



Chinese Firms and Investments in Africa: Patterns, Variation and Dynamics

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Clash of narratives



Data issues

- Uncertainty in data
- Aid flows often inflated as ODA, OOF and FDI frequently conflated
- Discrepancies over FDI data by sources and definitions
- Lack of centralised source of data
- Reliance on inaccurate media reporting

The context of China: 'go out' and New Normal

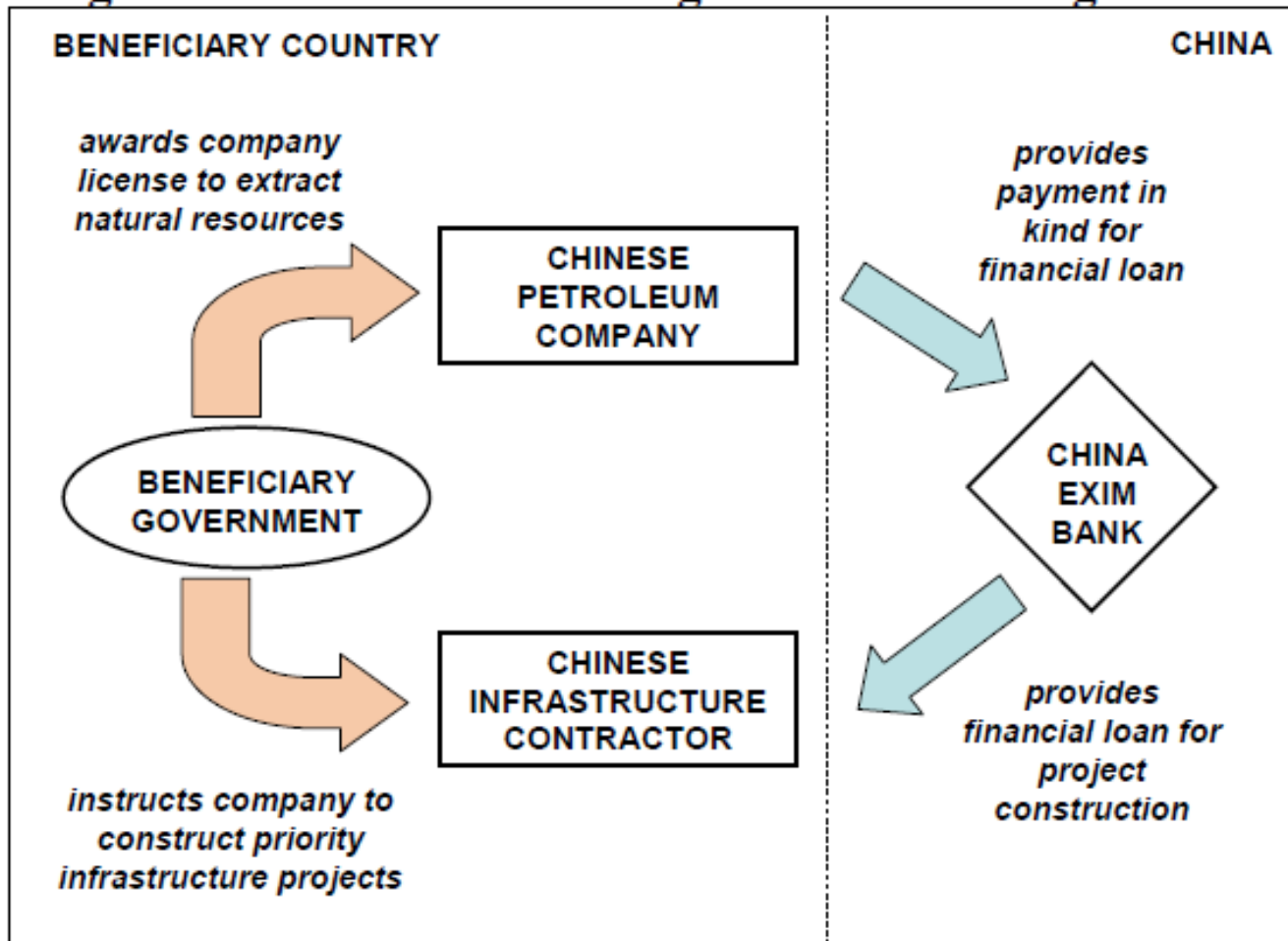
- Over-investment-accumulation / international reserves
- Over-capacity in some sectors
- New growth sources?
- 'New Normal' 新常态 – the restructuring of the Chinese economy and its model for the future

The context of China: 'go out' and New Normal

- 'Go out' (2002) 走出去 Zǒu chūqū → Supplementing attraction of FDI with globalization of Chinese firms (including SOEs) → fostering structural transformation overseas through 'Industrial capacity cooperation' (chan neng he zuo) and "strategic complementarity"
- OBOR initiative reflecting the above with important implications for developing countries
- Combination of trade, financing, investment, contracting and generally a focus on the 'real economy'

The 'Angola package': example of combination but not only modality

Figure 17: Structure of "Angola mode" arrangement



Finance for development

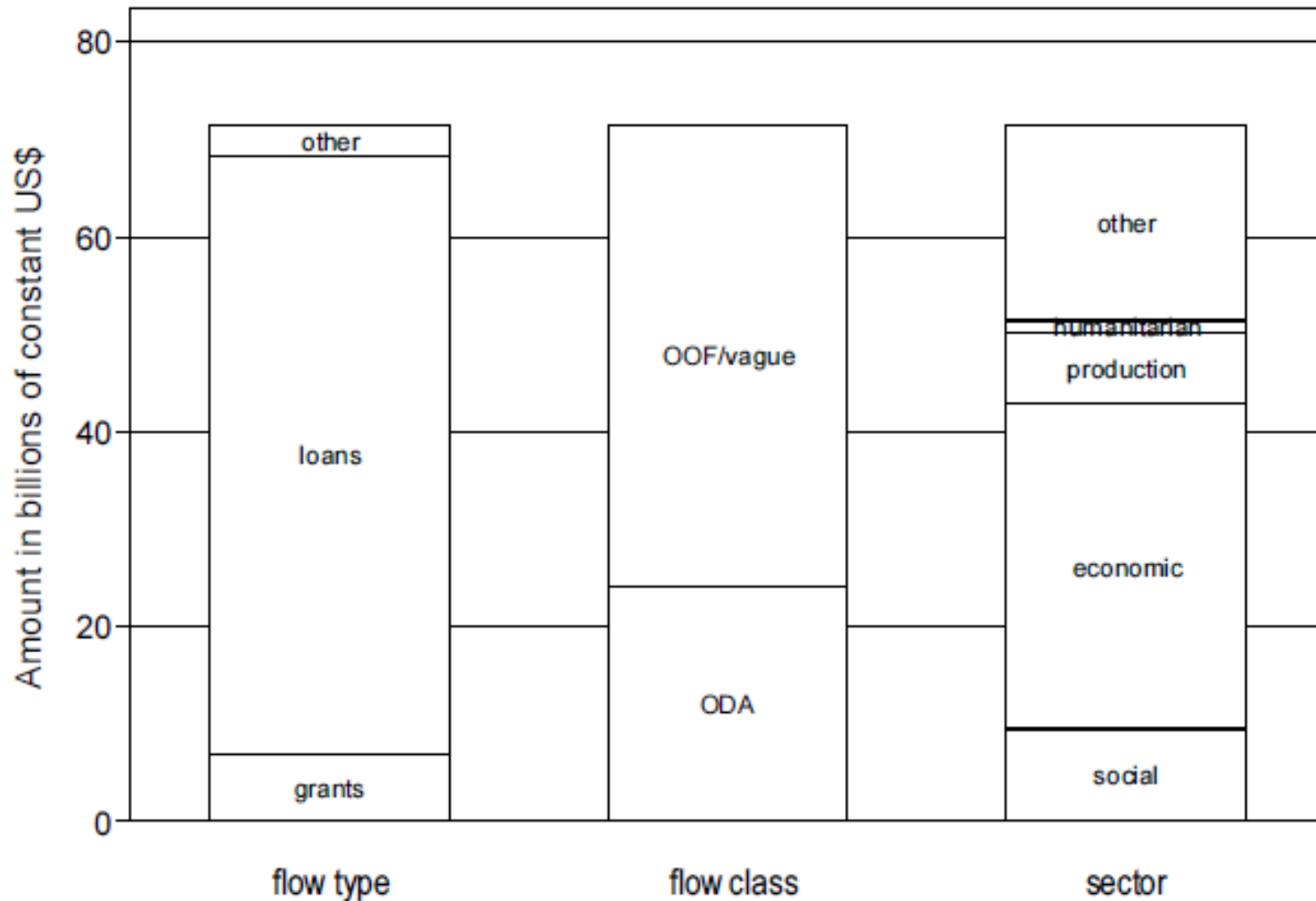
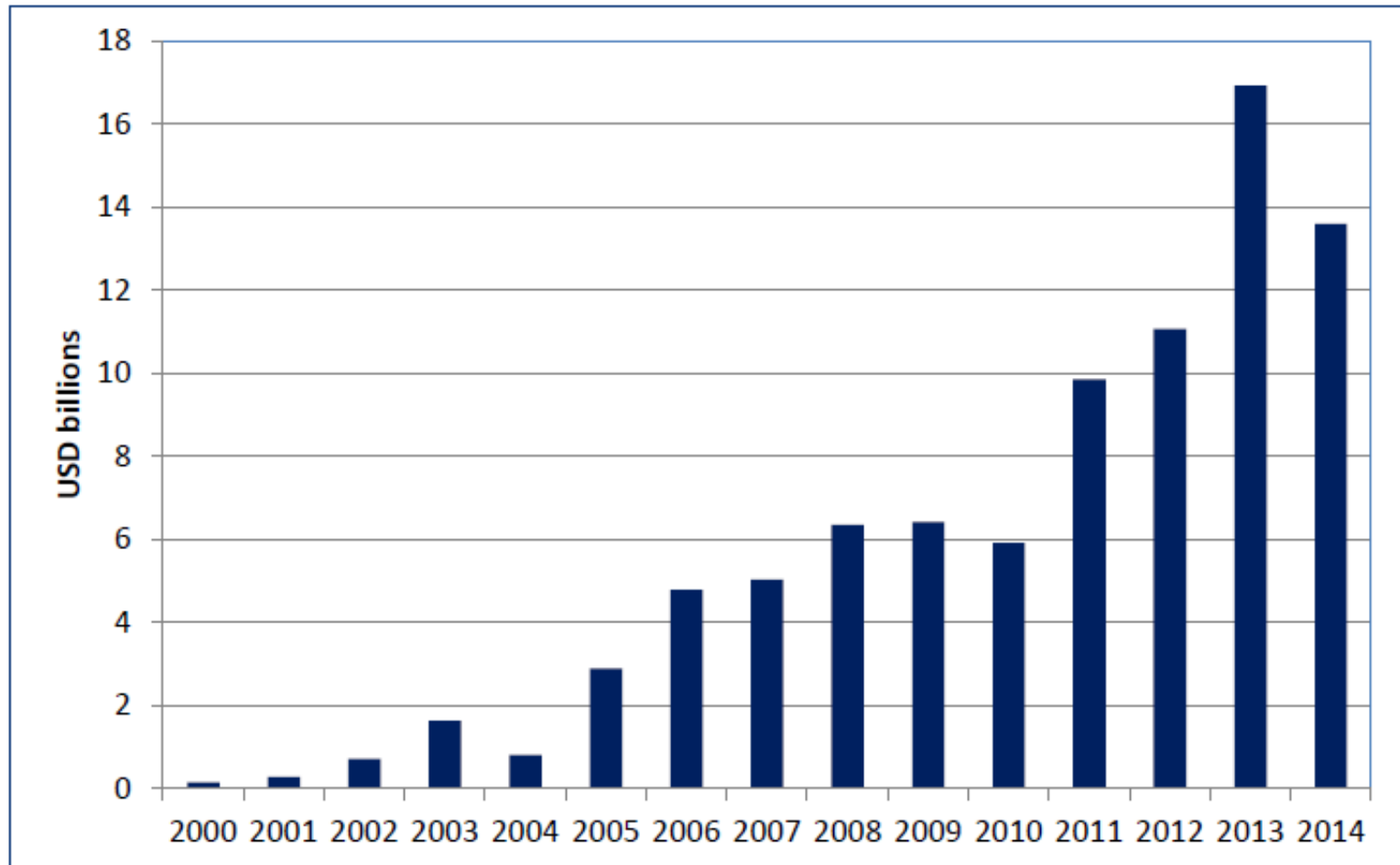


Figure 1: Project numbers and financial value of Chinese development finance by flow type, class type, and sector (2000-2012)

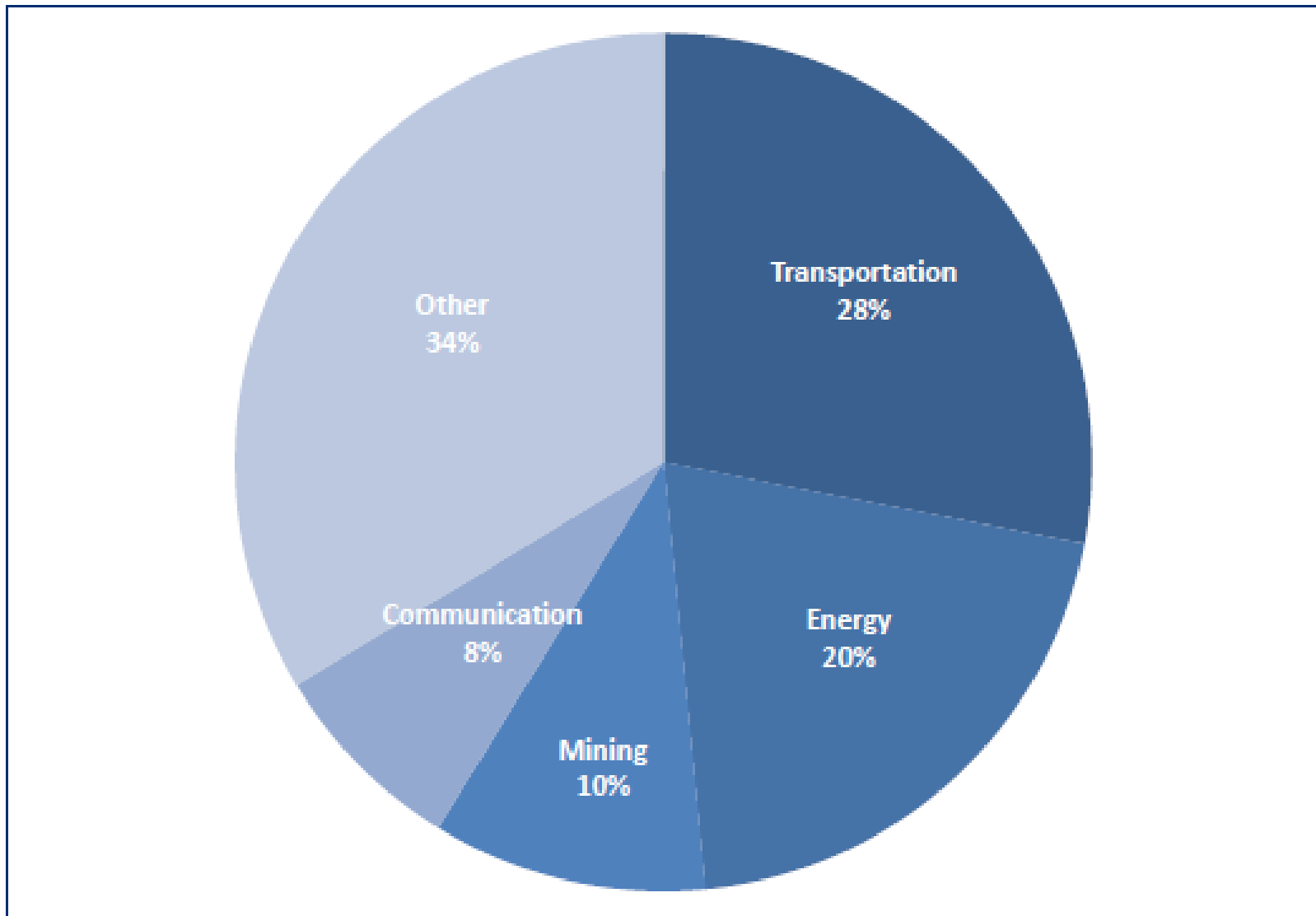
Overseas official loans

Figure 2: China's annual committed loans to African countries, 2000-2014



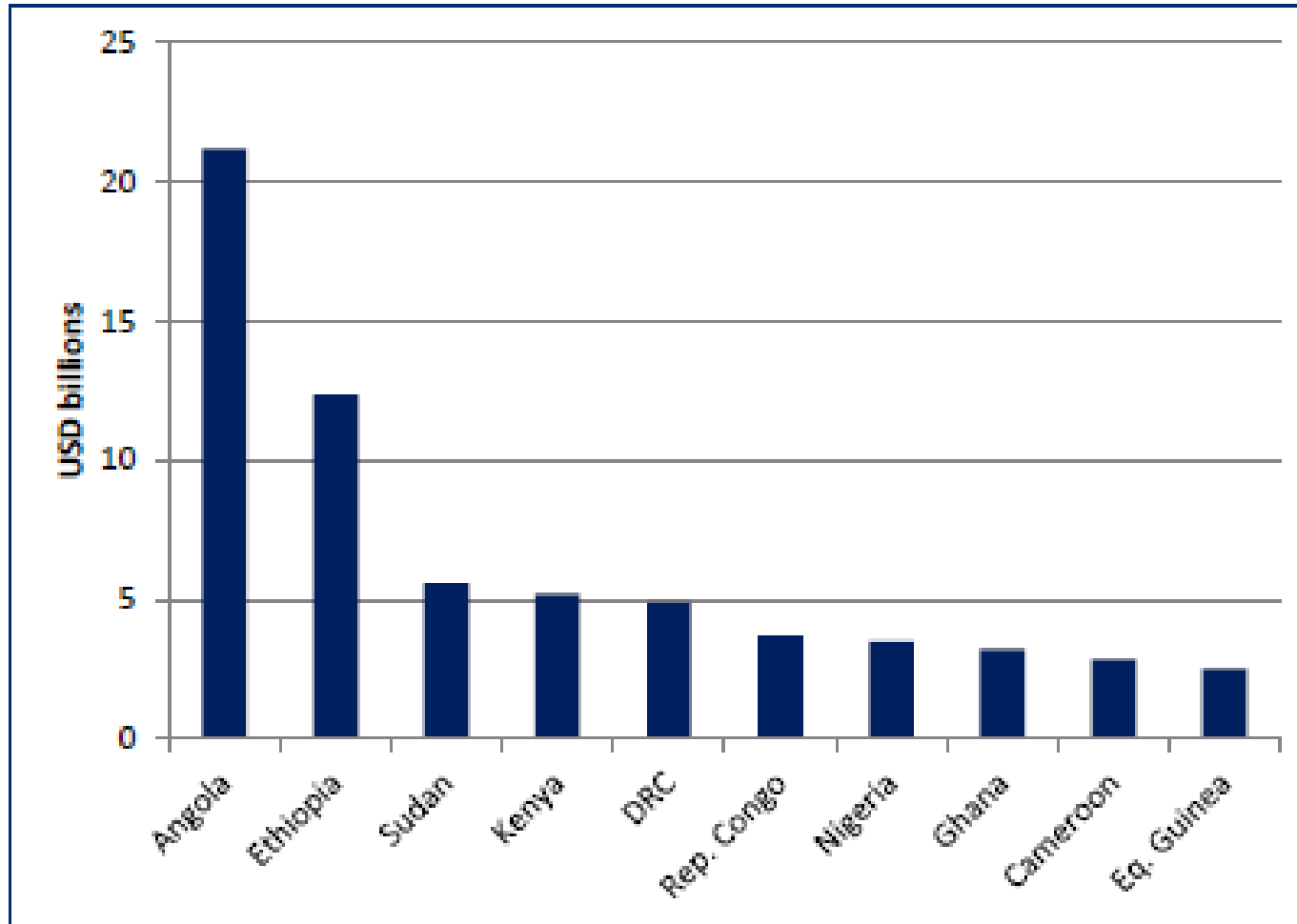
The distribution of loans

Figure 4: Sectors receiving Chinese loans, 2000-2014



Chinese loans to Africa: distribution

Figure 3: Top 10 loan recipients, 2000-2014

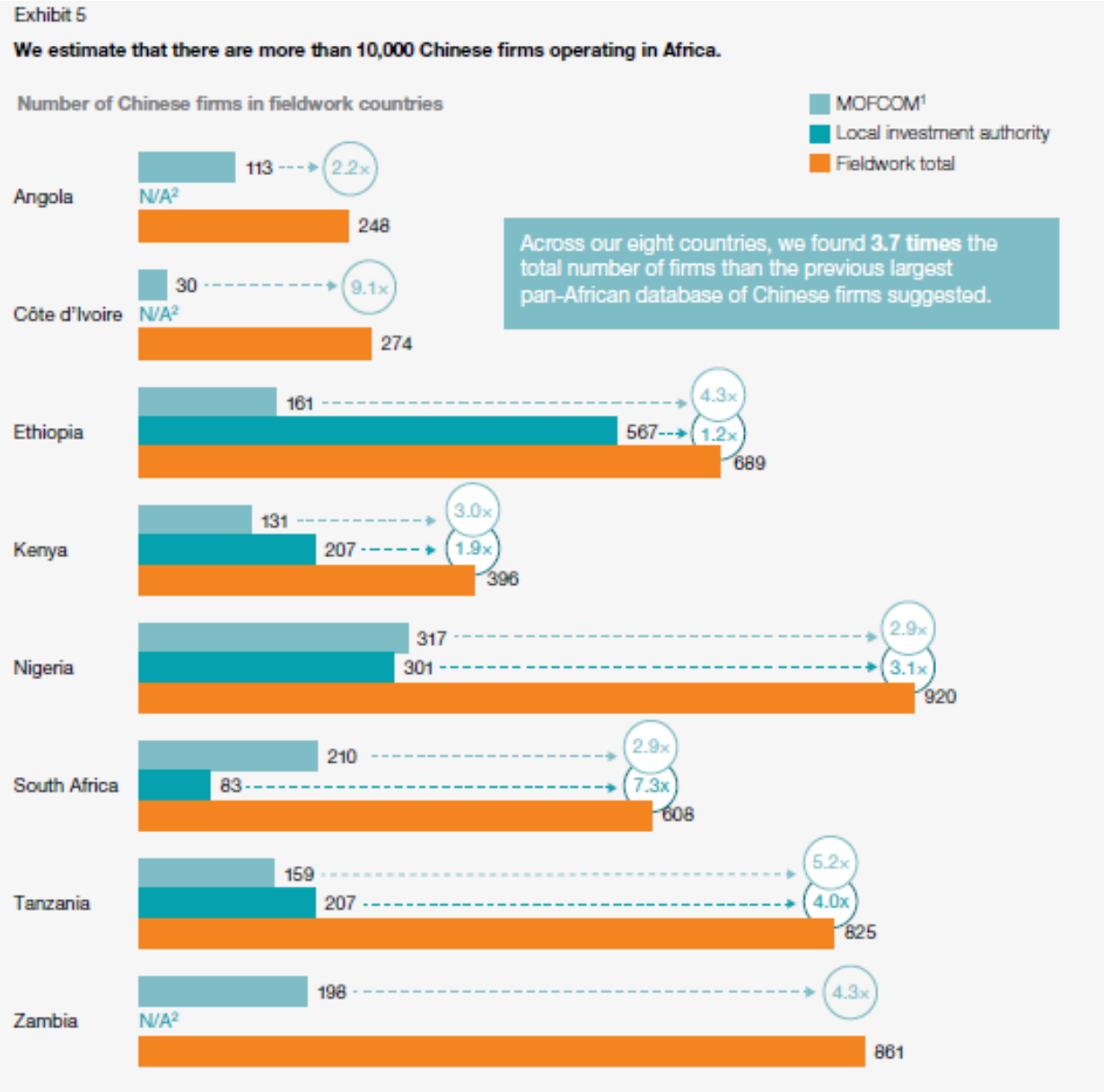




Chinese firms moving: FDI vs contractors

- Presence of Chinese firms has clearly grown fast in past 15 years and across the continent
- Focus here is on FDI and contractors for construction (especially infrastructure)
- Portfolio I important too but mainly in South Africa

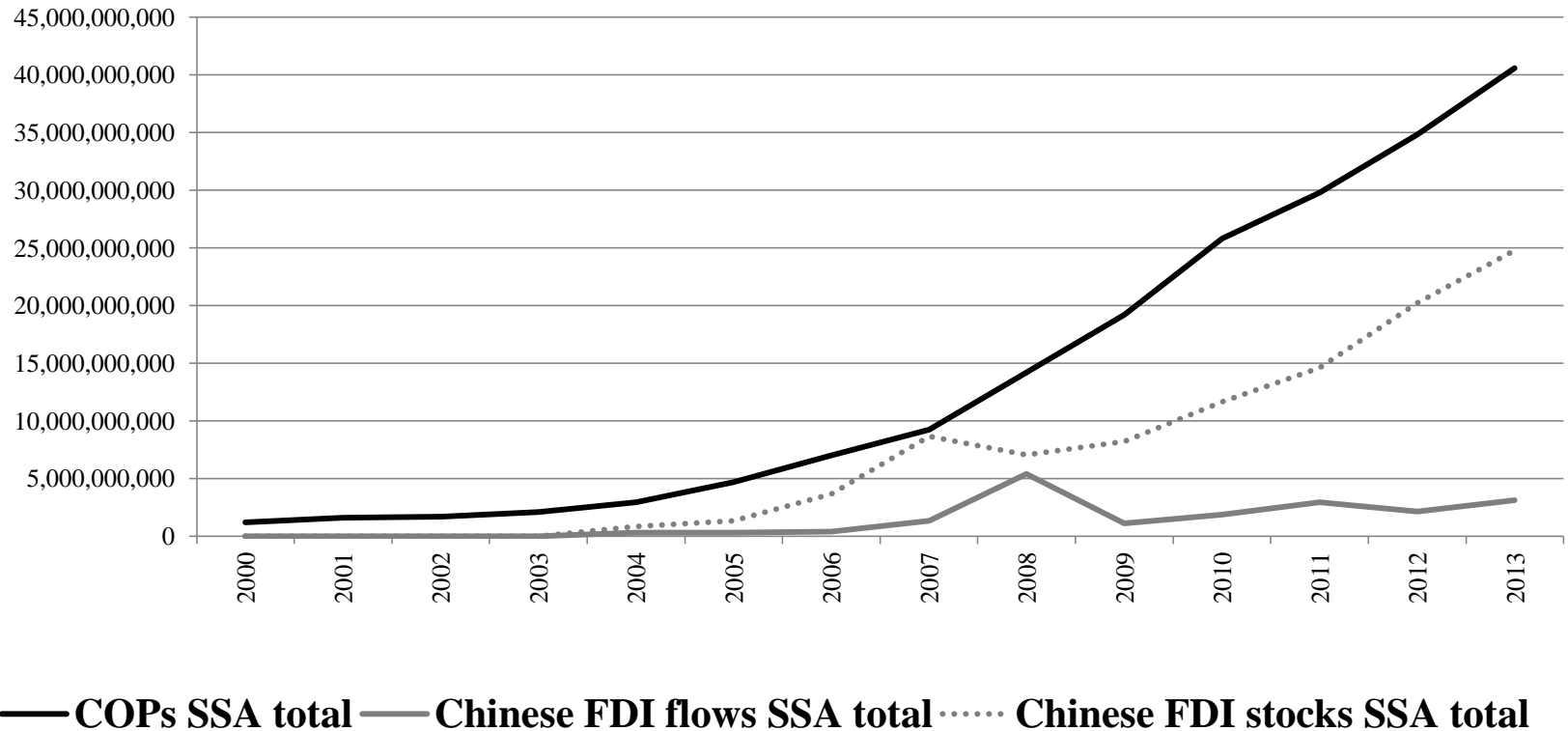
Hard to know how many Chinese firms operate in Africa



Source: McKinsey 2017

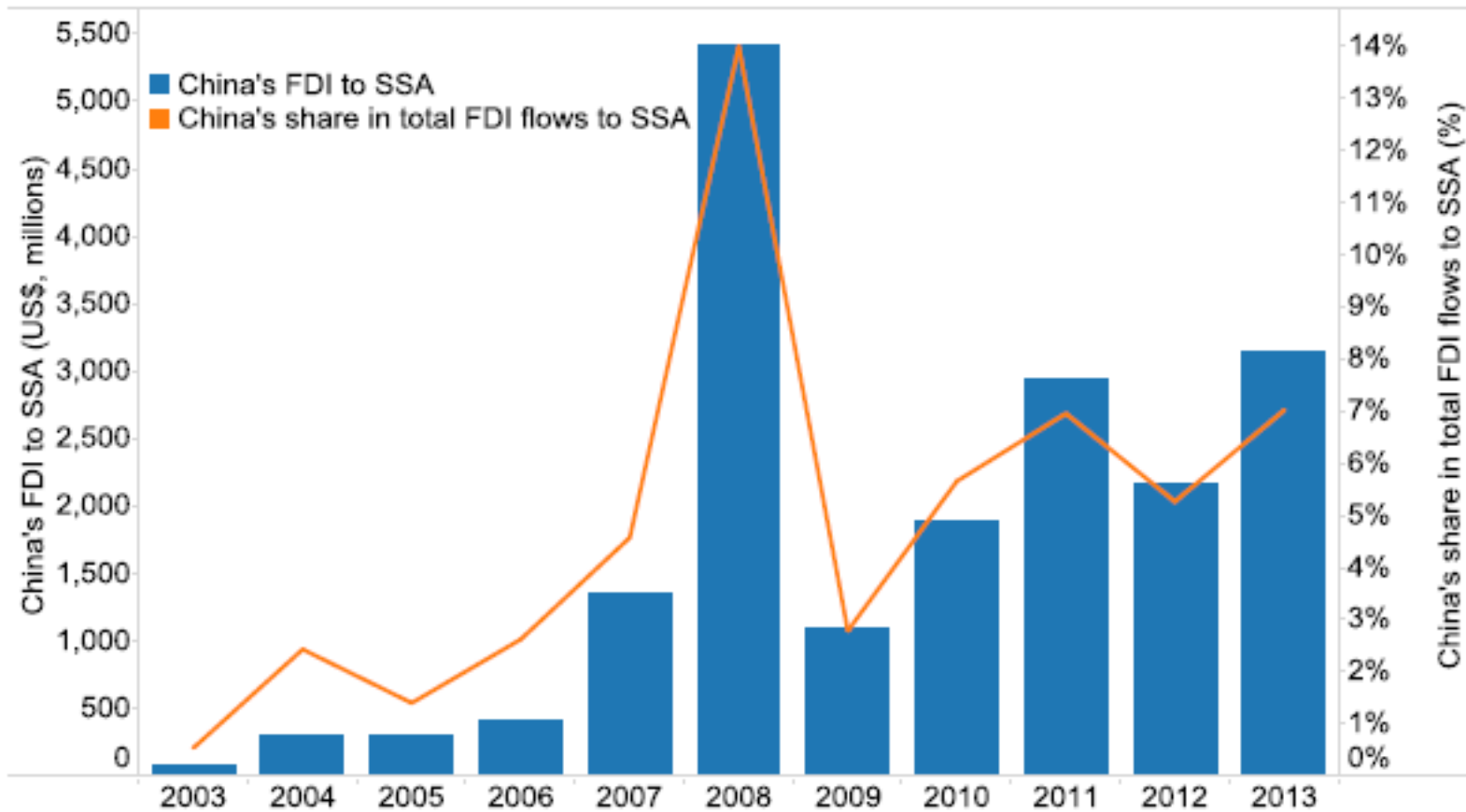
COPs (infrastructure development) more important than FDI

Chinese FDI and COPs in SSA 2000-2013 (current USD)



Source: China Statistical Yearbook (various years) and Statistical Bulletin of China's Outward FDI

Figure 7 Chinese FDI Flows to SSA, 2003–13
(US\$, millions)



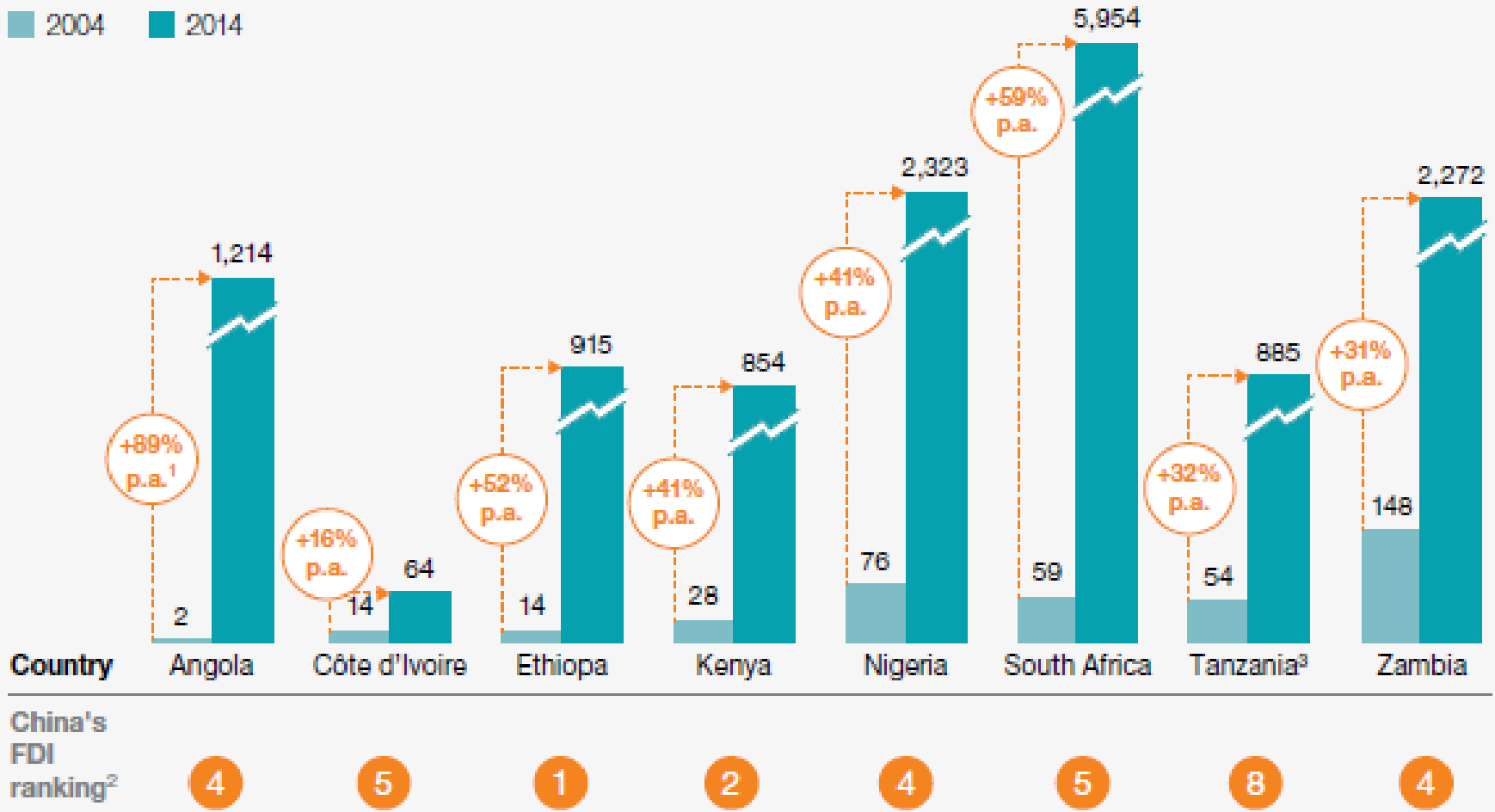
Source: UNCTAD 2014; MOFCOM 2014

Across eight selected countries, FDI growth from China is consistently high, ranging from 16 to 89 percent per year.

FDI stock from China

\$ million, official cross-border flows only

■ 2004 ■ 2014



Africa focus?

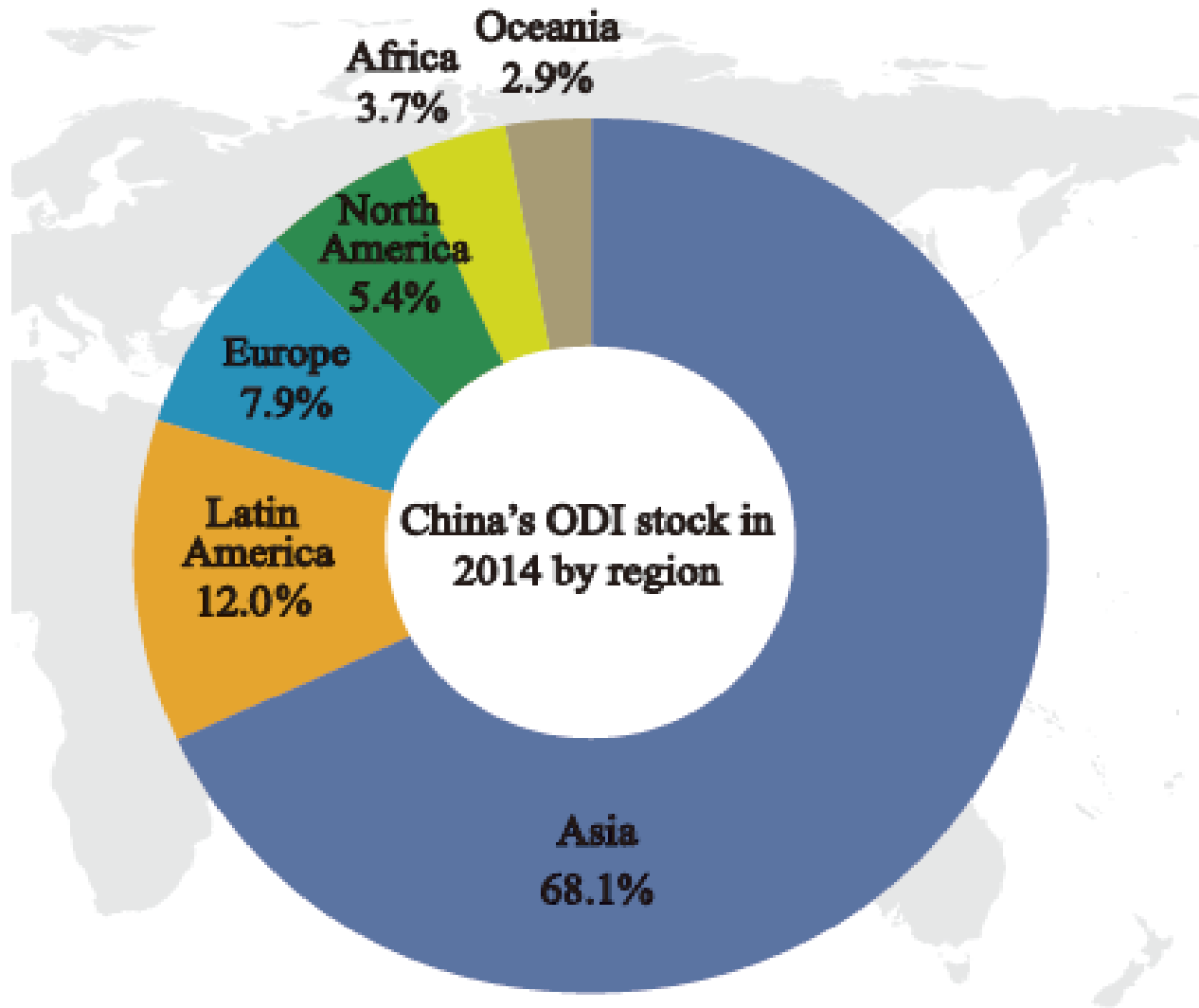
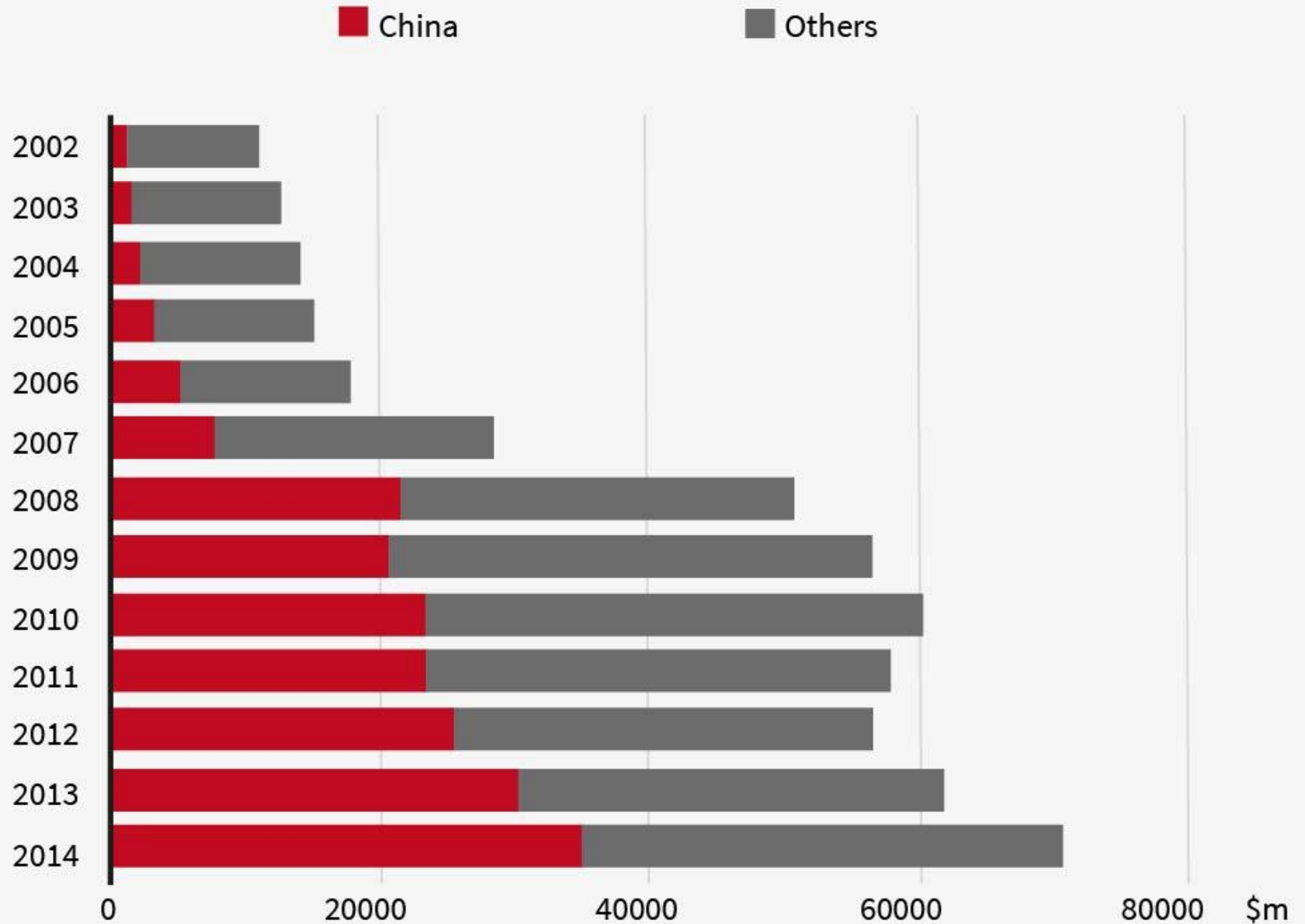


Figure 1. China's Share in Africa's Construction Market³



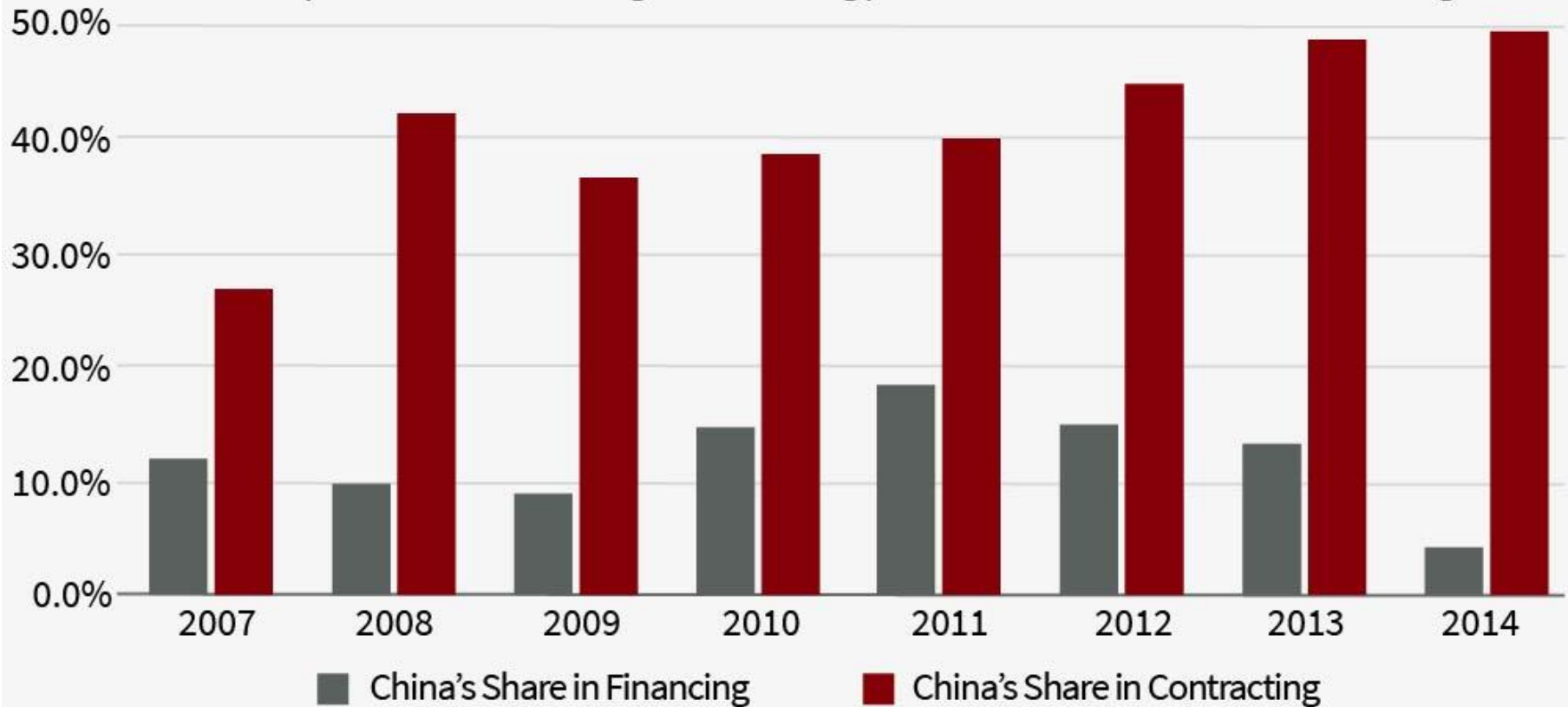
Top 10 international contractors in Africa

Rank 2014	Rank 2013	Company Name	Home Country
1	1	China Communications Construction	China
2	5	Power Construction Corporation of China	China
3	2	Saipem	Italy
4	3	China Railway Group	China
5	**	China Civil Engineering Construction Group	China
6	4	Vinci	France
7	10	Construtora Noberto Odebrecht SA	Brazil
8	8	CITIC Construction Co. Ltd.	China
9	**	Ozturk Holding Co.	Turkey
10	6	China State Construction Engineering Corporation Ltd.	China

Source: Engineering News Record

Figure 4. The Disparity Between China's Shares in Financing vs. Building Africa's Infrastructure (Based on data from ENR and ICA)

The Gap of China's Contracting and Financing position in Africa's Infrastructure Building



SOEs building Africa: some patterns

- Fierce competition among themselves
- But also cooperation → SOE ‘fleets’
- Substantial differentiation: large central specialised, large central diversified, provincial specialised etc. – origin (Province) matters
- Arrival on back of official finance to then settle (long-term outlook) vs ad hoc projects
- Localized sole venture as dominant

Coordinating mechanisms for contractors



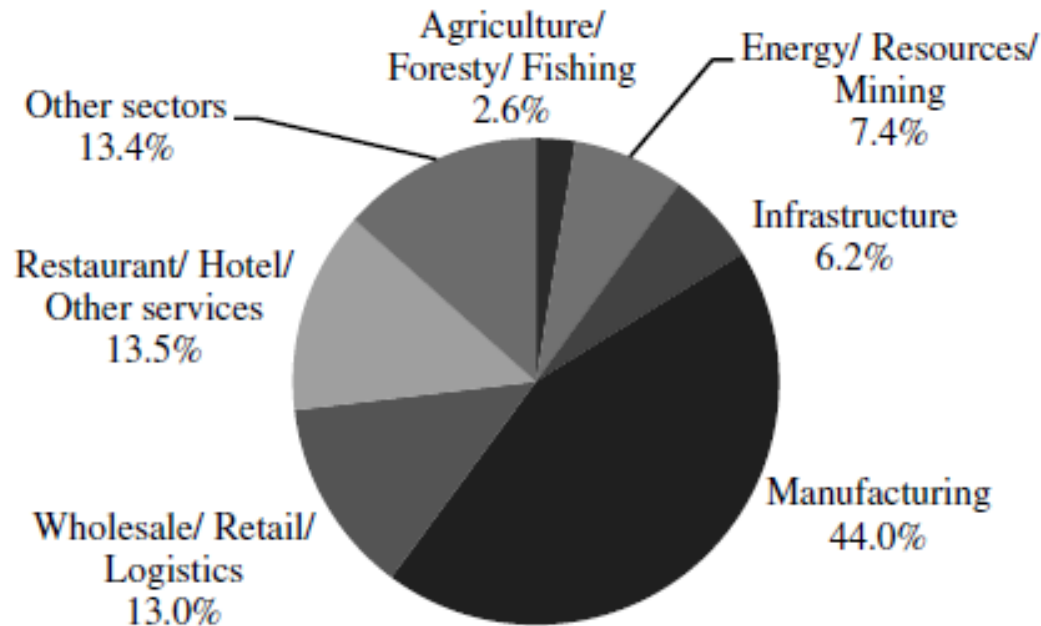
#	Description
1	Organize and control the going out strategy
2	Coordinate, guide, consult and serve Chinese international contractors
3	Control and coordinate the business activities of Chinese contractors in the host country
4	Finance the projects Chinese contractors pursue

Making sense of private investors: some patterns and drivers

- ‘Flying geese’ of ‘low-wage’ classic EO firms → manufacturing in a NIDL
 - GPN sourcing diversification pushing firms in integrated chains
 - Relocation or expansion?
- Market seeking and dealing with over-capacity (construction materials, other consumer goods)
- Mining: larger volumes but fewer in number and more unevenly distributed – links with privatisation (Zambia)
- Small investors / migration: services

Scramble for natural resources?






Figure 6: Chinese investment in six African countries, by host government data, % of total no. of projects



The manufacturing opportunity

Exhibit 7

One-third of these firms are manufacturers, and most are private.

Chinese firms by sector		Market share in Africa ¹	Annual revenues in Africa
 Manufacturing	31	-12	~\$80 billion
 Services ¹	25	-5	~\$15 billion
 Trade ²	22	-3	~\$15 billion
 Construction and real estate	15	-50	~\$40 billion
 Other ³	13	-1	~\$50 billion

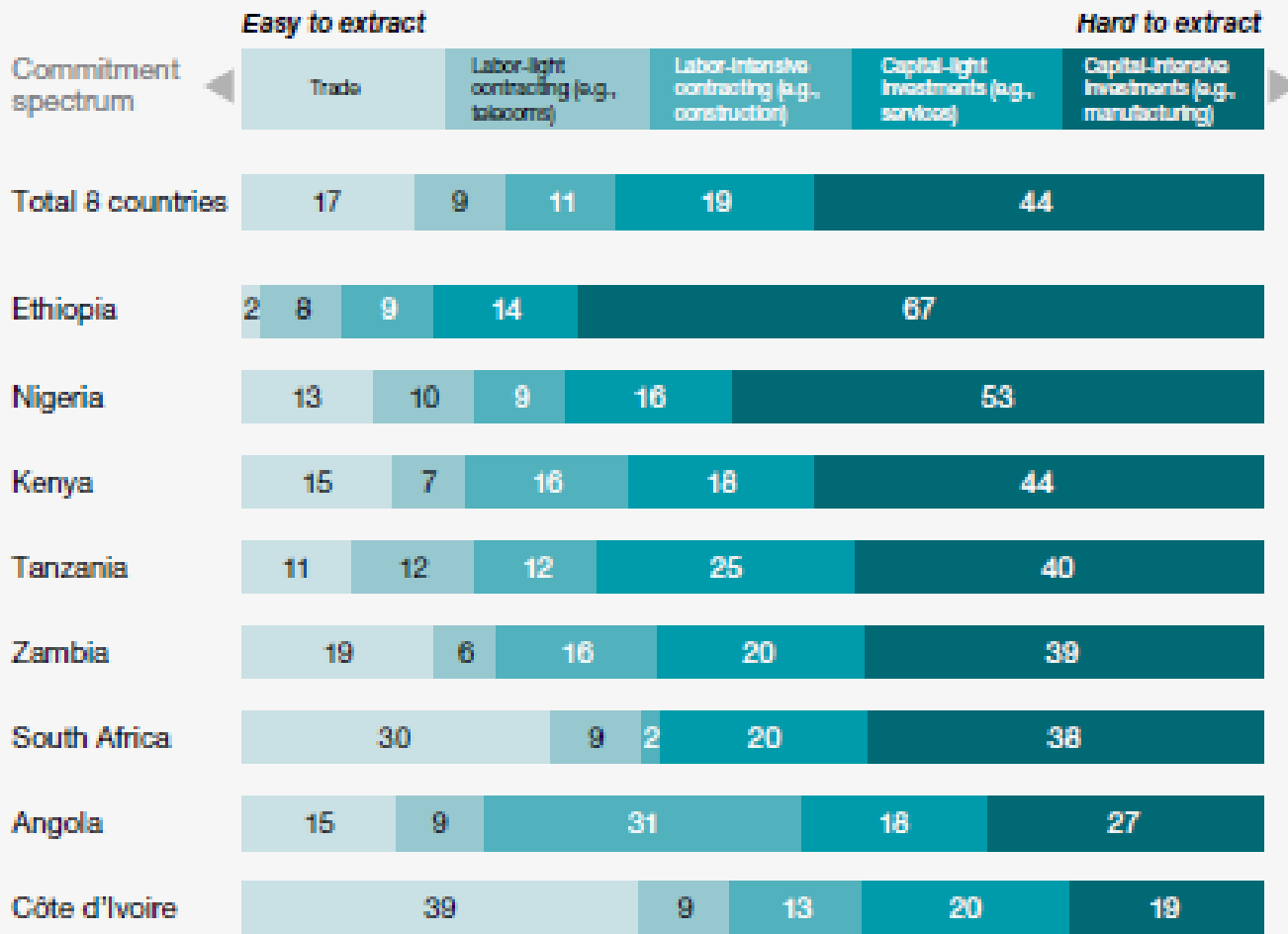
Different types of Chinese private investors

- Large and medium companies in key resource sectors, including mining
- Medium-size companies in manufacturing and services, patterns depending on province of origin (Guangdong, Zhejiang, Jiangsu...)
- Small to large companies in construction and RED
- Small companies in services (trade, hotels, etc) linked to individual migrants and global Chinese diasporas
- But across ALL sectors we find examples of all sizes from large to small

There for the long-run?

More than 40 percent of Chinese firms are in industries with a high number of long-term commitments in sub-Saharan Africa.

Commitment level, % of firms



Chinese investors in manufacturing: origins and dynamics

- Origin matters:
 - ‘Wenzhou’ model’ (Zhejiang) going global in groups (networks of private entrepreneurs)
 - ‘Su’nan’ model (Jiangsu) strong links with local government
 - ‘Dong’guan’ model with subcontractors moving with GPNs (Guangdong) GPNs moving: the IPs in Ethiopia → industrial policy and flexible sourcing
- Huajian story → the power of success stories and spillover effects for other FDI



Panos Pictures

Concluding:

Possible opportunities in current context

- ✓ Production shifting location from Asia (China, Southeast Asia, South Asia) and Middle East (Turkey, Egypt) → logic of relocation and expansion in global production networks
- ✓ Improvements in infrastructure (transport, energy) are key → viability of industrial investments
- ✓ Domestic demand growing in Asia
- ✓ Industrial policies in some countries (Ethiopia)
- ✓ Potential for inter-sector linkages

Thank you