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Investment and Aid Relationships

Whereas reasonably good data are available to demonstrate the importance of China and India in terms of trade, data on capital flows are more limited. In parallel with its rise as a trading partner – largely because the trade opportunities create investment opportunities – aid and investment flows from China to SSA have increased significantly in recent years. There is sufficient information on foreign direct investment (FDI) to show the increasing importance of China, and to a lesser extent India, in Africa (see UNCTAD, 2010, Chapter 4). However, consolidated data on ‘aid to Africa’ do not exist; concessional flows are often closely linked to trade or investment so that levels of aid are hard to determine. Nevertheless, capital flows of various forms to Africa are increasing.

World FDI stock, measured as outward or inward, has increased some 14 times between 1982–1990 and 2005–2008 (UNCTAD, 2009). Although developed economies dominate FDI as hosts and sources, their relative importance in terms of inward and outward FDI flows and stocks has declined over time. The combined stock held by the G7 major industrial countries fell from an average of 79 per cent of world outward FDI stock during 1982–1999 to 55 per cent during 2005–2008 (UNCTAD, 2009). As the relative importance of the major industrial countries declined, China’s position (and India’s to a limited degree) increased steadily. Greater China (mainland China, Hong Kong and Taiwan) ranked as the fifth largest source of world outward FDI stock during 2005–2008, with an average share of 6.8 per cent, while India was 31st accounting for an average share of 0.2 per cent (UNCTAD, 2009). However, it is the pace at which China (outward FDI from US\$1.7 billion during 1982–1990 to US\$93.6 billion during 2005–2008) and India (outward FDI from US\$99 million during 1982–1990 to US\$35.7 billion during 2005–2008) have increased their FDI portfolio and also the scale and speed of penetration into some parts of the developing world (including SSA) that is notable. Thus although from a global perspective China’s and India’s investments abroad remain relatively low, they are increasingly important in SSA.

China’s surge of outward FDI is a relatively recent phenomenon following reforms and deliberate policies under the ‘Going Global Strategy’ to secure natural resources to fuel rapid growth and, equally important, business opportunities in the service industry. Under this strategy the Chinese Government encourages qualified enterprises to go abroad and engage in multinational operations to achieve mutual development. The result is clearly discernible as Chinese investments abroad doubled each year between 2004 and 2008. According to the WTO (2010), by the end of 2009 Chinese enterprises had established 18 overseas economic and trade co-operation zones in 14 countries to facilitate outbound investment. Some three-quarters of total Chinese outward FDI was in business services, financial sectors, wholesale and retail (ibid.: Table I.10). India’s outward FDI flows followed a similar trend, albeit at much lower levels.

FDI and investment in SSA

Although the SSA share of world inward FDI stock fell from 2.9 per cent to 2.2 per cent during 2005–2008, FDI stock in SSA has grown from US\$31 billion during 1982–1990 to US\$266 billion over the same period (Appendix Table A11). To a large extent this spectacular growth was driven by inflows from China and India. ‘Indian investments (outward stock) in Africa amounted to some US\$2.7 billion in 2008, compared to US\$7.8 billion for China’ (UNCTAD, 2010: Figure 7). The major beneficiaries were mineral rich countries including Angola, Nigeria, South Africa and Sudan – it is notable that these are the same countries that export to China and India. Over 2005–2008, South Africa accounted for almost 1 per cent of global inward FDI stock, over a third of the SSA stock; Nigeria accounted for over a fifth of the SSA stock while Angola and Sudan accounted for 5 per cent (Table A12). Other countries that export to China and India, notably Equatorial Guinea and Zambia, are also among the largest SSA recipients of FDI.

There is widespread recognition that Chinese investment in SSA is now significant. Furthermore, because the focus of this investment is on resource extraction to feed China’s demand for oil and mineral imports, there is concern that Chinese behaviour may be similar to that of (Western) multinationals historically, i.e., SSA countries may not be getting the ‘best’ price for their resources. Against this, a less widely recognised factor is the competition between Chinese firms investing in Africa. For example, the China National Petroleum Corporation (CNPC) and the China Petroleum and Chemical Corporation (Sinopec) competed with each other over an oil pipeline project in Sudan (Taylor, 2010: 7).

SAA countries experienced dramatic growth in FDI inflows at an annual average rate of 16 per cent over 2000–2004 and 28 per cent over 2005–2008; although small countries such as São Tomé and Príncipe or Equatorial Guinea that discovered resources had the largest increases, the growth is spread across most countries (except Botswana, whose stock of FDI fell) (Table A13). Although FDI to SSA averaged less than 2 per cent of total global inward FDI flows during 1982–2008, the growth rate into SSA was twice the global growth in the second half of the 2000s, reflecting flows from China and India. Eight countries account for over 80 per cent of inward FDI flows to SSA: in order of importance, Nigeria, Angola, South Africa, Sudan, Congo, Equatorial Guinea, Ghana and Zambia (Table A14) – only Ghana is not among the eight major exporters to China and India. The top four countries alone accounted for 59 per cent of all FDI inflows to SSA during 1982–2004 and increased their share to 64 per cent during 2005–2008, while the other four major recipients accounted for 9 per cent and 12 per cent during 1982–2004 and 2005–2008, respectively.

The relative importance of global FDI (stock and flows) for SSA countries is revealed where FDI is expressed as a share of GDP. Total FDI stock was equivalent to 15 per cent of SSA GDP over 2002–2008, although this had risen to 22 per cent in 2008 and was about 26 per cent of GDP for the average country (Table A15). For Equatorial Guinea (where there appears to be an error), Liberia, Seychelles (a tax haven) and Congo the FDI stock exceeded GDP. Perhaps of greater importance is that total FDI inflows increased from 1.2 per cent of SSA GDP in 2002 to 4.1 per cent in 2008 (Table A16). For major recipients, inflows account for significant shares of GDP, averaging over 20 per cent of GDP during 2002–2008 for Angola, Congo and Equatorial Guinea, for example, and over 5 per cent of GDP in 2008 for 16 countries (Table A16).

Table 3.1. Chinese and world FDI stock in SSA, 1990 and 2005

		Chinese FDI (US\$)		World FDI (US\$)		China/World %	
		1990	2005	1990	2005	1990	2005
	SSA	33.0	1,305.1	36,746.0	194,545.3	0.1	0.7
1	Sudan		351.5	55.3	7,684.1	0.0	4.6
2	Zambia	3.2	160.3	2,655.5	5,409.0	0.1	3.0
3	South Africa		112.3	9,207.2	78,984.5	0.0	0.1
4	Nigeria	6.7	94.1	8,538.6	36,380.7	0.1	0.3
5	United Rep. of Tanzania	1.7	62.0	387.8	4,390.0	0.4	1.4
6	Kenya	0.5	58.3	667.9	1,113.3	0.1	5.2
7	Madagascar	1.7	49.9	106.8	250.3	1.6	19.9
8	Guinea		44.2	68.8	580.7	0.0	7.6
9	Zimbabwe	2.5	41.6	277.1	1,383.1	0.9	3.0
10	Gabon	2.9	35.4	1,208.4	488.4	0.2	7.2
11	Ethiopia		29.8	..	2,820.8	..	1.1
12	Côte d'Ivoire	0.6	29.1	975.4	3,901.3	0.1	0.7
13	Mauritius	6.3	26.8	167.8	804.7	3.8	3.3
14	DR Congo		25.1	546.4	908.3	0.0	2.8
15	Niger	0.1	20.4	286.4	100.0	0.0	20.4
16	Sierra Leone	1.1	18.4	243.1	304.0	0.5	6.1
17	Botswana	0.0	18.1	1,309.3	806.3	0.0	2.2
18	Equatorial Guinea		16.6	25.4	7,362.6	0.0	0.2
19	Liberia		15.9	2,731.6	3,788.0	0.0	0.4
20	Mozambique	0.1	14.7	24.8	2,630.0	0.4	0.6
21	Congo		13.3	575.2	2,912.6	0.0	0.5
22	Mali	0.0	13.3	229.4	871.6	0.0	1.5
23	Angola		8.8	1,024.4	12,132.9	0.0	0.1
24	Cameroon	0.5	7.9	1,044.0	3,202.2	0.0	0.2
25	Ghana		7.3	319.3	2,142.9	0.0	0.3
26	Uganda		5.0	6.0	2,024.4	0.0	0.2
27	Togo	0.2	4.8	268.0	713.8	0.1	0.7
28	Rwanda	2.9	4.7	32.7	77.0	8.9	6.1
29	Seychelles		4.2	212.9	808.5	0.0	0.5
30	Chad	0.1	2.7	249.7	3,040.0	0.0	0.1
31	Namibia		2.4	2,046.8	2,453.4	0.0	0.1
32	Senegal	0.2	2.4	258.3	358.2	0.1	0.7
33	C. African Rep.	1.2	2.0	95.4	198.3	1.3	1.0
34	Gambia	0.5	1.2	156.6	372.5	0.3	0.3
35	Cape Verde		0.6	3.8	360.9	0.0	0.2

Source: Data on Chinese FDI stock in SSA countries taken from UNCTAD (2006) as reported by Besada (2008: 18). Data on World FDI stock in SSA taken from UNCTAD (2009).

Chinese FDI stock held in SSA is shown in Table 3.1, where mineral-rich countries such as Nigeria, South Africa, Sudan and Zambia have been the major targets. However, the stock of Chinese FDI is also relatively high in countries such as Kenya, Madagascar and United Republic of Tanzania. As this reports 2005 values it may reflect investment in the garment sector. In relation to the total (world) FDI stock in individual SSA countries, Chinese FDI stock is very small except in Madagascar and Niger where it represents 20 per cent of total FDI stock.

What is also clear for all those SSA countries where data are available is the considerable increase in Chinese FDI stock. Over the past few years this has risen sharply under China's foreign co-operation programme in relation to contracted engineering projects, labour services and design consultation services (Kragelund and van Dijk, 2009). The changes in the shares of Chinese FDI stock from 1990 to 2005 (as indicated in Table 3.1) are noteworthy. However, because the data end in 2005 they miss more recent increases, which in some cases are likely to be significant (Angola in particular, and possibly also Equatorial Guinea). Current data would be likely to show the rise of resource rich countries to the top of the list of recipients.

Chinese FDI to African countries reflects closer economic ties. 'The leading African recipient of FDI from China is South Africa followed by Nigeria, Zambia, Sudan, Algeria, Mauritius, United Republic of Tanzania, Madagascar, Niger, Congo, Egypt and Ethiopia' (UNCTAD, 2010: 84). Although Chinese FDI goes mostly to those SSA countries from which it imports, Indian FDI has a more historic pattern: accumulated flows to Mauritius (US\$1.4 billion during 1996–2005) accounted for 9 per cent of total outward FDI; only recently has India had large investment in other countries such as Côte d'Ivoire, Senegal and Sudan (UNCTAD, 2010: 86).

The growing relative importance of China and India as sources of FDI for SSA is seen in the amounts involved, the speed of FDI growth, the relatively soft terms involved and the broad coverage of beneficiary countries. The driving motivation behind some of China's FDI (especially by state-owned enterprises) transcends the profit maximisation objectives of multinationals from developed countries. Instead FDI by Chinese state-owned enterprises that enjoy access to low-cost capital at home tends to be driven by the objective of establishing strategic long-term relationships, often intended to secure access to mineral resources for Chinese industries (Besada, 2008: 19). Although Chinese investment in Africa is concentrated in extractive industries and agriculture, 'Chinese firms are also taking on a significant number of manufacturing, construction and infrastructure projects (often ones considered too risky by European or US firms). In Sierra Leone in 2005 – within two years of the end of the civil war – China invested US\$270 million in hotel construction and tourism' (OECD, 2010: 83).

Factors that have helped the rapid expansion of Chinese FDI in recent times include heavily subsidised capital available to enterprises seeking to invest abroad; relaxed requirements for the state-owned enterprises to adopt internationally recognised standards; the use of materials directly imported from China, and the almost exclusive use of relatively cheap Chinese labour (Besada, 2008: 22). China also invests in the textiles and clothing sectors, thus availing of SSA trade preferences to avoid US and European limits on Chinese textile and clothing exports.

Indian FDI is directed mostly to countries in South and East Asia, often linked to regional trade and integration. Mauritius has also been a beneficiary. Some of this is 'round-tripping' investment (UNCTAD, 2004), i.e., domestic investment routed through Mauritius back into India to take advantage of fiscal incentives accorded foreign investment, although some is likely to reflect established investment in the garment sector. Sudan is the only other SSA country in the top 30 recipients of Indian outward FDI, absorbing 9 per cent of this between 1996 and 2003 (DFID, 2005: 32).

Data on the scale of Chinese FDI in SSA should be interpreted with caution given the measurement difficulties; Chinese activity in SSA may be FDI, winning commercial tenders, part of a Chinese aid package or joint ventures between Chinese and SSA firms. Fewer than 50 investments in SSA per annum were recorded by the Chinese Ministry of Commerce between 1998 and 2002 (Kaplinsky *et al.*, 2006: 14). Anecdotal evidence suggests a large increase in Chinese enterprises undertaking large projects (e.g., construction or rehabilitation of infrastructure, such as roads in Mozambique), but there are many small-scale initiatives including distribution (wholesale and retail of Chinese goods, e.g., in Namibia and Zambia) and light manufacturing (e.g., manufacture of mattresses, tiles and hair lotions under a joint venture with the Sierra Leone Government). Between 1998 and 2002, Chinese FDI in Africa tended to be in relatively small scale with an average portfolio size of less than US\$3 million.

An increasing number of large Chinese energy firms (such as CNPC and Sinopec) have invested in SSA, especially oil projects in Angola, Gabon, Nigeria and Sudan. Most of these are wholly or partly state-owned and enjoy financial support in the form of soft loans and/or grants. For example, CNPC invested heavily in Sudan under a joint venture arrangement with the Sudanese Government and other foreign energy firms, has a 40 per cent stake in the Greater Nile Petroleum Operating Company and has an equivalent stake in another project in Darfur and Melut Basin. Backed by the state, CNPC is also a big investor in Nigeria for oil exploration, construction of a 1,000-megawatt hydroelectric plant in Mambila and a controlling share of a refinery in Kaduna. Sinopec has large investments in Angola, Gabon and Sudan. Chinese firms have also invested in the mining of copper in Zambia and cobalt in Democratic Republic of the Congo.

Large Chinese construction corporations are also involved in the construction and/or rehabilitation of infrastructure across SSA. Typical projects include sports stadiums, presidential palaces (Kinshasa), dams, roads, railways, parliaments and government buildings (Mozambique) and conference centres (Mozambique). Kaplinsky *et al.* (2006) list the factors underlying the growing participation of Chinese firms in construction and infrastructure projects in SSA as: low margins; access to cheaper capital than local investors (a gap of 15 per cent according to Manchester Trade Team, 2005); almost exclusive use of low-paid Chinese labour and construction materials; the use of standard designs; low attention to environmental standards; and access to subsidies and hard currency through the Chinese Government. 'Evidence suggests that Chinese investors conduct most of their business with government agencies and purchase a substantial share of their inputs from China. This has adverse consequences for the creation of linkages between Chinese FDI and host economies in the region' (UNCTAD, 2010: 84).

Chinese and Indian aid

It is difficult to quantify how much aid China and India give to Africa as they do not adopt the definitions of aid employed by the DAC, do not have a single aid agency and often closely link concessional flows to trade or investment (such as export credits and lines of credit). On the basis of information on official concessional flows, UNCTAD (2010: 53) estimates that in 2006 China gave some US\$2.3 billion in aid (US\$1.3 billion of which was debt relief) to Africa and India gave about US\$11 million. Katti *et al.* (2009: 2) estimate Indian aid to Africa as varying from US\$14 million in 2005–2006, US\$4 million on 2006–2007 and US\$11 million in 2007–2008. Whatever the true value, official flows from India are clearly much smaller than those from China.

China does not provide data on the amount of aid it gives, in total or to individual countries, although it is evident that the amount has grown significantly over the past decade, with a concentration in Africa. Although most SSA countries receive aid from China, Angola, Congo, Nigeria, Sudan and Zambia are the major beneficiaries (UNCTAD, 2010: 55), highlighting the link to resources (all five of these are among the top exporters to China). India also concentrates aid on countries that export to it – Nigeria and Sudan are the major recipients of infrastructure investment, although credits are spread over a number of West African countries (*ibid.*). For both China and India the aid is more likely to be in the form of concessional loans rather than grants, concentrated in infrastructure or projects related to trade.

The literature focuses on three features of Chinese aid to Africa (Chaponniere, 2009; Lancaster, 2007): (1) it is linked to commercial interest, in particular access to oil, mineral and timber resources; (2) it is typically invested in large infrastructure projects (often transport and related to resource extraction, but including schools and medical facilities); and (3) it is not associated with the types of policy or governance conditions advocated by Western donors. The last of these makes Chinese aid attractive to SSA governments: ‘low conditionality combined with the project-based approach of Chinese aid provides a useful alternative model for the donor community – albeit with its own drawbacks and limitations (e.g., a lack of transparency, a high share of tied-aid)’ (OECD, 2010: 89). While the unwillingness to engage with policy and governance issues may undermine efforts to ensure that the aid (and associated foreign investment) contributes to development, it should be acknowledged that both China and India espouse principles of partnership and mutual support in their aid.

Another important feature of Chinese aid is that it is highly tied, not only to Chinese firms for construction and materials but even including Chinese labour. In fact, the Chinese firms that get entry to SSA countries through aid projects tend to remain in the country, setting up a local office and retaining the equipment they have brought in so that they are locally very competitive (Taylor, 2010: 23). On this basis Chinese aid, as compared to other donors, can be criticised as offering fewer local linkages and hence less benefit to local private sector firms and employment. However, Besada (2008) notes that Chinese aid is also allocated to building low-cost housing, schools and sports stadiums; provision of doctors and humanitarian aid; and scholarships for Africans to study in China.

It seems appropriate to consider much of Chinese aid and investment (and perhaps also debt relief) as parts of a strategy for gaining access to a supply of important raw materials.

For example, China offered Angola US\$2 billion in aid in 2005 subject to the condition that it has a right to 10,000 barrels of oil per day (Taylor, 2010: 20–21). This need not be to the detriment of SSA countries, as long as the resource extraction sector provides revenue to the government (to support development objectives) as well as linkages and employment to the domestic economy. Although current volumes are much lower, India is strengthening its ties with Africa through lines of credit, FDI and technical assistance (Katti *et al.*, 2009: 1). India also promotes private sector co-operation and investment in Africa, such as investment by the state-owned Oil and Natural Gas Company in Nigeria and Sudan (*ibid.*: 2).

Kaplinsky *et al.* (2006: 22) classify Chinese economic aid to SSA into five categories: (1) infrastructure projects, e.g., rehabilitation of the 1,860km TAZARA railway linking Dar es Salaam and Zambia (passing through Zambia's copper-belt region); (2) debt relief, although debts to China have rarely been large; (3) academic scholarships for Africans to study in China; (4) technical assistance in health (doctors) and agriculture (e.g., rice production in Malawi); and (5) provision of preferential (duty free) market access. The latter, effective since 2005 for selected products (including food, textiles, minerals and light machinery) may have been important in facilitating the growth of non-mineral exports to China as previously SSA exports faced high tariffs (above 30 per cent). This could be seen as a Chinese interpretation of aid for trade. Nevertheless, most aid in value terms is allocated to infrastructure and likely to be linked to investment.

The increased official flows from China have relaxed resource constraints in SSA countries and provided a valuable alternative to traditional (Western) donors. 'There are a number of potential benefits from Chinese aid: better targeting on important infrastructure projects with long maturity and long-term potential; less bureaucracy (meaning lower transaction costs), greater efficiency and potentially faster response; and [less policy] conditionality' (OECD, 2010: 89). China is likely to become even more important as a source of aid and investment in the future, so the challenge for African countries is how to make the best use of the flexibility provided.

India is also likely to become a more important source of aid and investment, given the commitments made at the India–Africa Forum Summit in 2008 (Katti *et al.*, 2009: 4). India promised to allocate some US\$1 billion each year in lines of credit over five years, mostly for irrigation and agricultural production, food processing, infrastructure and energy, information technology and pharmaceuticals. This will be supplemented with grants of US\$500 million for human resource development and capacity building.

Conclusions and implications

China has become a major aid and investment partner for many SSA countries, especially those that are a source of mineral resources. In general, it is investing in the same mineral-rich SSA countries that attract global FDI. Indian FDI has historically been concentrated in manufacturing, especially garments, and retail and hotel services, especially in Mauritius, but is also diversifying (including into Sudan – the prime example of a country shunned by the West but attractive to China and India).

The flow and accumulation of Chinese and Indian investments in SSA has been accompanied by substantial increases in Chinese and Indian migrant workers and traders. These workers follow the aid and grant-aided infrastructure and social capital development programmes including in the construction, health and education sectors. By some counts the population of Chinese migrant workers in Lusaka, for example, increased tenfold from 3,000 in 1995 to 30,000 in 2005, and 200,000 Chinese (the majority recent migrants) lived in South Africa in 2005 (Kaplinsky, 2007: 7). The migration of Indians into SSA started in the late nineteenth century and continues to date. Most Indians in SSA engage in the distribution (wholesale and retail) service sector, largely in the eastern and southern countries bordering the Indian Ocean.

These observations highlight the inter-linked nature of Chinese aid and investment; although not well documented, similar issues appear to apply to India. In many cases aid is used in effect to subsidise investments, either directly as part of the investment finance or indirectly by supporting related infrastructure projects. For example, building and rehabilitating roads supports the transport of extracted resources. This is in addition to subsidies that Chinese firms often receive for foreign investment. This need not reduce the benefits to SSA countries, but it does make it difficult, and perhaps irrelevant, to try and distinguish aid and investment.

The more potentially damaging aspect of Chinese projects, whether aid or investment, is their tied nature – Chinese capital goods, inputs and even labour are all used (this may in part explain the large share in machinery imports). Furthermore, once the firms enter with materials and labour for a project, they use this to establish themselves in the local economy. At a minimum this reduces the potential linkages with the local economy as local suppliers are not supported. In some cases it may damage the local economy as it displaces local suppliers and labour (given that unskilled labour is abundant in SSA). Chinese aid and investment have delivered benefits to SSA countries, but there are many reasons to believe that these are less than they could be.

As investment and aid from China and India are linked and often involve firms, they offer potential for private sector development. ‘Partnerships between African and Chinese firms may facilitate technology transfer, add value to African exports, and help African firms position themselves to benefit from world markets – not least the rapidly expanding Chinese market ... [experience with India] shows that these clusters need not be restricted to manufacturing. Certain services including ICTs, financial services or tourism can enhance the generating of dynamic clusters (OECD, 2010: 142).

A final point to note is that the increase in FDI into China and India is unlikely to displace FDI to SSA (DFID, 2005: 35) as a large proportion comes from within the Asian region (Gottschalk, 2005; Rumbaugh and Blancher, 2004). According to UNCTAD (2003: 45) overseas Chinese are behind most of the regional FDI flow back into their homeland; overseas Indians are fewer and invest less into India. Furthermore, FDI into China and India is in high productive export sectors and services (information and communication technology, banking and finance).