

**CGF-ODI-AERC Conference on
China-Africa Economic Interactions | September 12, 2024**

Owning Assets or Injecting Capital: Distinguishing between Chinese Foreign Direct Investment and Lending in African Countries

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Owning Assets or Lending Capital?



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Here are the numbers about the big deal. The Beijing deal is a community with #ShapingtheFuture

China promises African nations \$50 billion in loans and funding at a summit of leaders in Beijing.

What does this investment mean for Africa, China and its western rivals?

#InsideStory spoke with @hmryder, @SanushaNaidu and @ehtangen: listen.aj.audio/22-DF6kp

+	FOCAC 2024
	Credit line
	Assistance in
	Investment in
	Total

FOCAC 2024
Trainings in s
Trainings in e
Trainings in n
Centers



Date: September 5, 2024

now. It's not all the trainings. Africa

for police, military

ties, 20 centers, 30 joint

Language Usage and FDI

- Whether Chinese FDI functions differently than FDI from other countries (Buckley et al., 2007, 2018)
- The impact of Chinese FDI on the African continent (Fu, Buckley, & Fu, 2020; Kaplinsky, McCormick, & Morris, 2007; Kaplinsky & Morris, 2009; Sanfilippo, 2010)
- The reasons behind Chinese FDI towards African countries (Cheung, de Haan, Qian, & Yu, 2012; Kolstad & Wiig, 2011)
- The spillover effects of Chinese FDI towards those countries (Seyoum, Wu, & Yang, 2015)
- The relation to Chinese outbound FDI generally (Cheng & Ma, 2007; Cheung & Qian, 2009)
- Chinese FDI as part of a larger discussion of Asian FDI towards Africa (Dupasquier & Osakwe, 2006)
- Non-State-Owned Enterprises (SOEs) operating in African countries (Gu, 2009)

However...

China's investments in Africa aren't working as well as they should for cities: this needs to change

Published: September 3, 2024 2.49pm BST

Source: The Conversation

FDI or Not?

Kenya's \$4bn railway gains traction from Chinese policy ambitions

China is the Nairobi-owned Chinese firm for the first \$3.6bn in points. T interest, Research

Finance and expertise from Beijing are crucial to Kenyatta's infrastructure spree



Engineers work on a section of the new Nairobi-Mombasa railway © Reuters

David Pilling in Makindu and Emily Feng in Beijing APRIL 4 2017

19

Source: Financial Times

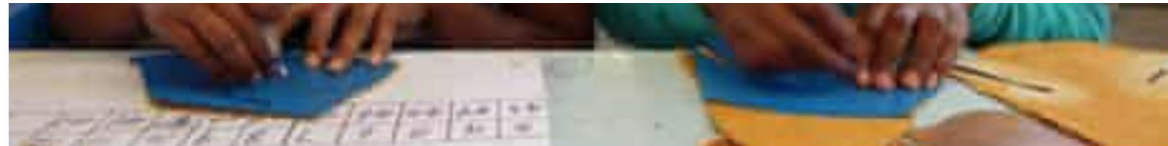
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-Africa

FDI or Not?

Chinese firm steps up investment in Ethiopia with 'shoe city'

Huajian has a factory near Addis Ababa employing 600 people, which opened in January 2012, and has committed to jointly invest \$2bn (£1.3bn) over the next decade to create a light manufacturing special economic zone in Ethiopia, creating employment for around 100,000 Ethiopians. The company, which employs 25,000 workers in China, expects to be able to provide around 30,000 jobs in Addis Ababa by 2022.

Huajian's partner in this project is the China-Africa Development Fund (CADFund), a private equity facility promoting Chinese investment in the continent. Born out of the 2006 Forum on China-Africa Co-operation, the fund was launched in June 2007 with \$1bn provided by the China Development Bank. A further injection of \$2bn was made early last year.



▲ Ethiopian workers at Huajian's shoe factory near Addis Ababa mark out leather for shoes. Photograph: Elissa Jobson/guardian.co.uk

Source: The Guardian

FDI or Not?



Yet despite their myriad complaints, they say fortunes beckon. “If I could give advice to my former self, it would be ‘move faster,’” says Kent Chan, manager of Grand Shine Construction Materials. He set up his first factory in Nigeria in 2015. “I actually wanted to come in 2014 but then Ebola broke out. If I had come that year, I think business would have been even better.”

Source: Financial Times



A Chinese biscuit factory in Nigeria. photo credit: Paolo Woods

Source: China Africa Research Initiative Blog

Foreign Direct Investment Defined

- **Ownership:** acquisition of 10% or more of the assets
- **Location:** choice of a host country for these assets
- **Internalization:** only the activities internal to a firm will be included in FDI
- “These three features of FDI – **ownership, location, and internalization** – comprise the so-called OLI framework for understanding foreign direct investment.” (Feenstra, 1999: 1–2)

China's increased trade with, and investment in, Africa have boosted the continent's economic growth but have also generated considerable controversy. The aggregate data on China's overseas direct investment (ODI) in African countries reveal that China's share of the stock of foreign investment is small, though growing rapidly. China's attraction to resource-rich countries is no different from Western investment. China's overall ODI is uncorrelated with a measure of rule of law, whereas Western investment favors the better governance environments. As a result, Chinese investment in strong and weak governance environments is about the same, but its share of foreign investment is higher in the weak governance states. Micro data from MOFCOM's database on registered Chinese firms

investing in Africa between 1998 and 2012 provide a different perspective. Key words in project descriptions are used to code the investments into 25 sectors. This database captures the small and medium private firms investing in Africa. Contrary to common perceptions, there are few projects in natural resource sectors. Most projects are in services, with a significant number in manufacturing as well. Country-sector-level regressions based on firms' transaction-level data find that Chinese ODI, both horizontal

and vertical, is profit-driven, like investment from other countries. In particular, regressions show that Chinese ODI is relatively more concentrated in skill-intensive sectors in skill-abundant countries but in capital-intensive sectors in capital-scarce countries. These patterns are mostly observed in politically unstable countries, suggesting stronger incentives to seek profits in tougher environments.

FDI ≠ Policy
Bank Loans

- **“Most of the financing of infrastructure development is not FDI**, but in the form of debt, grants and public- private partnerships through State-owned enterprises.” (United Nations Conference on Trade and Development, 2020: 84)
 - Organisation for Economic Co-operation and Development. 2008. *OECD Benchmark Definition of Foreign Direct Investment* (4th ed.)
 - International Monetary Fund. 2009. *Balance of Payments and International Investment Position Manual*

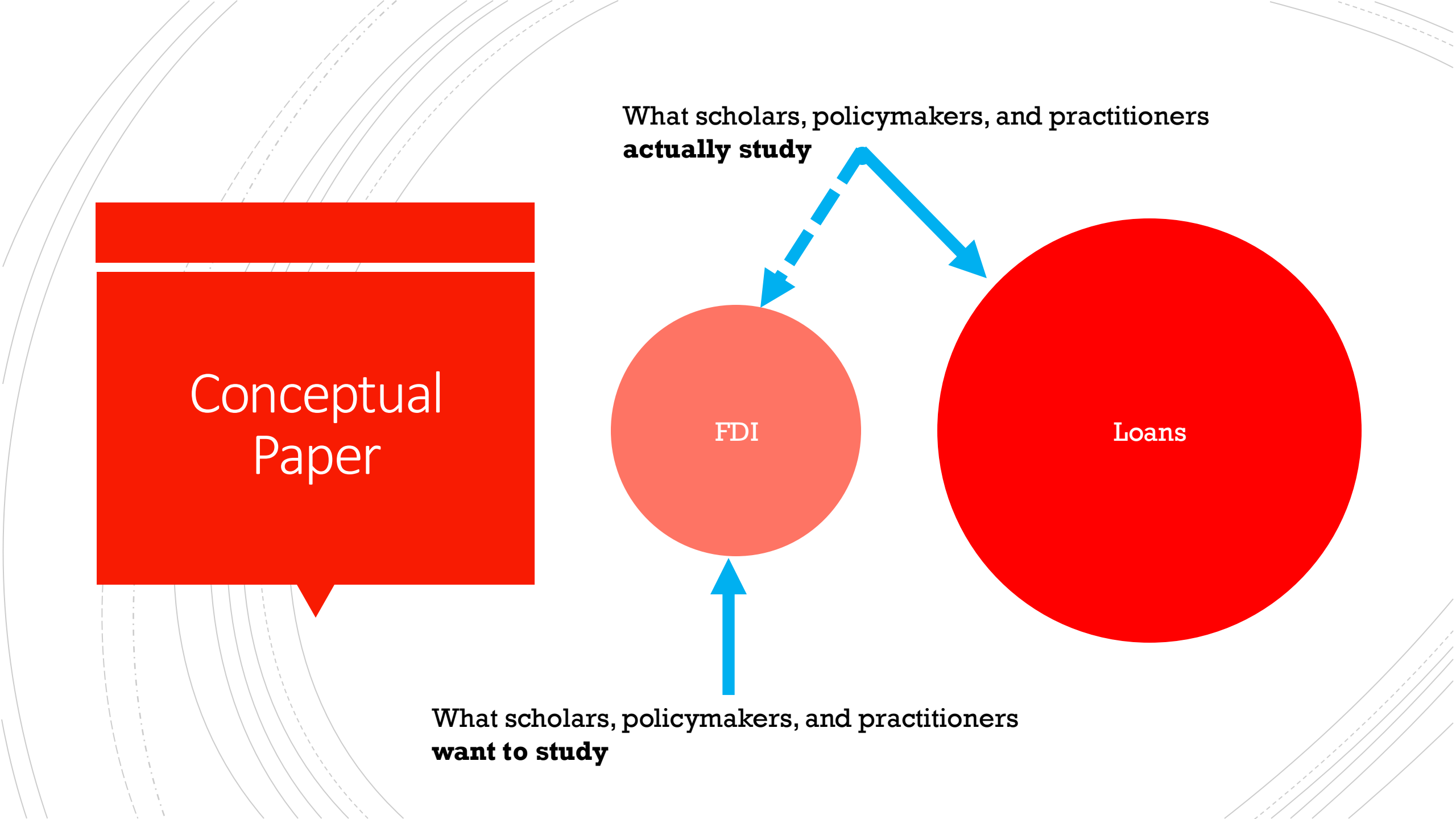
Conceptual
Paper

What scholars, policymakers, and practitioners
actually study

FDI

Loans

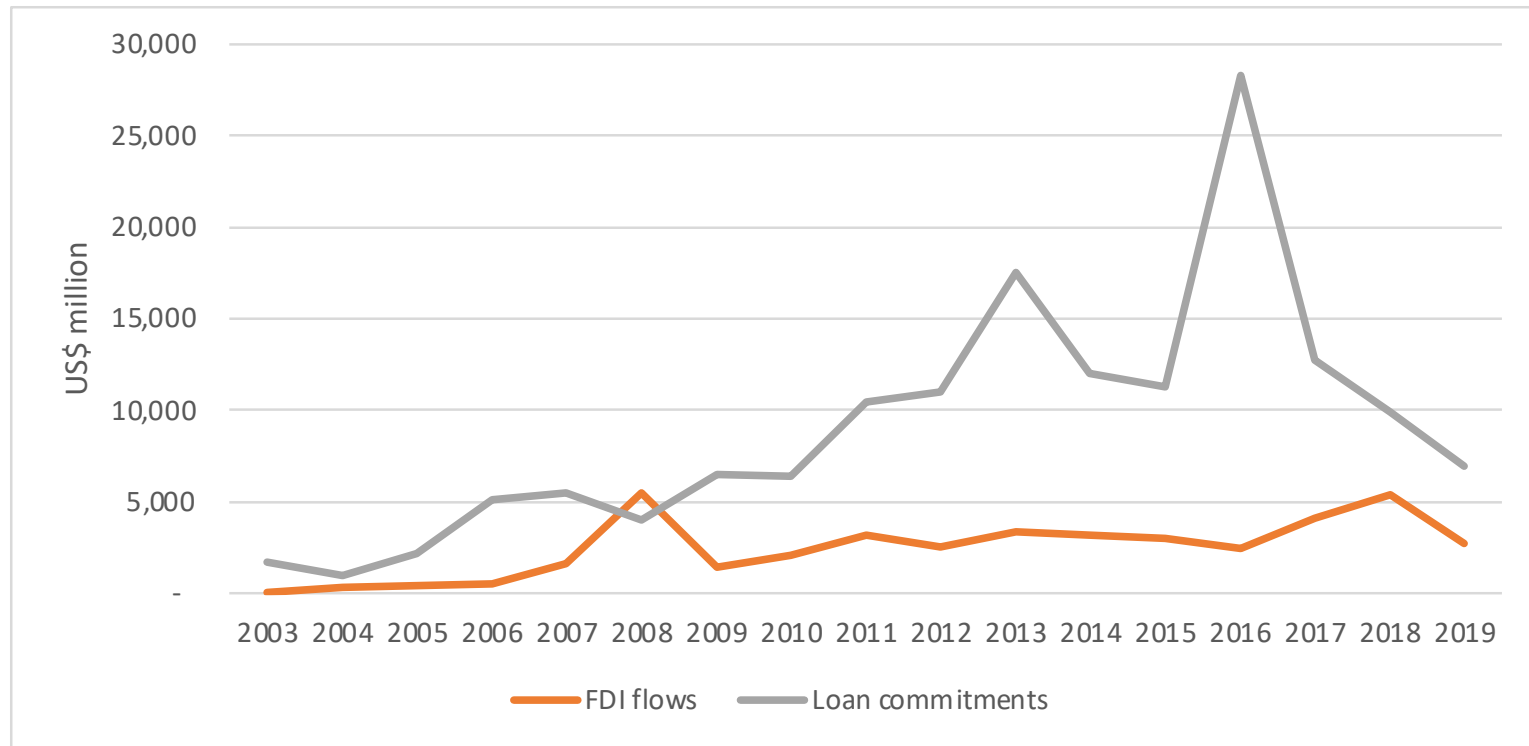
What scholars, policymakers, and practitioners
want to study



Conceptual Paper

- What happens if we use more accurate datasets to empirically test the effect of Chinese FDI on one variable in Africa?
 - **FDI** from the Statistical Bulletin of China's Outward Foreign Direct Investment/SAIS China Africa Research Initiative (CARI)/Boston University (BU) Global Development Policy Center (GDPC)
 - **Loans** from the SAIS CARI/BU GDPC
 - **Capital expenditures** from the American Enterprise Institute (AEI) Global China Investment Tracker
 - **FDI** net inflow from the World Bank

FDI versus Loans



Source: China Africa Research Initiative & Boston University Global Development Policy Center, 2021

Model

Extant theory indicates that FDI is highly correlated with GDP growth (Dunning 2002; 2004; Alfaro, Chanda, & Sayek, 2004; and Hsiao & Hsiao 2006)

$$(GDPGrowth_t) = \beta_0 + \beta_1 \times Ln(FDI\text{Flow}_{\{t-1\}}) + \beta_2 \times Ln(FDI\text{Stock}_{\{t-1\}}) + \alpha_t + \eta_{\{Country\}} + \gamma_{\{Group\}} + \epsilon_t$$

- **Baseline model**

- β_0 = average GDP Growth for the given year when the remaining covariates are set to zero
- β_1 = previous year's FDI Flow
- **Control for FDI Stock** = cumulative FDI a country has received up to year t-1
- **Fixed effects:**
 - Year = α_t
 - Country = $\eta_{\{Country\}}$
 - Income Group = γ_{Group}
 - Error term = ϵ_t

Results

	GDP Growth (%)
	(Baseline)
FDI Flow	0.86** (0.32)
FDI Stock	-0.67*** (0.17)
R ²	0.73
Adjusted R ²	0.59
Residual Std. Error	0.05 (df = 61)
F Statistic	5.45*** (df = 30; 61)

Definitions Matter

- **A 100% increase in logged Chinese FDI is associated with an 86% increase in GDP growth**
- **A 100% increase in 'lending' is associated with a 3% decrease in GDP**
- **Which definition are we using, and which dataset are we using?**

Enabling Environment for Lending versus FDI?

- *“I have no use for the government ... and I’m not looking for government contracts.”*

- Yang Wenyi, a Chinese investor in multiple manufacturing plants in Nigeria

Source: The Next Factory of the World: How Chinese Investment is Reshaping Africa, Irene Yuan Sun (2017)

How to Differentiate?

- *“I’m still employed by the SOE and am responsible for its business in Ghana, and for maintaining relationships and contacts. Regarding my own business here, the SOE turns a blind eye as I need to stay here, obtain a visa and have to stay here for the SOE.”*

-SOE/Private Business Informant

Source: “Social Mobility of Chinese Migrants in Ghana: The Making of Chinese Entrepreneurs,” Katy N. Lam in Chinese and African Entrepreneurs: Social Impacts of Interpersonal Encounters (2019)

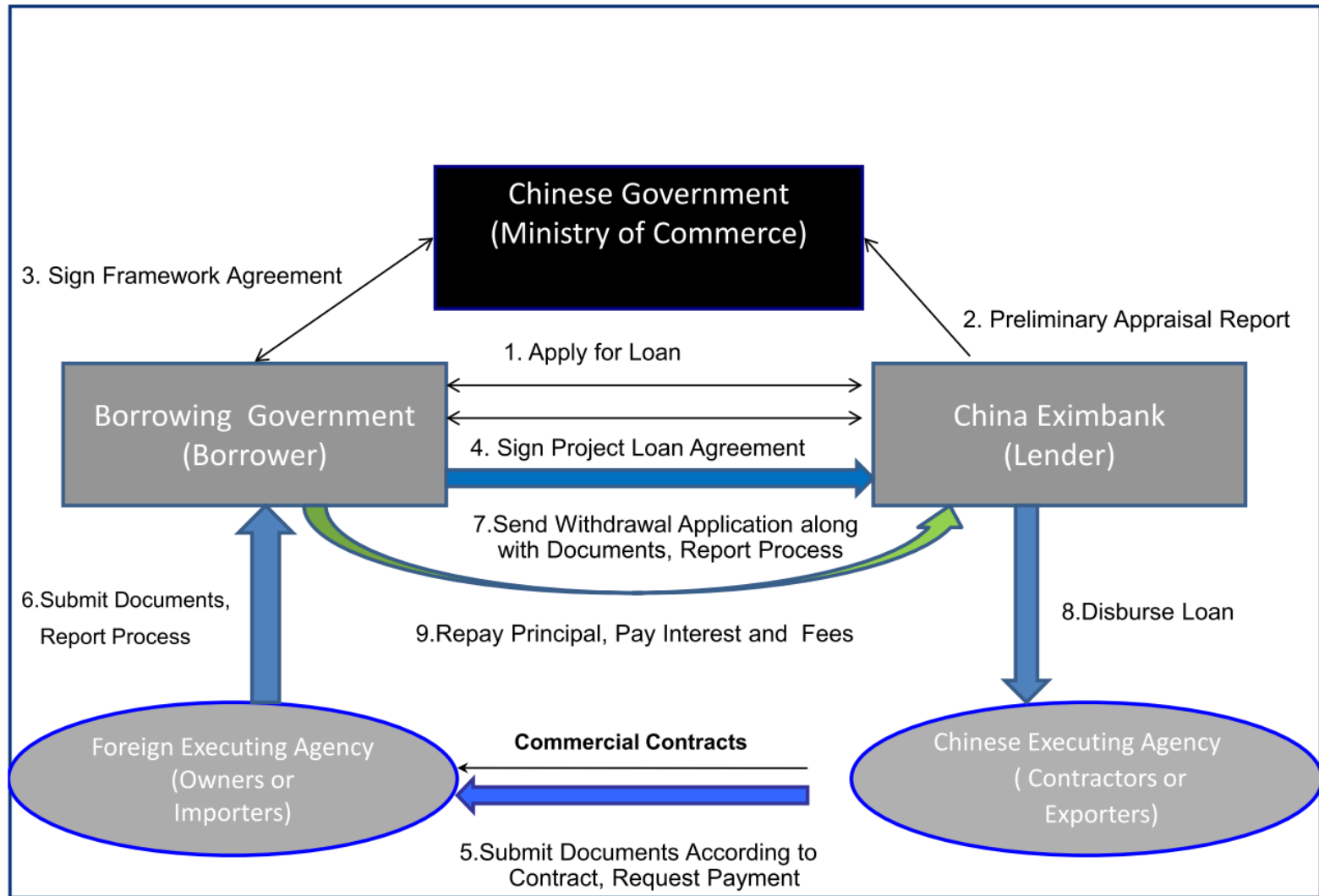
A red speech bubble with a white outline and a small tail pointing downwards. The text "Thank you" is written in white, sans-serif font in the center of the bubble. The background features several concentric, light gray circles and dashed lines, some of which are solid and some are dashed, creating a subtle pattern.

Thank you

A red callout box with a downward-pointing arrow, containing the word "Appendix".

Appendix

What Happens (In Theory)

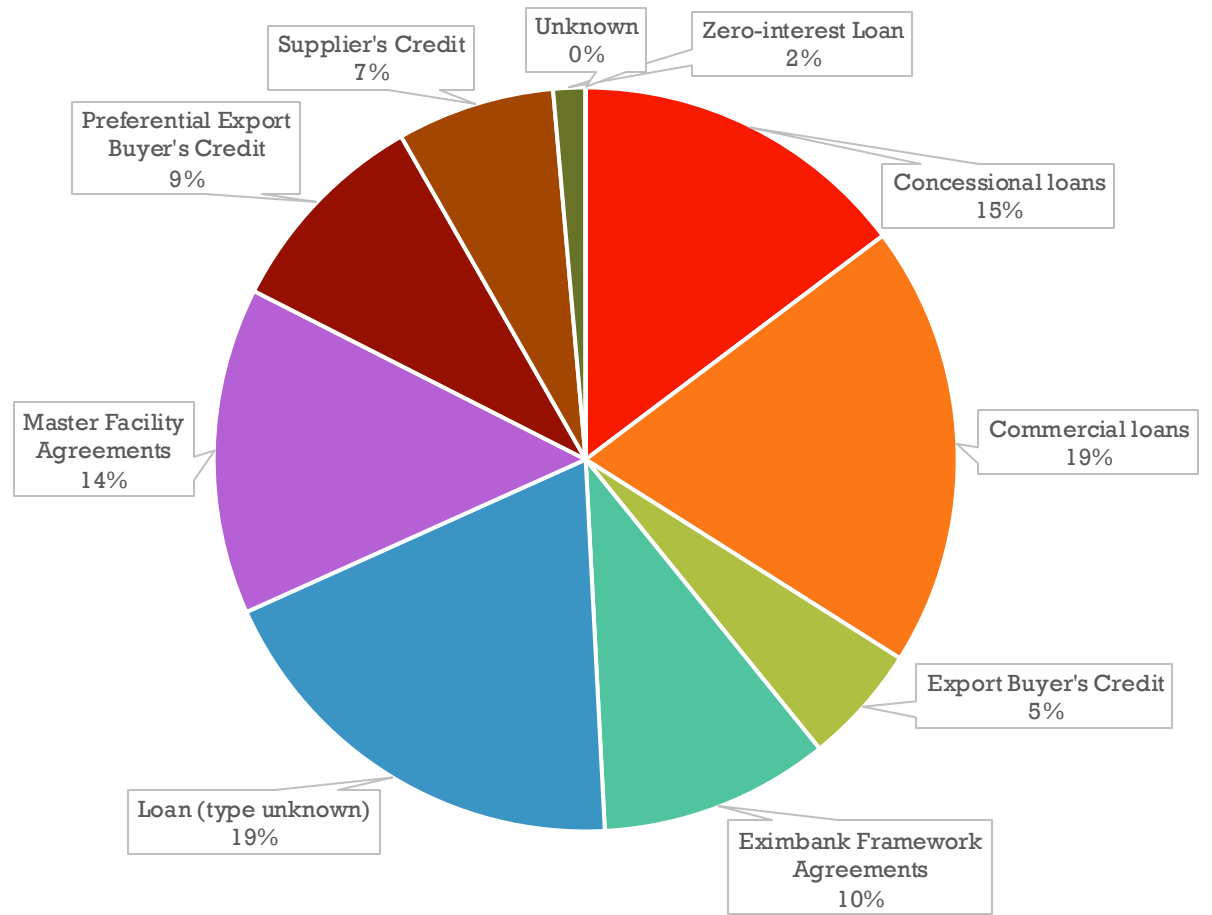


Source: China Eximbank website (2009). Translation by Zu Yiming and Deborah Brautigam, found in Brautigam & Hwang (2020)

Breakdown of Chinese Lending

- **Zero-interest loans:** loans with no interest, usually offered by MOFCOM.
- **Concessional loans:** offered by the Eximbank, these generally have a 2% interest rate with a 5-year grace period and 15-year repayment period.
- **Commercial loans:** loans with terms that are comparable to market rate, or loans identified by a reliable source as “commercial.”
- **Export Buyers’ Credit:** offered to African governments to buy goods and services from Chinese suppliers or contractors.
- **Preferential Export Buyers’ Credit:** similar to Export Buyers’ credit, but at a preferential (subsidized) rate.
- **Suppliers’ Credit:** loan financing offered by Chinese companies to buyers of their goods or services, usually over the short to medium term.
- **Master Facility Loan:** these are usually resource-backed and used to financial several individual projects. Their terms vary, but they are usually offered at commercial rates. (Brautigam & Hwang 2020)

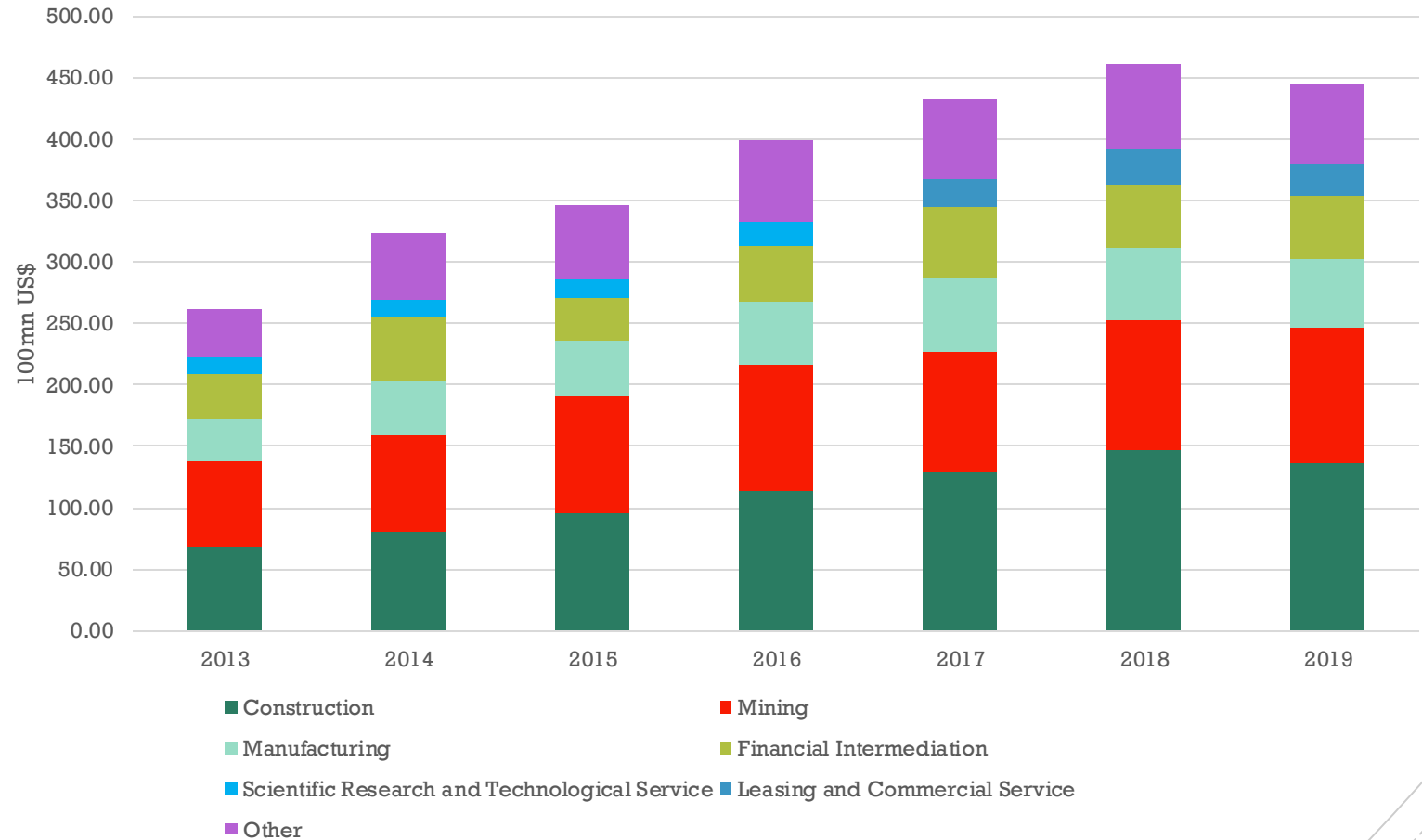
Breakdown of Chinese Lending



Source: China Africa Research Initiative & Boston University Global Development Policy Center, 2021

FDI Sectors

Chinese end of the year FDI Stock to Africa, top 5 sectors



Source: "Data: Chinese Investment in Africa," Johns Hopkins University, China Africa Research Initiative, School of Advanced International Studies, 2021

FDI Sectors

Chinese end of the year FDI Stock to Africa, top 5 sectors



Source: "Data: Chinese Investment in Africa," Johns Hopkins University, China Africa Research Initiative, School of Advanced International Studies, 2021

Density Plot

