

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 and implications 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 diversified since 2010.

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

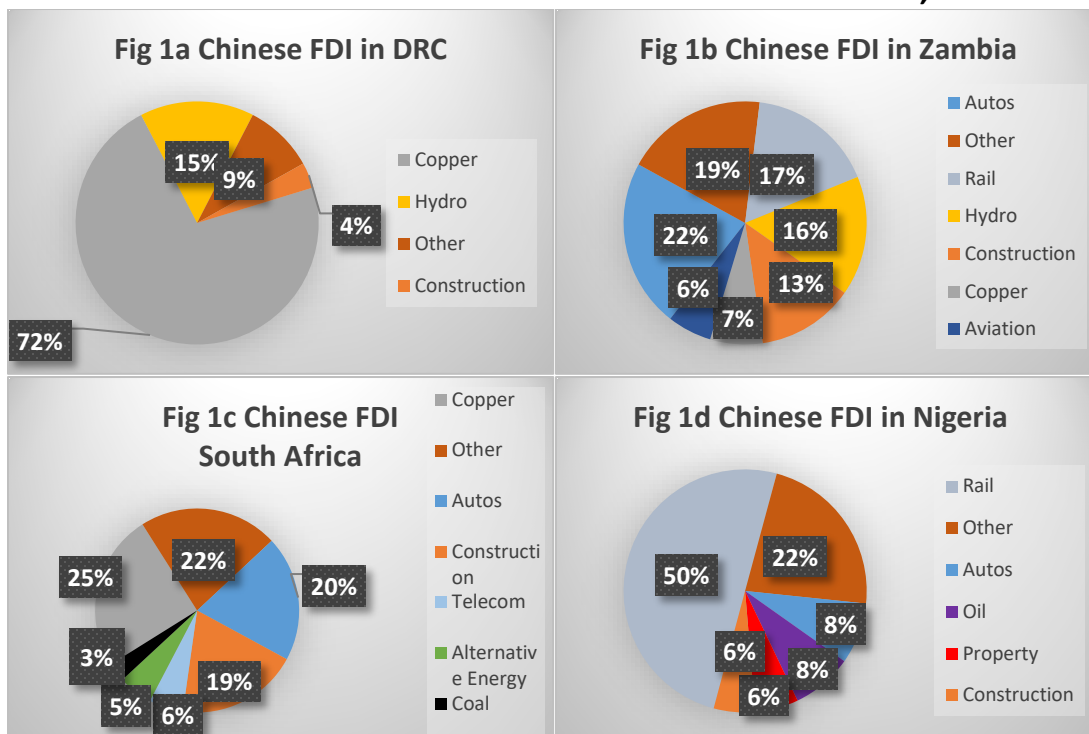
- **Overview:** Among the top recipients of Chinese OFDI in SSA, the patterns of investments differ considerably in terms of targeted industry sectors. Figure 1 compares the sectoral composition of Chinese OFDI in these recipient countries using transaction-level data from the American Enterprise Institute (AEI).¹ As can be seen, in the more economically developed South Africa (Fig 3), Chinese OFDI have been more diversified across sectors, while its investments in Nigeria and the DRC were concentrated in mining and infrastructure sectors (Fig 1). 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, growth of Chinese infrastructure investment in SSA is tied to China's Belt and Road Initiative, which includes stated objectives of ensuring energy supplies from Africa, increasing foreign trade, and promoting Chinese enterprises and products.
- **DRC:** 72 percent of Chinese OFDI flows were to the copper industry in the DRC (Fig 1a) from 2010-2017. 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 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.

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- **Zambia:** China’s OFDI has primarily targeted the railway and auto industry (Fig 1b). Zambia has an abundant supply of metals such as copper and cobalt. Therefore, Chinese firms have invested in Zambia’s infrastructure sector, aiming to improve regional connectivity by building roads between Zambia and its neighbors such as the DRC. These investments are been coupled with domestic government support. For example, the Zambian government in 2017 awarded a \$1.2 billion contract to the Jiangxi International Economic and Technical Cooperation to expand part of a key road linking the DRC and Zambia.
- **South Africa:** Chinese OFDI has been more diversified compared to Nigeria and DRC, targeting natural resources, auto, and construction sectors (Fig 1c). Increasing investments in the real estate and auto sectors was motivated, in part, by demand for housing and transportation by South African consumers. For example, China Minsheng Investment channeled \$1.3 billion of greenfield investment in 2017 to build affordable housing in South Africa.
- **Nigeria:** Around 50 percent of Chinese OFDI went to the rail sector between 2010-2017 (Fig 1d). In 2010, the Nigerian government developed the National Integrated Infrastructure Master Plan, a 30-year roadmap to build modern infrastructure. While Nigeria planned to invest \$127 billion in infrastructure from 2014-2019, as of 2018 the allocated funding for infrastructure projects was less than 10 percent of the planned amount. This big infrastructure-funding gap encouraged Chinese investment in Nigeria’s infrastructure sector. For example, China Civil Engineering Construction Company invested in multiple rail projects across Nigeria, including inner-city light rail projects in Abuja and Lagos and a new coastal railway connecting Lagos to Calabar.

China’s Cumulative Overseas FDI to Selected SSA Countries, 2010-2017



Source: AEI, China Global Investment Tracker

References: 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.

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