FDI inflows in Africa during 2013 and 2014, nevertheless FDI inflows to South Africa decreased by 33% during 2014 from US$8.3 billion during 2013 to US$5.7 billion during 2014 according to UNCTAD (Figure 5) , remaining however the first recipient in Africa for FDI. During those years but also more recently, indeed South Africa has experienced low projected GDP growth rates relating to a period of political instability helped by the constant high rate of corruption, a common trait to most of African countries, which translated into a significant decrease in South Africa's attractiveness as a destination for foreign investment. FDI inflows to South Africa during 2015 declined to just US$1.5 billion, an effective reduction of 74%, from 2012[30]. The figure below, is useful as it shows FDI inflows in SA and 4 of the other main recipients of FDI highlighting how this stream of external inflow financing has decreased during 2014, in all of the main FDI destinations with the exception of DRC and Ghana , who achieved to improve and remain on the same level.

Figure 5: FDI inflows in SA and other top recipients




[30] UNCTAD estimates

Source: The Economist Intelligence Unit on UNCTAD estimates

For this reason, Western countries, wanting to be sure of their investment, follow a path of investing in the countries in which they have been present for a long time, safe both on an economic and political standpoint, but also on the security one. Instead, the Chinese, who now account as the third issuer of FDI in Africa, following the EU and the USA, are used to invest in most of the countries, and in those countries, who lack the most basic infrastructures, as we will explore in the next chapter.

## CHAPTER 2

### 2.1 History of Sino/African relationship

The first important point of contact between China and the African Continent dates to the mid 50's when China was the guide country of the so called "nonaligned countries": those countries that wanted to affirm their neutrality with respect to the tensions between the Soviet Bloc and the Western Bloc. During the Bandung Conference in 1955 we saw the creation of a bloc of 29 African and Asian countries signing a declaration reaffirming the principle of self-determination of peoples. China assumed a guiding role for the countries of the Bloc that were undergoing a decolonization process, offering both an economic and military support.[31] (Kaplinsky, 2009)

An example of China's involvement in Africa at the time is the so called "Freedom Railway ", also known as Tazara, an infrastructure able to connect the port of the city of Dar Es Salaam in Tanzania with Zambia, through a railway that covered an area of 1860 kilometers.[32] The construction started in 1970 and lasted until 1975 costed around 500 million dollars for the Chinese government, constituting at the time the most important aid project for China outside of its national borders.

In the same years China underwrote the first bilateral agreements in Africa with Algeria, Egypt, Guinea, Morocco, Somalia and Sudan.

In the 1960's China strongly supported the revolutionary groups that wanted to gain independence from the European colonizers, as it began to strengthen ties with African countries offering help through economic and military support.

In 1971 the UN General Assembly had to decide whether to legitimate the Republic of China, which controlled Taiwan and the mainland or the PRC (People Republic of China), that governed only the mainland, as there could have been just one government representing a single country in the General Assembly. The United States were the main opposers to the PRC as they held a strict relationship with the Republic of China. Being the USA involved in the vote, this was an important decision, as it opposed the United States 'will against the rest of the world. Despite of the US's efforts and the votes against China by many African countries, the resolution ended up passing legitimating the PRC as the representative of the Chinese population in the UN assembly.

Since then much has changed. In 2007 the UN General Assembly met up to decide whether to adopt a resolution against North Korea, to condemn the human right situation in North Korea. This vote was very

[31] (Kaplinsky, 2009)

[32] Tazara Railway fell into financial difficulties during the last years and the facilities have been under-utilized due to mismanagement and underinvestment over the last three decades.

important to China, being one of the most important allies of North Korea. In the vote, 43 out of 55 African countries voted along with China, showing how much had changed in between these two important voting.

The “Black Continent” no longer relied on to the US, as much of the Continent is today politically and economically aligned with the world’s fastest growing superpower: China.

But How did China achieve to shape Africa’s consensus in less than 40 years?

**2.2 China in Africa: Trade and Foreign Direct Investment (FDI)**

Stemming to the rising of new international players, the supremacy of the European Union and USA in developing countries has been challenged over the years. Among these powers, China is the most notable one. Given its size in terms of geography, population and gross domestic product (GDP) is considered by the rest of the world an important rival as far as economic influence.

In the last decade the Chinese focus has been pointed towards Africa and in particular to Sub Saharan Africa. Africa is one of the biggest Chinese investment’s destinations, staying only behind Asia and Europe. The support to the continent is under the form of investment and government assistance. The main targets are transport and energy, crucial infrastructural progress that the continent needs.

But why did China started to invest so massively in Africa? The interests of China has been seen my many as an emulation of the colonial era that was characterized by the exploitation of the natural resources that those countries could offer, although as noted by others the Chinese have been using different methods in order to gain power and trust by the African countries. China’s Foreign Minister Wang Yi said in 2015 “[China] absolutely will not take the old path of Western colonists, and we will not sacrifice Africa’s ecological environment and long-term interests.” (Reuters)

One of China’s main motivations to this substantial increase in investments in Africa is the need to secure a solid base of raw materials to fuel its economy as is constantly growing in population, so it found in Africa an incredible base of unexplored resources. Another important reason is the pressure of their industries that forced some labor-intensive firms to delocalize their factories in developing countries.

However, despite the embrace by African head of states of China as a valid partner, the view that Beijing acts as a "predatory" actor in Africa, aiming to recolonize the continent is very present in foreign policy circles, media and scholars.

The whole idea of setting up a structure of power over other less developed states in order to gather resources and use their labor force, indeed might sound familiar, because that is largely what 20th century European colonialism was all about. The motives behind European powers expanding their territory to the less developed African nations in the 19th and 20th century was similar to the motivation behind China’s growing economic influence in Africa today. This perspective on the motives of China raised criticisms of colonialism, but China denied every claim of colonial abuses. Differently from the European countries that resorted to violence as a method of gaining power , the Chinese have reached the interest of the African countries promising long- term investments of high caliber to those countries who lacked the most basic infrastructures that would enable the possibility of exploiting the vast variety of resources available, and finally helping the countries that could not exploit these possibilities due to their financial struggles.

This is the main reason why the African governments, at the beginning suspicious about the Chinese interests, afraid of reoccurring in a neocolonialism scenery, such as the one before their independence, have been quickly convinced that the Chinese aid could have been helpful, fulfilling their financial difficulties and the total lack of infrastructures in the countries. In 2018, Rwandan President and former African Union President Paul Kagame defined the Chinese aid and investment strategy in Africa as a possibility of "deep transformation"[33] for the Continent. Kagame argued that the partnership between China and Africa is "based on mutual respect and is for the benefit of both partners". (Reuters, 2018)

In the latest 40 years China has experienced a very rapid economic growth, driven by a population growth, unlike the United States and the European countries, that generated much demand for trade. As China grew consistently, in fact it saw its population grow as well, with the supply not being able to fulfill the requests of the entire population. But this is not the only reason. China's growth secret is found in the success of its manufacturing industry. The low wages in the industry were given by the cheap labor. But as China grew economically, in the last 15 years it saw also the birth of a medium class, that led to an increase in the cost of labor, as workers demanded a higher wage. So, what did Chinese firms needed to do in order to diminish its cost of labor? Find different ways to produce the same products at lower cost, so they would not be compelled to pay the workers a higher wage for the same job. This is the reason why it transferred many manufacturing industries, delocalizing the factories in some African countries where the wages were derisory, making contracts and agreements with the local governments for the construction of Special Economic Zones (SEZs), areas where the business laws were different from the country's laws. These areas were specifically meant to attract Foreign Direct Investment (FDI), investments that are usually carried out by large multinational corporations and represent one of the most important ways for a firm, or in this case a government to enter into a foreign market. Usually firms are sole to invest in those areas in which there can be characteristics that will give them in a short term a potential profit. The SEZs were created by China to convey their experience, with the objective of developing manufacturing activities and reduce their imports, indeed if possible, to promote exports. Currently there are five Chinese SEZs in Africa: in Ethiopia (which focuses on products in stone and building materials), Mauritius (services), and two in Nigeria and Zambia. Within these areas, the infrastructures have improved and created a competitive environment (Pigato & Tang, 2015)[34], promoting work opportunities for locals.

An FDI in Africa be a vertical expansion[35] of the firm, in an attempt to produce the same goods of the supply chain at a lower cost than before. Foreign Direct Investment are usually carried out by large multinational corporations and represent one of the most important ways for a firm to enter into a foreign market. Usually

[33] The East African (https://www.theeastafrican.co.ke/news/ea/Rwanda-Paul-Kagame-endorses-Chinese-investment-Africa/4552908-4742800-5brualz/index.html)
[34] Pigato & Tang, (2015) "China and Africa: expanding economic ties in an evolving global context"
[35] A business acquisition through which a firm acquires the company producing the intermediate goods needed by the enterprise.

firms are sole to invest in those areas in which there can be aspects that will give them a potential profit in the short term.

There is one aspect that cannot be left out when trying to identify the reasons behind the spark of the Chinese interest in the black continent. Beyond the political reasons and the search for new sources of resource supply, another element capable of directing Chinese companies has been, and still is, the possibility to enter a new market. The search for new markets for commercial activities is theoretically considered as one of the largest determinants of FDI.

A key feature of Chinese engagement in Africa is that the focus is on economic and financial engagement and less on development assistance. This is reflected in the high percentages of Foreign Direct Investments (FDI) to Official Development Assistance[36] (ODA) and trade to ODA when compared to most of the European countries. The West is focused on traditional development assistance through grants, being more focused about aid than trade.

The increase of FDI inflows can be credited also by the several policies that the African Union has enacted in order to attract foreign investments, cooperating with Beijing with the goal of strengthening and increasing the quantity of FDI through the years. The creation of a platform such as the Forum on China- Africa Cooperation (FOCAC) in the early 2000s, has represented an important opportunity for the Chinese to outline every year the path of the investment not to just one country but to all the African countries , and a crucial point for the implementation of multilateral and unilateral agreements between China and African countries, meeting every three years in Beijing , representing at the same time an important stage for African countries in order to receive financing from China.

However, China faces some obstacles for investing in Africa. The continent lacks basic inputs that make it difficult to establish companies or build infrastructures such as insufficiency in stable energy in some parts, unskilled labor force to operate the machinery and exchange rate stability, along with the instability of politics and the difficulties in some countries to operate given the slow and full of pitfalls bureaucracy.

These are some of the reasons why the Chinese are used to transfer Chinese workers to Africa to build infrastructures, because the lack of skilled workers in Africa is important. In this way China fails to fulfill the social corporate responsibility concept that has recently much advertised. This does not favor African employment, as China will hire African workers who would get paid a much lower wage than Chinese workers, and at the same time will assure a low profile presence, as stated by many indeed, Chinese companies when completing works have been often violating laws, as for example in the mining industry with environmental laws.

The intensification of the presence of large, medium and small Chinese companies in Africa can be connected to the introduction by the Beijing government of a more linear foreign policy, the so-called “going out strategy

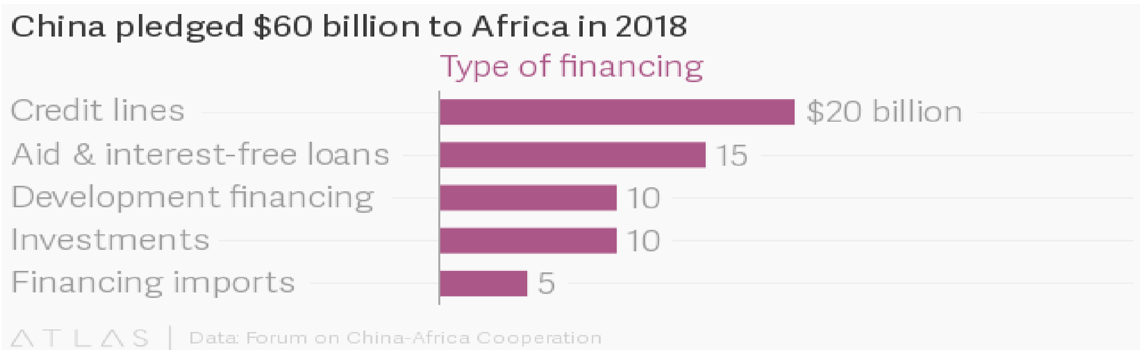
[36] Official Development Assistance (ODA), is a term created by the OECD defining the amount of financial inflows, under the form of aid undergoing within an economy.

(“zou chuqu”[37]) "(The Economist, 2009). With this strategy, aimed in particular to public firms, the enterprises were encouraged to enter and compete in global markets, as the government started to cooperate more than ever with international partners. The "going out strategy" was introduced in 2000, and the FOCAC represented its first step in Africa, and from that moment on we witnessed, as expected, to a gradual increase in Chinese FDI, across the world, and especially in Africa.

This increase is of interest if one considers that the amount of direct investment abroad reflects the stage of industrial development obtained by a country. A large amount of investments denotes the high level of competition achieved by local businesses, forced to deal with larger and more competitive markets, and so eager to compete at a global level. It can therefore be said that China had an interest in implementing a strategy of this kind to demonstrate to the world, if needed, the role of primary importance that it was covering within the world economy. The subsequent access to WTO [38](World Trade Organization), dated December 2001, constituted a further step in the direction of opening up to the world market, also at the level of commercial exchanges. (WTO’s website).

During the latest FOCAC meeting in Beijing in 2019 all the African countries participated, receiving the pledge from the Chinese President Xi Jinping of 60 billion $ in financial support to Africa for the triennium 2019-2021. Of this 60 billion $, 15 billion $ as President Xi Jinping announced are interest free, still meaning African countries will still be paying 45 billion $ worth of loans, of different nature. The division of the 60 billion $ into type of financing is shown in Figure 6.

Figure 6: China’s 60 billion $ from 2019 to 2021 by type of financing




Source: Forum on China Africa Cooperation (FOCAC)

Furthermore, during the Forum President Xi Jinping has defined that the initiatives that will be financed with these funds will be based on seven major points [39] :

[37] Going out strategy in Mandarin, one of China’s dialects
[38] China entered the WTO in 2001, after a series of structural reforms aimed to strengthen the economic integration of the “Red Dragon”
[39] Ministry of Commerce of People’s Republic of China’s Website: Press release over FOCAC initiatives (http://english.mofcom.gov.cn/article/policyrelease/Cocoon/201809/20180902788698.shtml)

1) Open a China-Africa trade expo

2) Increase investment in Africa

3) Formulate agricultural plans

4) Provide agricultural assistance

5) Improve agricultural technologies

6) Fulfill social responsibility

7) Deepen financial cooperation

Chinese media does not talk about loans but about aid, making it look like China is not making a profit out of financing through Africa, but it is just helping economically for the development of the continent , presenting this cooperation as a win-win cooperation mutually benefitting Africa as China. This cooperation has been defined by China as based on the complementarity of interests, as the Chinese government and companies have always offered contracts committing to build certain infrastructures in times and ways established in return for the grant of the exploitation of particular natural resources in Africa.

At the same time in which the investment of China in Africa has started to increase, also the volume of trade has increased with China overcoming the US to become Africa's main trading partner in 2009. According to the "China Africa Research Initiative" (CARI) developed by the Johns Hopkins School of Advanced International Study the value of China- Africa trade in 2016 reached a value of 128 billion dollars.[40]

Some of the reasons behind this increased trade share can be China's comparative advantage in labor-intensive goods and capital-intensive goods, exchanged with the African natural resource endowment. (manufactured goods vs. raw materials).

China still plays a secondary role compared to other powerhouses, such as Europe or the US in terms of exports to Africa. Nevertheless, is necessary to understand how this role is destined to become increasingly significant over the time, as Chinese engagement with the black continent is increasing quickly over time as far as trade, even though it has seen a slowdown involving investments.

In fact, from 2000 onwards, the black continent, has witnessed an increase in imports from China, and a progressively more significant increase in the following years. This increase was offset by the drop in the imports from European countries. Future forecasts see a thinning more and more marked than the gap existing between Europe and China in terms of exports to Africa.

China's trade with Africa does not benefit all the countries equally. About 70 percent of Africa's exports to China come from Angola, South Africa, Sudan, and the Democratic Republic of Congo (DRC), some of the

[40] Numbers can slightly differ, as these are not official data, but the result of estimates by CARI

resource-rich countries who export raw materials to China. And 60 percent of imports from China, for the most part related to the manufacturing industry, are destined to South Africa, Egypt, Nigeria, Algeria and Morocco, which are the most developed and diversified economies in the continent. Most other African economies have only a limited trade relationship with China, as countries in order to maintain a good import/export balance must have an import/export infrastructure of a certain degree, in order to sustain and develop economic relations with a country such as China, even though China in the latest years has improved the interactions with less advanced economies.

China's impact is probably greatest on resource-rich economies who benefit from China's demand for raw materials, and probably smallest on more diversified economies[41].

China's demand of raw materials includes the demand for oil from oil producer countries such as Angola, Gabon and Sudan, with the risk for Africa to specialize in raw materials production and a higher vulnerability to the instant changing in prices of commodities. In South Sudan, one of the world's top exporter of oil, China has not only been dedicated to the oil extraction but also in the construction of transportation links such as roads and railways, fundamental for the transportation of the commodity.

Not only China imports resources and raw materials from Africa, but also exports goods to the continent, as shown in the graph below (Figure 7) African countries do import a large share of Chinese products, mainly given to their reduced costs. In some cases the Chinese imports have been killing the local businesses, such as in Kenya[42], where thanks to a predatory pricing technique in the fish market the Chinese have edged out local traders, helped by the supply gap of the local fish, delivering frozen fish from China at a lower price than the small amounts available of the Kenyan higher quality fish.

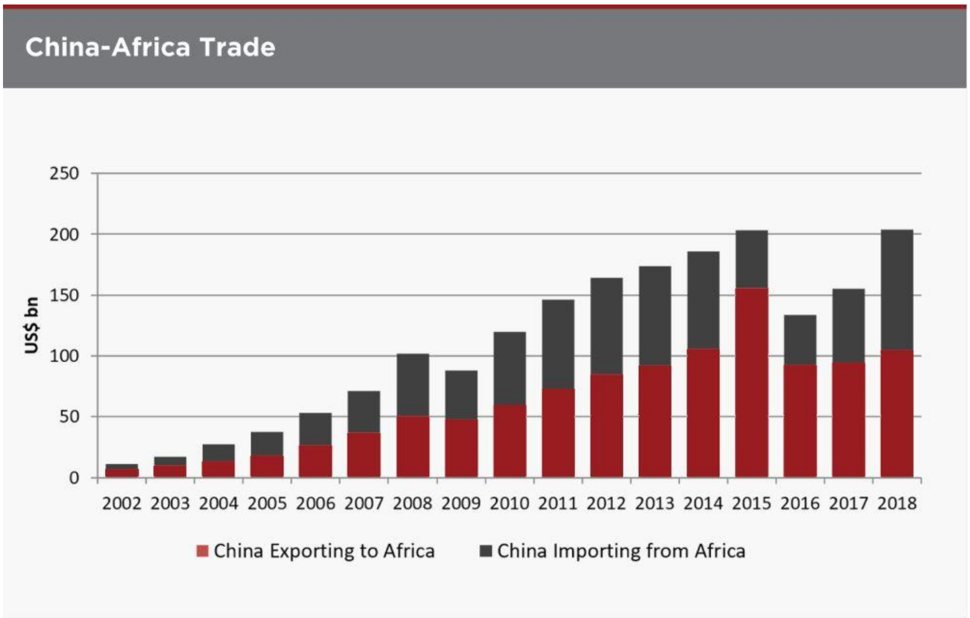
The United States, who since the implementation in 2000, of the African Growth and Opportunity Act [43](AGOA), was the leading partner of the African economies as far as trade (but also for investments) , was wrecked by Chinese imports in some industries such as the textile industry ,where China competed with a lower price strategy, leading to a progressive decrease both in trade and in investment by the US since 2005.

[41] "China and Africa: An Emerging Partnership for Development? – An overview of issues", Richard Schiere

[42] https://www.theeastafrican.co.ke/business/China-fish-trade-eating-East-Africa-fishermen-livelihoods/2560-4290510-tb8620/index.html

[43] The African Growth and Opportunity Act, or AGOA 's aim was to aid the economies of SSA, improving the economic relations between the US and Africa.

Figure 7: Import/Export China -Africa




Source: China Africa Research Initiative (CARI)

Africa in the latest years , has been part of the large investments by the Chinese government constituting the BRI (Belt Road Initiative), also known as One Belt One Road (OBOR) , promoted by President Xi Jinping, as the intent of China of recreating the Silk Road[44], as a development strategy in order to improve regional cooperation and connectivity on a transcontinental scale economically tying most of the Asian continent to Europe and also Africa , that plays a key role in the BRI, through a series of significant economic agreements and trade partnerships in which China has invested massively. Part of the BRI in Africa are the construction of new railways, plants, roads and other several development projects undergoing in some countries. The new Silk Road will involve 68 countries, constituting the biggest investment project ever done in history, surpassing the Marshall Plan.[45] This initiative has fostered much concern into Occidental countries, who are wondering what strategic moves could be effective in order to limit China's supremacy position in the world economy.

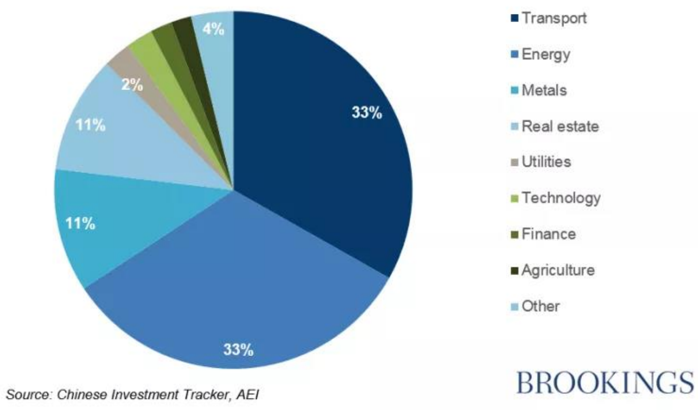
According to the China Investment Global Tracker, the public data seta about foreign Chinese contracts, the amount of investments and contracts in Sub-Saharan Africa was $299 billion from 2005 to 2018. The two main recipients of China's investments are Nigeria and Angola, which get one quarter of the total amount. In the chart below (Figure 8) we can see the size of the investments divided by countries as far as 2018 and its division in different sectors. Mining and transportation account for more than the half of the Chinese investments in the continent.

China's most important railway project in Africa is considered to be the Addis Ababa – Djibouti Railway, connecting the Ethiopian landlocked capital to the port of Djibouti, in East Africa, lowering the transportation costs for the goods, and the reducing the journey for the passengers. The project, inaugurated in 2018, has been all financed by China, through its banks, and undertaken by two state-owned companies, the China

[44] The Silk Road first developed by China was a network of trade routes that connected the Asian continent to Europe and was a crucial point of conjunction for the East countries to trade their commodities with the European civilizations.
[45] The Marshall Plan, also known as European Recovery Program (ERP), was an American economic plan to help rebuild Europe after World War II.

Railway Engineering Corporation (CREC) (and China Civil Engineering Construction Group (CCECC) for an estimated total cost of almost 4.5 billion $, constituting at the moment the biggest investment by China in a single state.

Figure 8: Sectors of Chinese investments



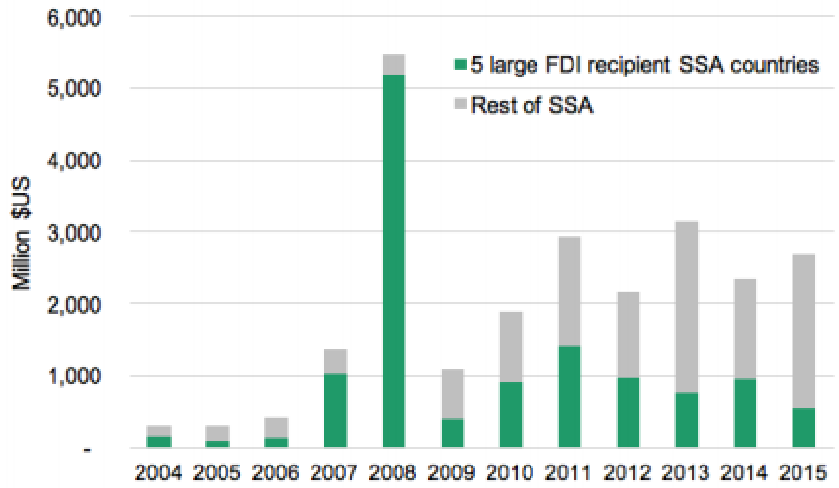

Source: Chinese Investment Tracker

Sub Saharan Africa remains the region most interested by Chinese FDI investment. The top 5 recipient countries in SSA are: South Africa, Nigeria, Zambia, Ethiopia, and Sudan. Over the 2004-2015 period, flows of Chinese FDI into Africa increased significantly rising from $491 million to $32.4 billion[46], peaked in 2008 and stabilized over the 2011-2014 period (Figure 9). Interesting to note is that the year 2008, the year in which the financial crisis sparked all over the world it has been the year with the highest FDI inflow.

It is interesting to note, from Figure 9 how FDI inflows to SSA peaked in 2008, the year in which the Chinese penetration in Africa reached the highest level, in particular in the top 5 recipients in SSA. However, in the following years, not only there has been a decrease in the overall inflows, but also an increase in inflows in the rest of SSA, with a larger share of investments affecting less developed economies. At the same time investments in North Africa has been characterized by a decrease during the years of the "Arab Spring" and a constant increase in the years following the protests. Although, North African countries have been historically less interested by Chinese FDI, as have always seen a constant involvement mainly on trade by the US and by European countries, given the relative geographic proximity.

[46] U.N. Habitat. 2018. The State of African Cities 2018 – the geography of African investment DATA

Figure 9: China's FDI flows to SSA, 5 largest recipient countries and the rest of Africa




Source "Chinese investment in Africa: how much do we know? By Deborah Bräutigam, Xinshen Dia (2017)

Looking at the data , as mentioned, we can notice how the Chinese involvement has slightly decreased in Africa in the latest years , as growth decreased in China after several years in which the economy grow persistently, given to a liquidity problem caused by a progressive overheating of the economy and most importantly given the escalation of the trade war with the USA , which is affecting deeply the Chinese economy both on a trade and on a diplomatic standpoint , being the United States the first importer of Chinese products. Some economists do also think that the rising of these tensions, have put Africa in an important position as some Chinese firms smuggle products through Africa illegally into the US. Africa has been also subject of an ulterior worsening of the tensions between China and the USA, when China in 2017 inaugurated its first strategic military base overseas in Djibouti in East Africa nearby a permanent US base, the most important military location of the United States in Africa.

How about the role of other world powers in this process? Obviously, investment on this scale has also affected other players in the world economy. China is securing their position as economic world leaders with their ever-increasing meddling in the world economy. China is already claiming most of the trade in Africa, where growth potential is higher than other continents, and other big players in Africa are losing ground, the USA given mainly to their protectionist approach since the rise to power of Donald Trump in 2016, while Europe given the economic crisis experienced in the last decade and the more aid-driven approach.

As also discussed in the previous chapter, over time it has been clear how PRC[47] is not concerned about the political dynamics of the country where investing, employing the so called "no political strings attached" method, while this characteristic is one of the main determinants that can drive Western powers FDI, especially

[47] People Republic of China

in Africa. The West, since its colonial influence of sphere has always wanted to impose the political regime to the colonized country, and in a similar way it rather invests in democratic countries, and not in dictatorship , while China has not any type of problems to invest and work with autocratic regimes such as in Zambia and Zimbabwe, being hardly criticized for it.

But how and why has China succeeded, while the West has failed? According to Dambisa Moyo[48], that developed her theory in her bestseller “Dead Aid, why aid is not working and how there is another way for Africa”, the West failure is found in the excessive amount of aid provided to Africa over the years, so it should stop to aid Africa, being most of the aid in the long run inefficient and not sufficient to satisfy Africa’s short term necessities. So according to Moyo African political leaders should make efforts to implement new financing mechanisms including increased trade particularly both among African nations and with emerging markets like India and Brazil [49], and increase domestic savings through remittances and microfinance, already developed and in use in parts of the continent. The end goal should be to decrease reliance on aid to less than 5 percent in five years.

[48] Dambisa Moyo is an economist from Zambia, who analyzes macroeconomic variables and global changes.

[49] Along with China, South Africa and Russia, India and Brazil form the so called BRICS group (Brazil, Russia, India, China and South Africa), which are 5 of the most developing economies in the world.

### 2.3 African countries debt: how is China involved?

The majority of the Chinese involvement in the Continent, despite of how it can be thought is made through State- owned enterprises (SOEs), private companies most of whom are controlled by the central government, that finances them with large amount of money. There are also some private companies which are not directly controlled by the government, but who obviously follow the path of other state companies, in order to be sure that their investment will be secured.

State owned enterprises operate mainly in the extraction of raw materials and in infrastructures, while small and medium firms operate in the manufacturing industry and in the service industry.

According to McKinsey[50], there are more than ten thousand Chinese businesses in Africa of which 90% of them are privately owned[51], even though the biggest projects as far as investments are undertaken by state firms.

The most famous state-owned enterprise in China is the Export–Import Bank of China[52] also known as Exim Bank of China, which has as its primary goal the mission to promote financial aid and support, reason why it is also called a “policy bank” , in a universe along with other Chinese institutions such as the China Development Bank and the China Export & Credit Insurance Corporation. Although Exim is the only provider of concessional loans by the Chinese government. A concessional loan is a soft loan granted with derisory interest rates, in order for the borrower to be sure of the repayment of the loan. These types of loans are the most used form of development assistance and foreign aid that developed countries utilize when granting money to underdeveloped countries.

According to the China Africa research Initiative, China has lent almost 143 billion U.S. dollars between 2000 and 2017 to African countries. These loans are used for infrastructure projects done by Chinese companies and thus delivering more jobs for Chinese workers, the majority of whom are moved from China for the construction of these particular infrastructures and in a second stage will train the African workers, who although not immediately will have a job. However, China faces some obstacles for investing in Africa. The continent lacks basic inputs that make it difficult to establish companies such as insufficiency in stable energy in some parts, unskilled labor force to operate the machinery and exchange rate stability, along with the instability of politics.

It is argued that these loans are so big that in time African countries cannot repay it, therefore falling into a sort of debt-trap, whereby China gains control over the infrastructure and over the countries as form of repayment. China could steer way from these accusations of neocolonial investment if it would diversify its

[50] McKinsey is one of the biggest consulting firms worldwide.
[51] Most of the “private owned firms” are funded by the Beijing government, following a path of investment chosen by the state
[52] The Export–Import Bank of China (Chexim - China Exim Bank), founded in 1994, is a Chinese bank that has at its aim to implement the state policies in the economy. In the last decade EXIM has been the first Chinese institution for money granted to underdeveloped countries.

investment portfolio, increasing investments in other sectors such as agriculture and manufacturing, instead of only infrastructure for resource extraction. (Carey and Li, 2016)

Most of the loans are not profitable to China as well, but it has to lend money in order to utilize some of its productivity and export products.

During the years indeed has arisen a situation in which most of the African countries would not be able to repay the big amount of debts that they had accumulated towards China. This condition which could be seen as a disadvantage for the Chinese government, has although strengthened the economic domination of China over the African countries, being the Chinese in a position to ask as a momentary solution to build other infrastructures, without the possibility of hearing a negative response from their debtors.

A great example of this scenario can be the Maputo – Catembe bridge, in Maputo, Mozambique, the longest suspension bridge in Africa, which connects the city of Maputo to the Catembe suburb. The bridge was financed and built by China, with the works started in 2014 and completed in 2019, with a base value of 785 $ million, which Mozambique will be start paying in 2019. According to some calculations the final bill of the bridge will amount for the Mozambican government to US $ 1.3 billion with interests at 4 %. The money from the tolls although will not be sufficient[53] in order to repay the debt with China as the debt will only be expired in 2039 at least, according to researches, as the government of Mozambique is at the moment unable to pay not only the expenses, but also the interest itself. Chinese have now penetrated into the Mozambican political scenario, being granted contracts to build other infrastructures as a sort of repayment for the delays in the bridge payments.

The graph below (Figure 9) shows the amount of Chinese loans according to a study conducted by the CARI (China Africa Research Initiative) recorded from 2000 to 2017. According to data on FDI, estimated by the Financial Times[54] in 2009 and 2010 the China Exim Bank and the China Development Bank have annually loaned more money than the World Bank to African developing countries under the form of concessional loans. It must be argued, albeit that international organizations as the World Bank have been involved in massive loan issues with African countries for years, but also on the aid side with multiple projects on different countries, focusing on local community's evolvement. It is evident, looking at the infographic how the inflow of financial support in Africa from China has substantially increased over the years, passing from 1 billion in 2001 to almost 30 billion in 2016 (Figure 10), the year in which most loans have been issued. Although as of 2017 the amount of loans issued has consistently diminished as China is investing less in Africa than before. Being China not a member of the OECD (Organization for Economic Co-operation and Development), there

[53] Money from the tolls will not be enough to repay China's debt, as there are ferries connecting the city of Maputo to Catembe for a price three times lower than the bridge. Mozambique is one of the poorest countries of the world, so just few people can afford to pay for the bridge and fewer to have a car.

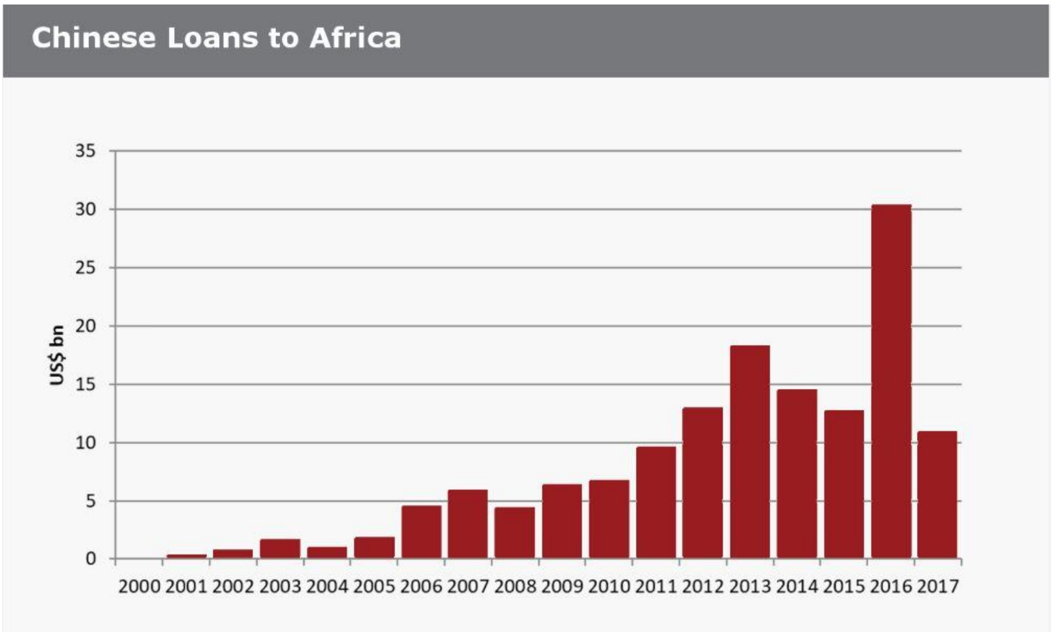
[54] Financial Times is the most respected economic newspaper in the United Kingdom

is no official Chinese data over the loans, but these data are the result of estimates conducted by CARI, utilizing the small data available from the Chinese government.

Generally speaking, there is small transparency of Chinese loans and outflows in Africa, as there is little information publicly available of loans conditions, as also African countries tend to hide this information or to release them with few details, in order to avoid criticism relating to the deal conditions.

China is very sensitive about criticism that is carrying out a "debt diplomacy", stating that the debt of African countries, is not due by Chinese loans, but by the others that invested before. This is true, indeed many countries before Chinese involvement have been loaning money for years to the African countries, mainly the US. This debt accumulation, although became unsustainable in the last decade for some countries, with most of the academic press and international players, such as the US, blaming the Chinese for the "predatory" approach, thus accusing it for the debt default situation with which some African countries are dealing, and claiming that the large loans underwrote by China in Africa are solely for the purpose of gaining access of natural resources and some strategic assets.

Figure 10: Chinese loans to Africa from 2000 to 2017




Source: China Africa Research Initiative (CARI) by The Johns Hopkins School of Advanced International Studies

A country like Zambia, for example, has recently been on a verge of a possible debt default, with China detaining one quarter of the debt[55]. Exacerbated for years of its resources, given by the massive mineral wealth, Zambia is one of the least developed countries in Africa. Although, before the Chinese engagement, during

[55]"The Economist "data estimates

the last years, the Zambian governments has been contracting loans with the US, as most of the other SSA countries.

Some economists, on the other hand, point the finger towards the International Monetary Fund (IMF), responsible for providing unsustainable loans to African economies , thus helping countries to reach a “debt default” scenario, enabling the economies to open more to international players, ready to invest and takeover both natural resources and public infrastructures, needed by resource dependent European countries.

The IMF and the World Bank in the last years of the century started to loan money to 37 countries, that were grouped under the term “Heavily Indebted Poor Countries” (HIPC), offering soft loans with low interest rates in order to debt relief their economy. Out of these 37 countries, 30 were in Sub Saharan Africa. This program, has received much criticism both by media and African countries, arguing that countries already indebted, were left with other debt, with no possibility of extinguishing the loan nor space to enact structural reforms.

So, as shown, African countries debt, cannot be all China’s fault, as also other countries and institutions have over time contributed to the indebtedness of the region, and the Chinese are being blamed solely under their predatory approach to the continent , and given their incredible penetration of the region, which has arose concern into international players.

**CHAPTER 3**

## 3.1 WHO BENEFITS FROM THIS RELATIONSHIP: AFRICA OR CHINA?

As Chinese investments begin to decline, economic growth in Africa is starting to slow down, as some experts noted leaders in the African communities did not do enough in order to promote long term economic development and allowed themselves to be "bullied" by the Chinese. Indeed the realization of policies and reforms aimed at improving some aspects of life have been completely erased by the widespread corruption at the core of the majority of the African governments .The Chinese imports of low cost manufactured goods have devastated the African producers, similarly to the UK and India with the UK's textile industry some years ago. For the African economy to remain growing, it must move away from its natural resources and turn towards manufacturing and service-based economies. Only then Africa will be able to keep up their own growth without the continuous aid and support from China, from other countries or from international institutions.

Over the years three school of thought have been advanced regarding the Chinese intervention in Africa. The first approach has been developed by the so called "neocolonialist school" led by Western players and critics of the Chinese model, according to who, China's relationship with Africa is purely profit-making and does not affect the host countries.

The second school, the so called "development or optimistic school" believes that neocolonialism is a powerful word, asserting that although the Chinese aggressive approach to the continent, it remains in the terms of trade exchanges and investments in some cases.

The third school, also known as "accommodation school", believes that China has been attracting the attention of the African countries, by offering an appealing alternative to the Western aid, mainly given by the "no political strings attached approach".

But the real question most of international observers are undergoing is if its Africa is somehow benefitting from this partnership.

At the moment it still seems how the only player who is gaining from these partnerships is the Red Dragon[56].

China is not only investing in the economic development of the Continent, but it has gained the opportunity to distribute development projects all over Africa, being able to increase year per year the number of projects, given the fact that most of the countries cannot repay their debts, and exacerbating the continent of its raw materials base, importing the majority of it to China.

In the long run Africa would be certainly benefitting from the infrastructures built by the Chinese, but before enjoying these benefits it should find ways to finance the bill, as African governments settled for most of the

[56] Nickname referring to China

deals for short-term gains leading though at large costs in the long run. In a sense the continent is enjoying the fruits of the Chinese aid immediately, but cannot sustain to finance back the loans, and more importantly to run maintenance work on the infrastructures.

African governments should stop looking to the Chinese as the saviors of the continent, China's aim is not to fix Africa's already existing structural problems, but just to do business, in an intent to defend their own interests, and to enhance China's growth, not Africa.

African leaders should strike better deals with the Chinese in order to benefit from this partnership, avoiding to be in the hands of China, when they do not have the capacity to pay back the loans, in a direction leading to the sustainable growth of the continent and most importantly to a reduction of poverty, which still is the main issue faced by African countries. An important point on which African countries should converge, when discussing agreements condition, should be a major involvement of local communities in infrastructures construction work done by Chinese companies, boosting employment and growth for local communities.

At the same time Africa can learn a lot from Chinese economic and political history. China has been able to transform a rural country where poverty was widespread, exacerbated by socialist policies, into an industrialized country, and finally in the world's most powerful nation in only three decades.

It has to be clarified, however how China presents many structural differences with respect to the African continent. First of all, China is not a continent, even though as far as population and GDP it could account as a continent. Second, 1979 China was more economically developed than African economies nowadays, as most of the continent's countries have reached their independence in those years, being far behind the rest of the world and economically exacerbated by the exploitation of resources by colonial powers.

Irene Yuan Sun, an author of a book on Chinese investment in Africa says that manufacturing investments is the best hope that Africa has to industrialize in this generation. According to her paper[57], the private enterprises are as large as the state-driven efforts and more job-intensive, which localize quicker and have a much larger economic and social impact. A real return to growth for Africa could be represented by the revitalization of private enterprises by national governments into a new dimension, able to compete both at intraregional level and at international level.

African citizens although do not demonize Chinese involvement, following a research run in 36 African countries by Afrobarometer[58] in 2014/2015 it has been revealed, how although the criticism surrounding, China ranks as the 2nd in development model, after the US, with most of the Africans who believe that its influence has been beneficial to the continent , as the Chinese are not perceived as "colonizers" but rather as "aiders", although in reality in most cases it is the opposite.

[57] "The next Factory of the World: how Chinese investment is reshaping Africa"
[58] Founded in 1999 Afrobarometer is an online website specialized in African surveys about politics, society and democracy.

## Conclusions

The main aim of this dissertation is to understand what the reasons behind the growing Chinese interest in Africa are, and if this phenomenon has helped the economic growth of the African countries.

It is undeniable that most of the African countries have seen their standards of living improve in the latest years, but it also true that this is the beginning of a slow path, that if not followed, would be completely useless, assuming the unpredictability of the African growth, the great differences between countries and the possibility of quick external shocks, along with the political instability of the continent.

Africa lacks at the moment a governing class of leaders that takes to heart the implementation of reforms and the streamlining of the bureaucracy processes, along with a long run vision of Africa's real needs, away from political aspirations of any type.

Indeed, who will pay the effects of the unwise choices of the politicians of the last decade, will be the next generations of Africans, who 40/50 years from now will have to pay the consequences in order to repay the considerable amount of debts that African states hold with China.

China's investments in Africa have been welcomed warmly by African governments, who have seen in this massive injection of liquidity, a possibility to fix some internal issues and to see the creation of new infrastructures, without having to pay for it immediately. But what are the costs arising from these investments?

The impact of Chinese intervention in Africa has been diversified depending on the country interested. The consequences of Chinese FDI on the welfare of the country can vary significantly depending on the type of country concerned. As more developed countries are able to negotiate more remunerative deals, being able to repay for parts of the debts undertaken, Chinese involvement in less developed countries can be fatal to the economic growth of the country as, although enabling some fundamental infrastructures helping the country's development , the conditions are unsustainable for less advanced economies, leading to a Chinese overtaking of some of the country's most important assets. China although, as mentioned already, does not care much about the size of the country or its economic development  as over the years has extended the contracts to almost all the African countries, and in particular to the less developed SSA countries, where can gain benefits both in the short and in the long run. In South Africa, the 2$^{nd}$ top receiver of Chinese FDI in SSA as of 2017, the investments in private and public companies have been boosting economic growth in the country, involving local communities, as although SA is suffering from a political and social crisis that is shifting Chinese investments to other countries. Instead in South Sudan, one of the poorest countries in SSA, Chinese investments have interested greatly the extraction of resources, mainly oil, with a direct involvement of China's state-owned enterprises, transferring workers from China, so not impacting completely the development of the country.

Even if quickly growing, China-Africa economic relations both regarding trade and investment are still small if related to the economic ties that the continent has with the rest of the world, especially with Europe and the Us , which have been in contact with the continent for a much longer period.

The question we must ask ourselves is: will China continue to invest in Africa?

We still do not know, as Chinese are not moved by humanitarian purposes but just want to find the best business opportunities that will benefit them in the long run. Although it must be stated, as noted by many, that the effects of the Chinese economic influence on Africa over the last couple of decades had more success than the colonial power exercised by Europe during history, and as in some sectors such as agriculture the economic help of the Chinese can fuel the development of the sector in the entire continent. As far as infrastructure the Chinese aid has been fundamental for the exploitation to the fullest of the natural resources that Africa could offer. But in most cases these benefits have been only impacting China and for little part Africa, as most the deals were struck with no favorable conditions for the African countries.

Overall if China will still be investing in Africa in the following years, this will impact deeply the economic performance of the country, and consequently of the continent, reshaping its political and economic landscape.

Africa has a great potential, but it will start to grow consistently, only when its unexplored natural resources will have an impact on its economic development, without affecting other countries'.

The most difficult thing to do is to define a common agenda for all the African states, as stated in the paper all the countries are different from one another, and a solution for a country's problem may not be effective for another, even though the African Union and some of its organizations have helped the achievement of some important common deals on trade. The African Union could be a useful vehicle through which political leaders could implement a unique view of the future relations with China, putting first the continent's future instead of the single state's future. At the moment this solution seems like a winding road, as most political leaders do not share a common vision about Africa's future needs, and most of the attempts seem difficult to work in a near future.

This is the reason why the single states must be dealing themselves with the implementation of reforms to ensure economic growth, pointing on the reduction of poverty and to the digitalization of the continent, which is seen to be the next important challenge for the development of the region, allowing countries to compete at a higher level in the international market.

I deeply think that the Chinese are not to blame for the economic struggles of the continent, but African political leaders are the ones to blame for the underdevelopment of the region. The strategic partnership between China and Africa will depend upon the ability of the African governments to fully utilize the opportunities given by the Chinese to promote economic growth and prosperity for the countries through the full employment of the natural resources available.

Only in some decades from now, we will be able to understand if the cooperation has helped the development of Africa, or if it has solely helped the development of China, but we can state how at the moment the cooperation is far away to be a win-win cooperation.

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