CHINA'S OUTWARD FOREIGN DIRECT INVESTMENT IN SUB-SAHARAN AFRICA

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China's outward foreign direct investment (OFDI) stock in Sub-Saharan Africa (SSA) totaled $36.0 billion in 2016, which was an increase of more than two-fold from $11.7 billion in 2010. This briefing describes the rapid growth in China's OFDI to SSA in the past few years, provides a comparison of the composition of Chinese OFDI in top SSA recipient markets, and discusses the drivers behind the changes in China's OFDI to that region.

Chinese OFDI in SSA

According to the latest Chinese official statistics, China's stock of OFDI in SSA amounted to $36.0 billion in 2016, an increase of more than two-fold from $11.7 billion in 2010. China's stock of OFDI in SSA was relatively concentrated among a few destination markets—in 2016, the top recipient markets were South Africa, the Democratic Republic of Congo (DRC), Zambia, and Nigeria, jointly accounting for 42 percent of total Chinese OFDI stock in SSA (Table 1). Although a significant share of China's stock of OFDI has been concentrated in these markets, investments have become more geographically diversified since 2010.

Table 1: Composition of Chinese OFDI Stock in SSA, Top Destinations (%)

Year	2010	2011	2012	2013	2014	2015	2016
China's Stock of OFDI in SSA (in billions $)	11.7	14.6	19.8	24.0	29.0	31.2	36.0
South Africa (percent of total SSA)	36%	28%	24%	18%	21%	15%	18%
DRC	5%	5%	5%	5%	7%	10%	10%
Zambia	8%	8%	10%	9%	8%	8%	7%
Nigeria	10%	10%	10%	9%	8%	8%	7%
All Other	41%	49%	51%	59%	56%	59%	58%

Source: China National Statistical Bureau, 2016 Statistical Bulletin of China's Outward Foreign Direct Investment, 2017. Total Chinese FDI stock in SSA are not provided by China National Statistical Bureau. Total SSA position were calculated by subtracting positions in North African countries from total Chinese OFDI stock in Africa. Sum of shares may not equal to 100 due to rounding.

Comparison of the Composition of Chinese OFDI at the Project Level

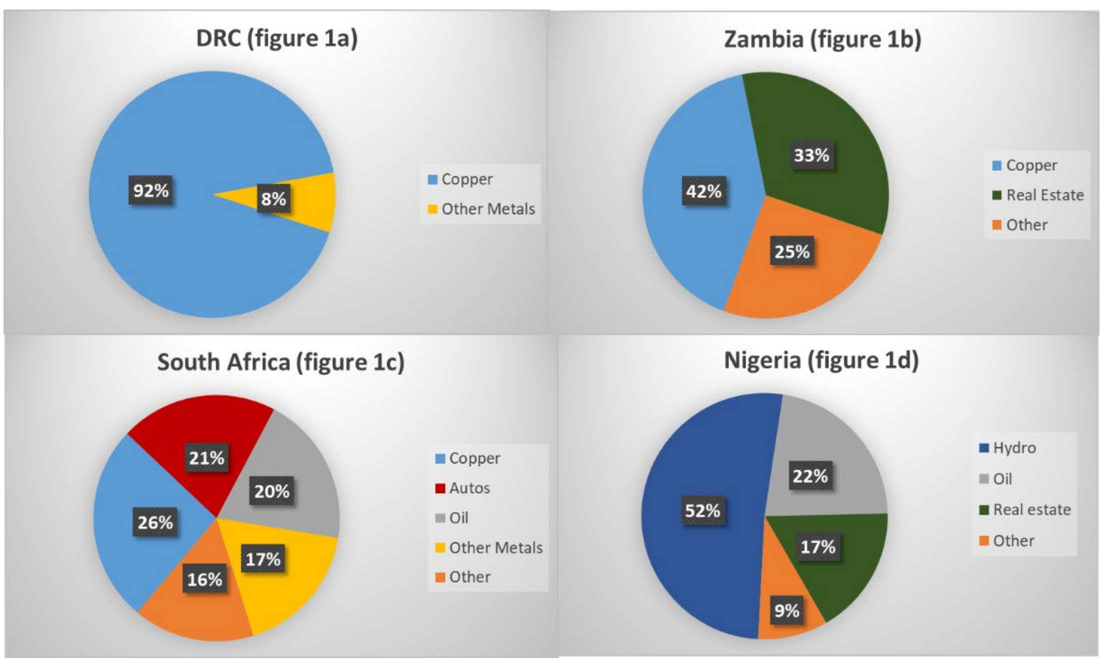
- **Overview:** Among the top recipients of Chinese OFDI in SSA, the patterns of investments differ considerably in terms of targeted industry sectors. Figure 1 compares the sectoral composition of Chinese OFDI in these recipient countries using transaction-level data from the American Enterprise Institute (AEI).[1] As can be seen, in the more economically developed South Africa (Fig 1c), Chinese OFDI have been more diversified across sectors, while its investments in Zambia and the DRC were concentrated in mining sectors (Fig 1a and 1b). Continued investments in SSA's natural resources sector indicates China's continued interests in the region as an important import source of key minerals and metals (including copper and cobalt) for domestic consumption purposes. Meanwhile, as China's investment composition in Nigeria demonstrates, China has begun to channel investment into SSA's renewable energy sector, which helps to expand SSA countries' electricity system.

- **DRC:** 92 percent of Chinese OFDI went to the copper industry in the DRC (Fig 1a) from 2010–18. Copper is in high demand in China given its conductive powers that are used extensively in China's power grid. China has increased its imports of refined copper from the DRC from 2011 to 2016—in 2016, Chinese imports of refined copper accounts for 38 percent of total Chinese imports from the DRC, up from 25 percent in 2011.

[1] Much of China's OFDI was initially sent to Hong Kong, the Cayman Islands, the British Virgin Islands, etc mainly due to their favorable tax and regulatory environments, and eventually were redirected to other third-party markets. See Hammer and Lin, "China's Emerging Role as a Global Source of FDI," USITC, 2012. Therefore, this EBOT supplements the official Chinese statistics on FDI with other project-level FDI data sources. The AEI dataset offers more sector-level and destination details on Chinese OFDI compared to data from Chinese official statistics.

- **<u>Zambia:</u>** China's OFDI has primarily targeted the copper and real estate industry (Fig 1b). Zambia has an abundant supply of metals such as copper and cobalt. Increasing demand for copper in China results in Chinese firms increasing their investments in Zambia's copper industry. For example, in 2012, China Non-ferrous Metals Corporation Limited (CNMC) invested $832 million to build a copper mine in Zambia, which was expected to add 60,000 tones to Zambia's annual copper output. In recent years, Chinese firms have also started to invest in Zambia's construction and real estate industry. For instance, in 2018, China National Building Material, a cement producing company in China, announced that it would invest $200 million in the first phase to build cement, pan brick and concrete production lines in Zambia.
- **<u>South Africa:</u>** Chinese OFDI has been more diversified compared to Zambia and DRC, targeting copper, auto, and petroleum sectors (Fig 1c). Increasing Chinese investments in South Africa's auto sector was motivated, in part, by increasing demand for transportation by South African consumers. For example, Chinese vehicle manufacturer Beijing Automotive Group decided, in 2017, to establish a vehicle plant in South Africa worth around $840 million.
- **<u>Nigeria:</u>** Around 50 percent of China's OFDI went to the renewable energy sector from 2010–18(fig 1d). In 2017, the Nigerian government awarded a contract of $5.8 billion to build a hydropower station for electricity generation to the state-owned China Civil Engineering Construction Corporation. The project is scheduled to complete in six years, and is aimed to expand the country's electricity system and narrow the energy deficit. Chinese firms have also invested in Nigeria's oil fields given the country's abundant supply in crude petroleum. For example, Sinopec bought a 20 percent stake in a Nigerian offshore oil field from Total in 2012.

China's Cumulative Overseas FDI to Selected SSA Countries, 2010–18



Source: AEI, China Global Investment Tracker

<u>References</u>: China National Statistical Bureau's 2016 Statistical Bulletin of China's Outward Foreign Direct Investment; The Observatory of Economic Complexity, "Products that China Imports from the DRC," 2016; Reuters, "Zambia Awards Chinese Firm $1.2 Billion Road Expansion Project," September 2017; AEI's China Global Investment Tracker (accessed December 2018); South China Morning Post, "Minsheng Investment's building arm seals US$1.29bn South African affordable homes deal," October 2017; China-Africa Trade Research Center, "Nigeria's Infrastructure Gap Is Huge," October 2018; Yunnan Chen, "China's Role in Nigerian Railway Development," United States Institute of Peace, 2018; Africa Oil & Power, "China Makes Inroads into African Energy," July 2017; Hammer and Lin, "China's Emerging Role as a Global Source of FDI," USITC, 2012; Center for Chinese Studies, "The Weekly China Briefing," September 2012. Reuters, *"Total Sells $2.5 Billion Nigeria Oil Field Stake to Sinopec." November 19, 2012.* Lusakatimes.com, *"China National Building Material-Zambia plant commissioned." July 26,2018.*