



Why is China investing in Africa? Evidence from the firm level

By Wenjie Chen, David Dollar, and Heiwai Tang

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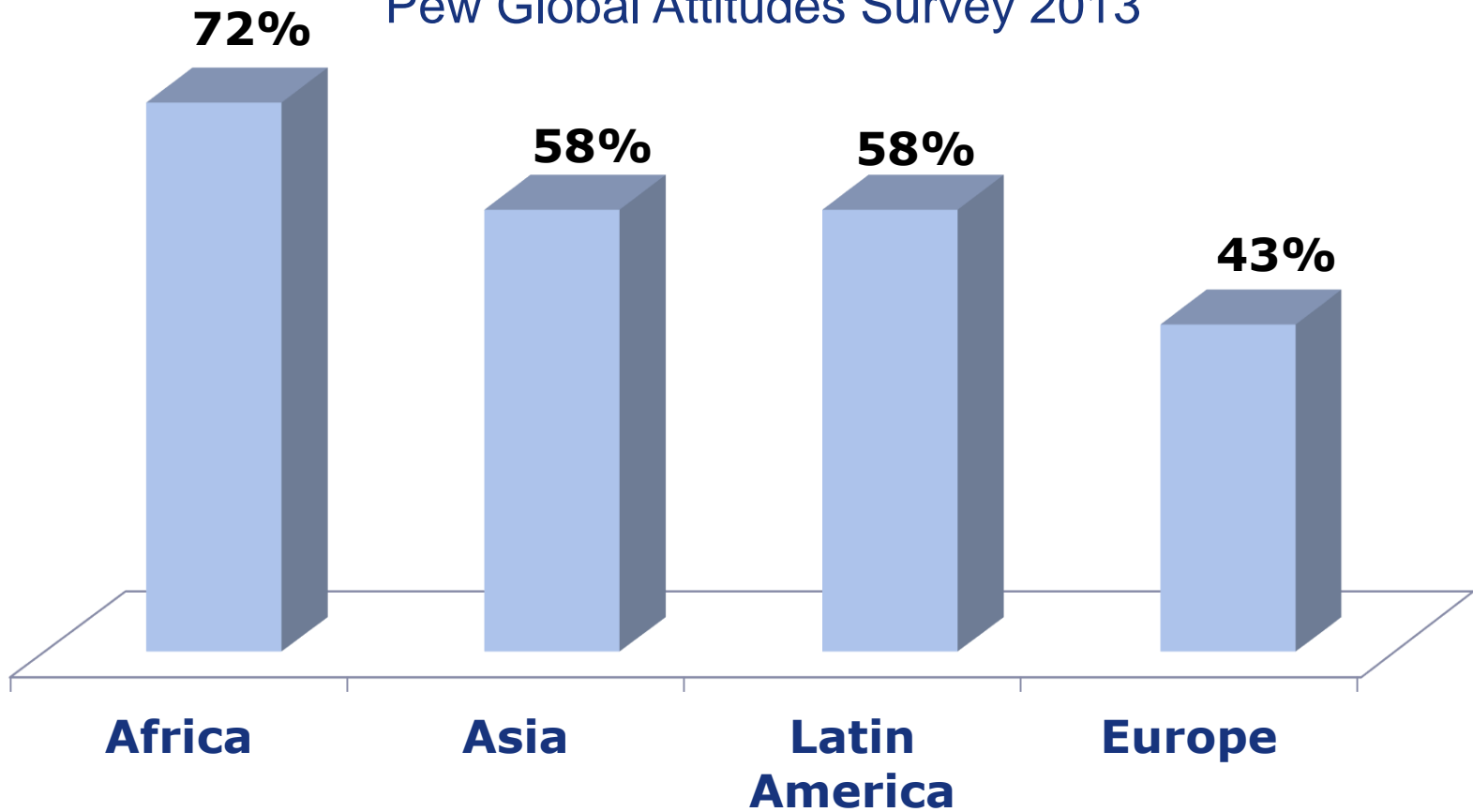
Why is China investing in Africa?

- **Motivation**
- **Analysis of aggregate data on Chinese ODI in Africa**
- **Analysis of firm-level data on Chinese firms investing in Africa**
- **Conclusions**



China is Popular in Africa

Pew Global Attitudes Survey 2013



Percent Favorable Views



China is controversial in Africa

- **“Into Africa: China’s wild rush”**
- **“China in Africa: investment or exploitation?”**
- **“Clinton warns against ‘new colonialism’ in Africa”**

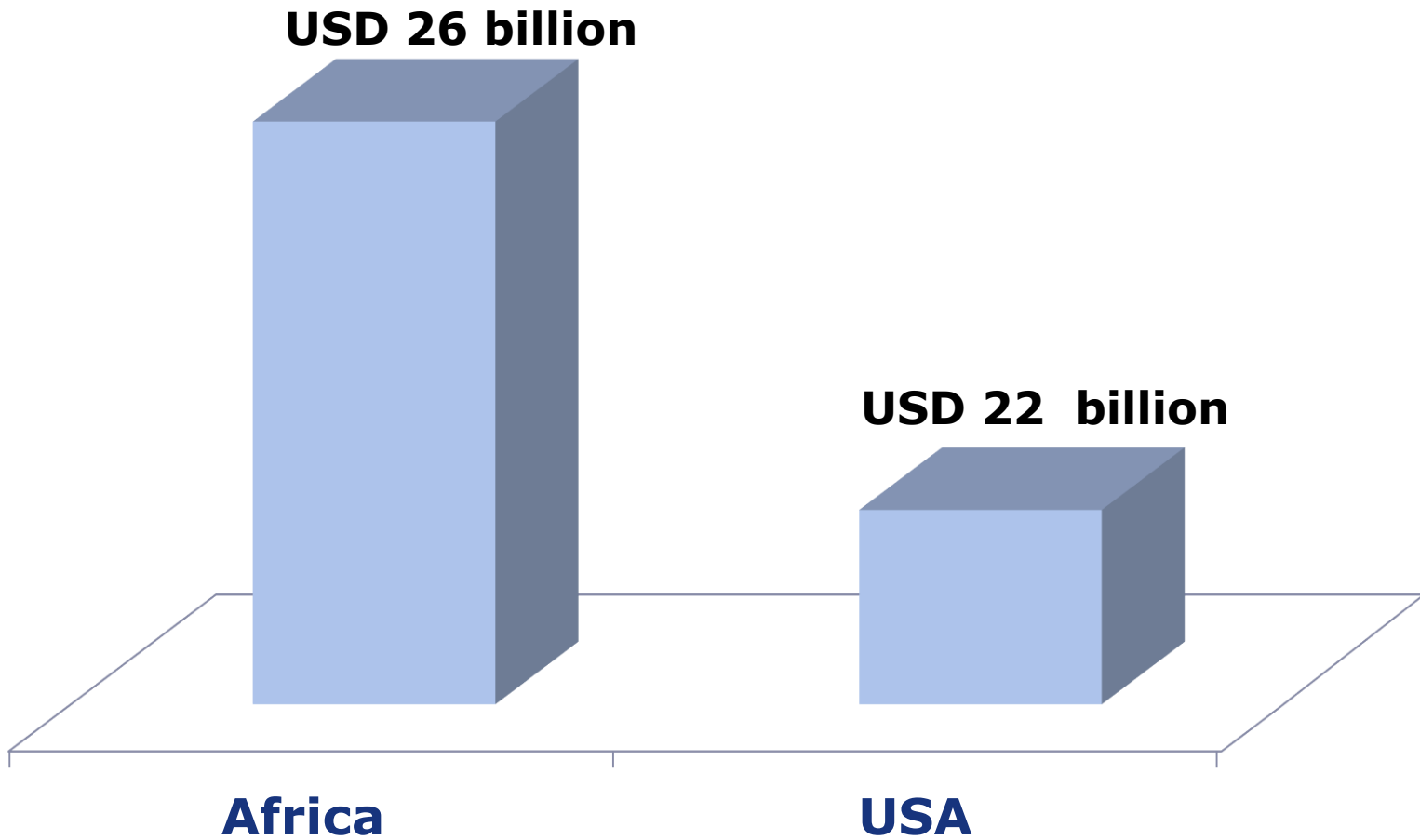


Analysis of aggregate data

- **Stock of Chinese ODI in 48 African countries, end-2012**
- **Stock of total FDI in 48 African countries, end-2011**



Chinese ODI, end of year 2013





Explain allocation in terms of

- **Market size (PPP GDP, population)**
- **Natural resources rents (% of GDP)**
- **Governance**
 - Rule of law
 - Political stability



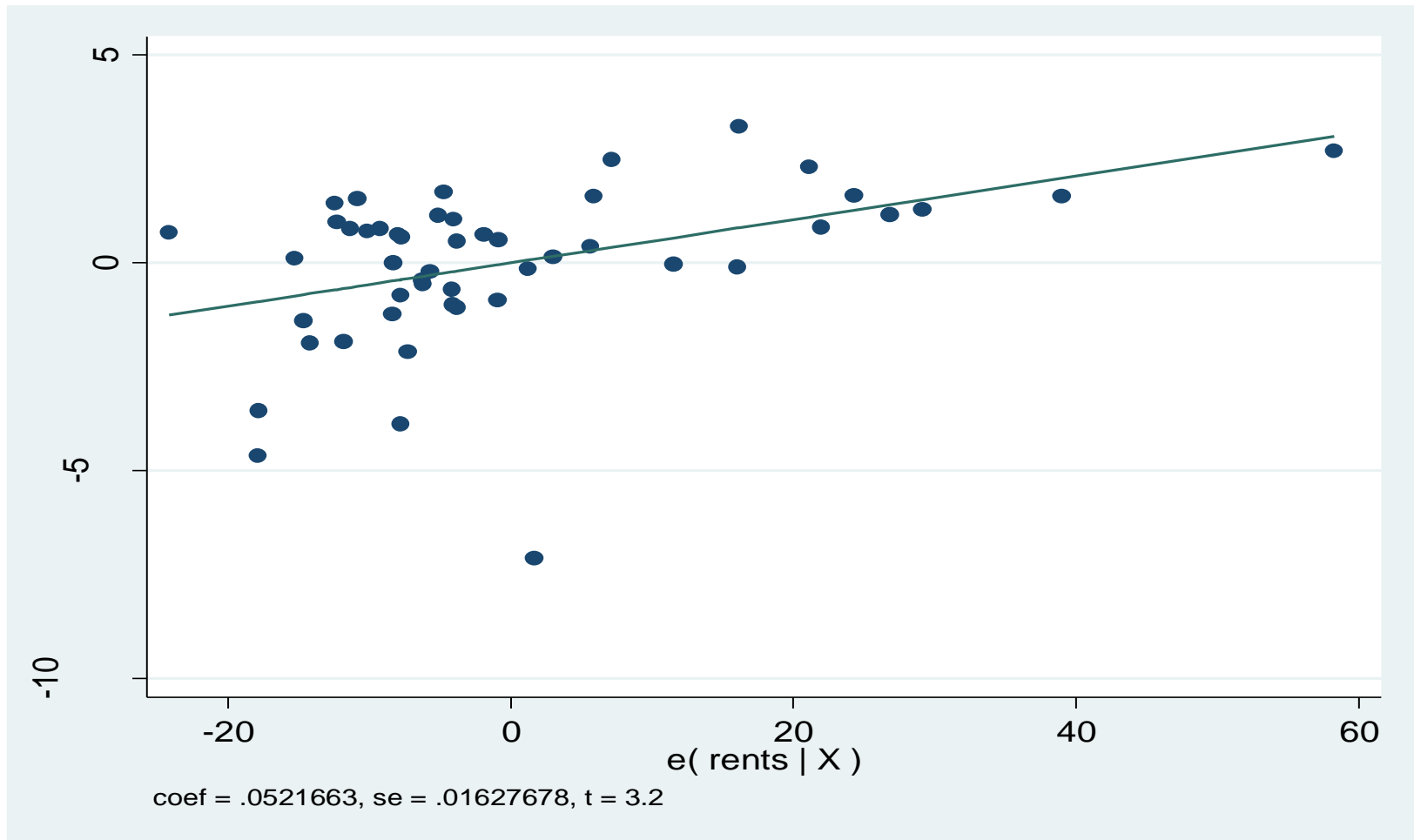
Allocation equations

Note: t-statistics in parentheses

Specification	(1)	(2)	(3)	(4)	(5)
Dependent Variable	FDI	Chinese ODI	Chinese ODI	Chinese ODI	Chinese ODI
PPP GDP(ln)	0.640 (6.98)	0.630 (5.44)	0.640 (5.42)	0.680 (5.48)	0.390 (1.96)
Natural Resource Rents/GDP	0.018 (1.74)	0.021 (1.76)	0.018 (1.32)	0.024 (1.95)	0.031 (2.52)
Rule of Law	0.620 (2.07)	--	-1.193 (-0.51)	--	--
Political Stability	--	--	--	0.280 (1.13)	0.600 (2.03)
Population (ln)	--	--	--	--	0.450 (1.88)
R-squared	0.57	0.44	0.45	0.46	0.50

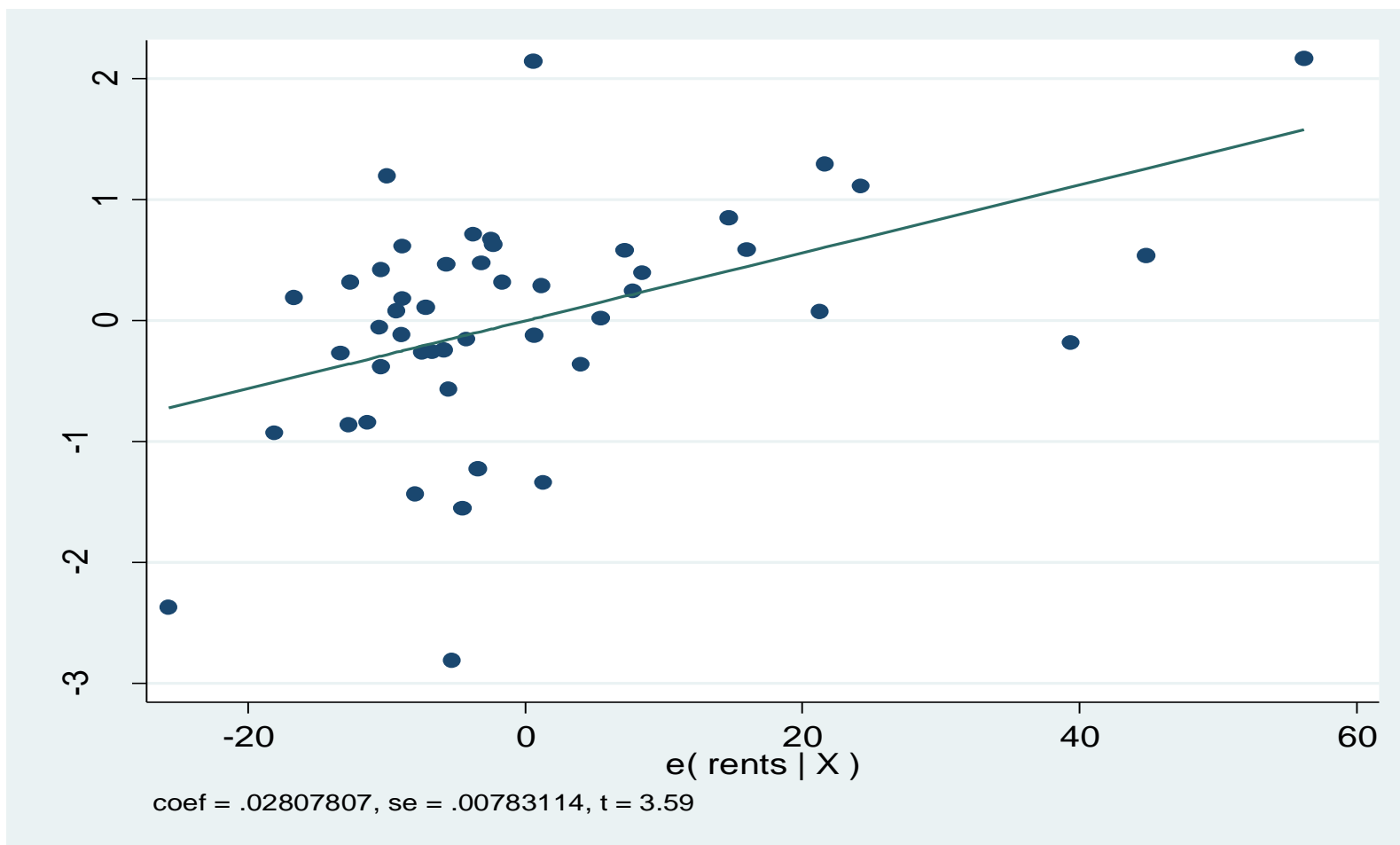


Chinese ODI and natural resource rents, African countries



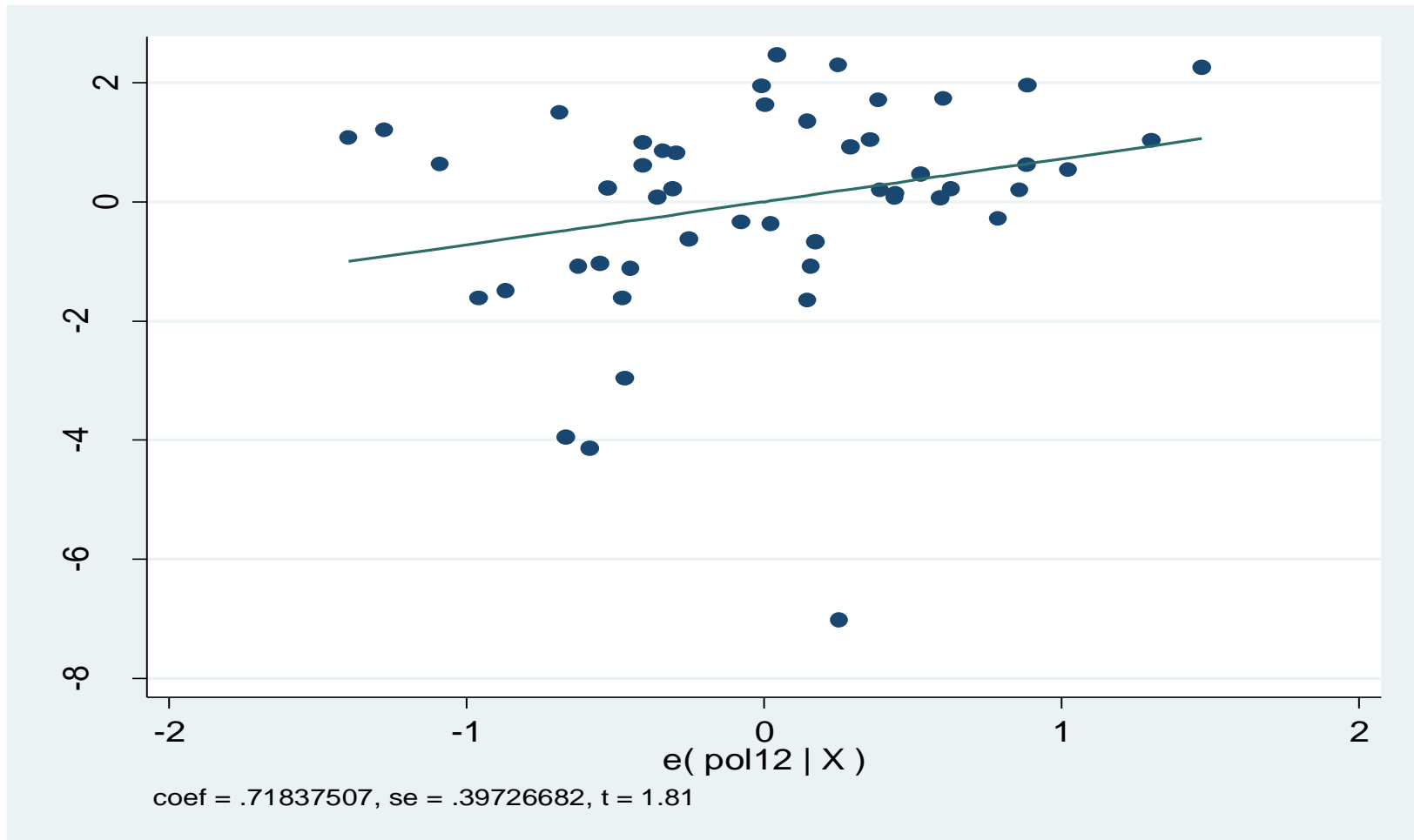


Total FDI and natural resource rents, African countries



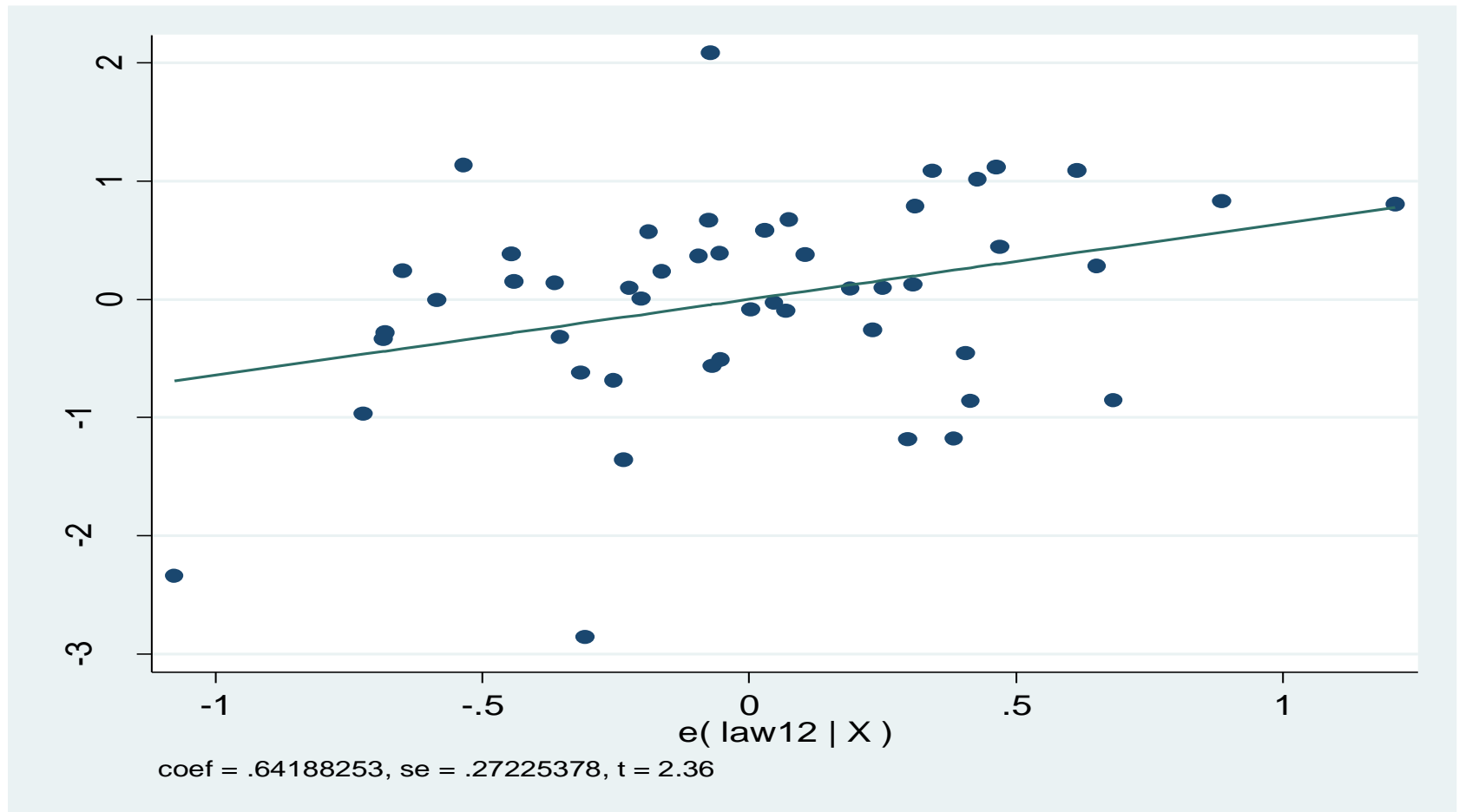


Chinese ODI and political stability, African countries





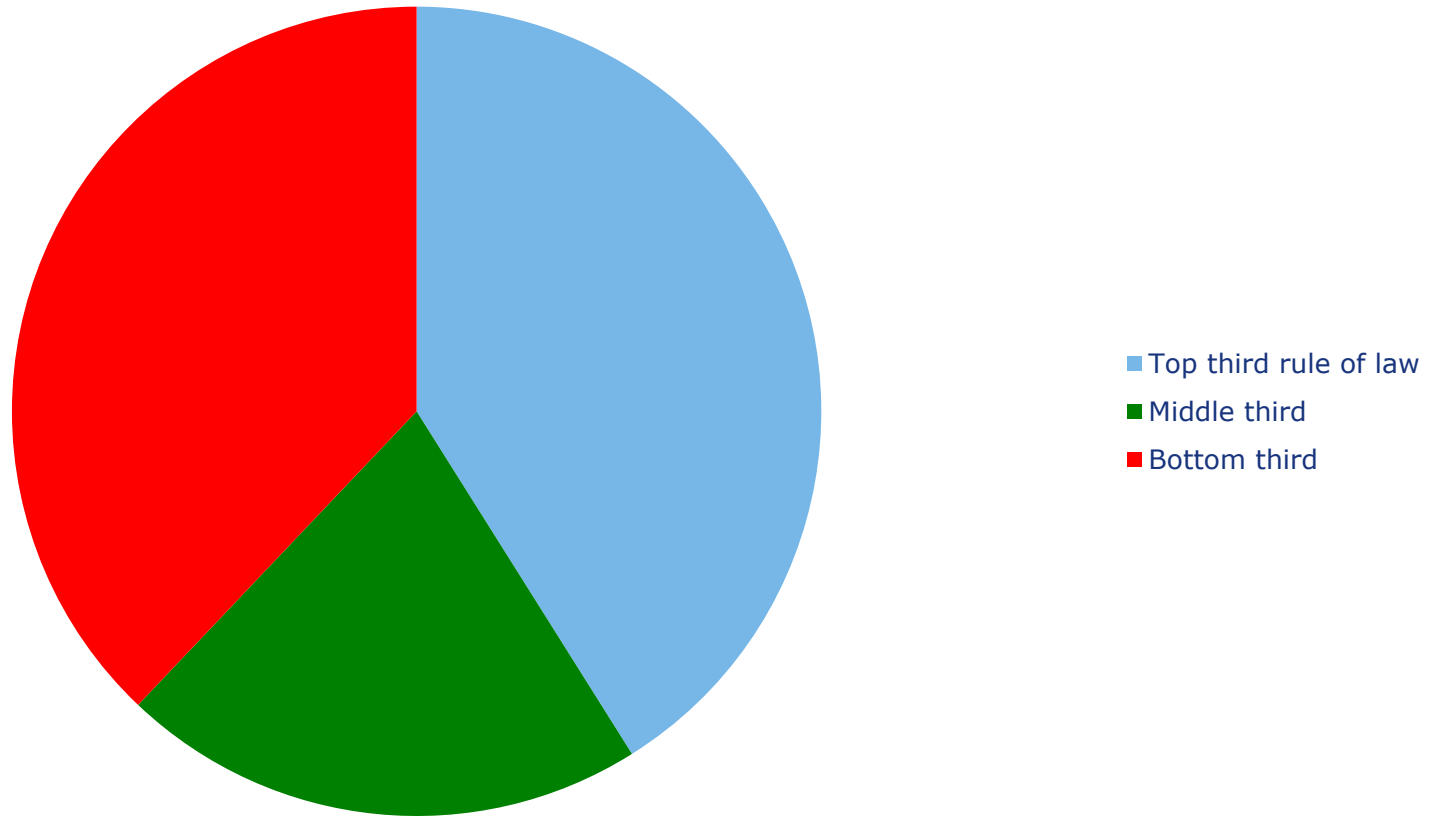
Total FDI and rule of law, African countries





Chinese ODI by governance environment

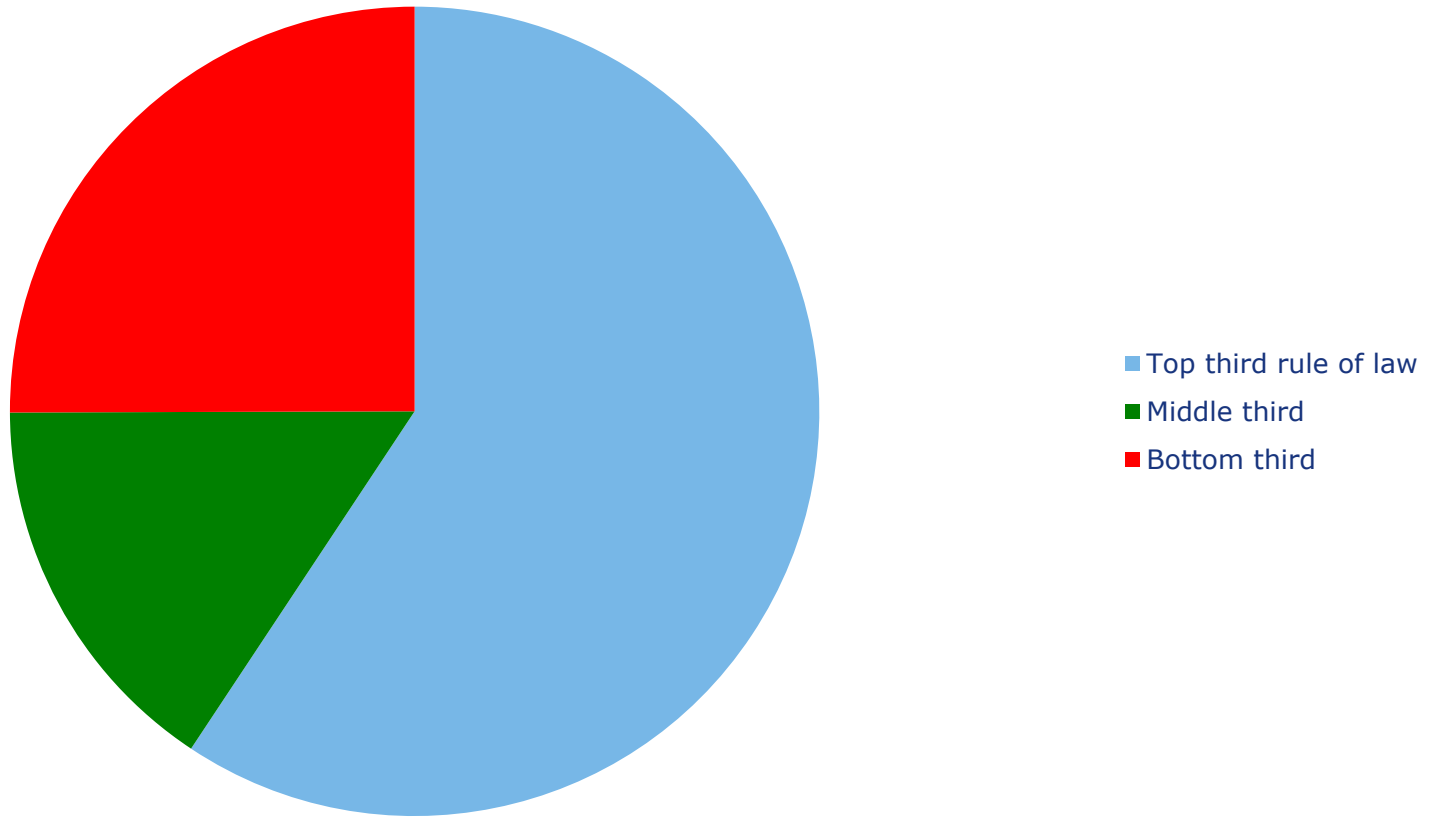
ODI





Total FDI by governance environment

FDI





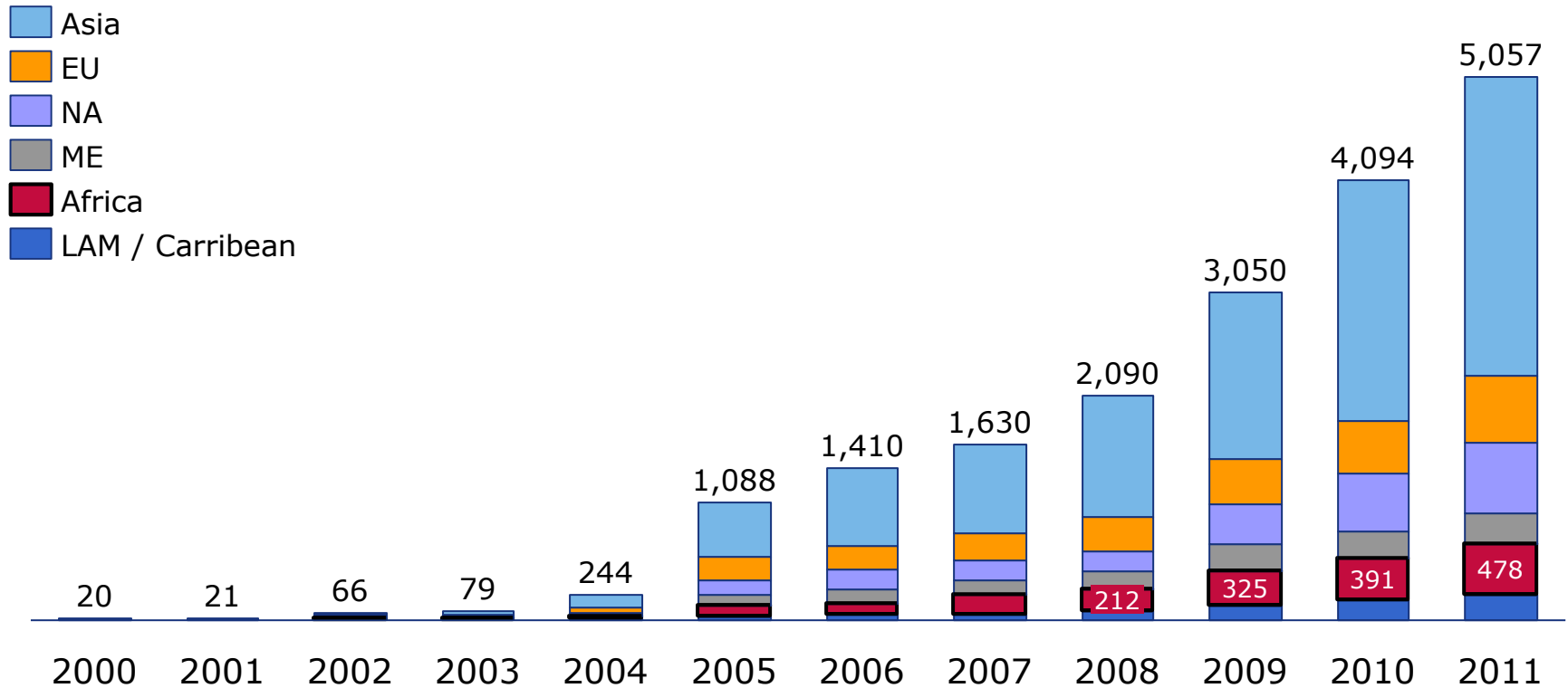
Analysis of MOFCOM firm database

- **Deals approved between 1998 and 2012**
- **2,005 Chinese firms investing in Africa**
- **Categorize 3,989 distinct investment projects**
- **Classify projects into 25 industries based on key characters (17 manufacturing, 7 services, 1 mining)**



All deals by Chinese companies

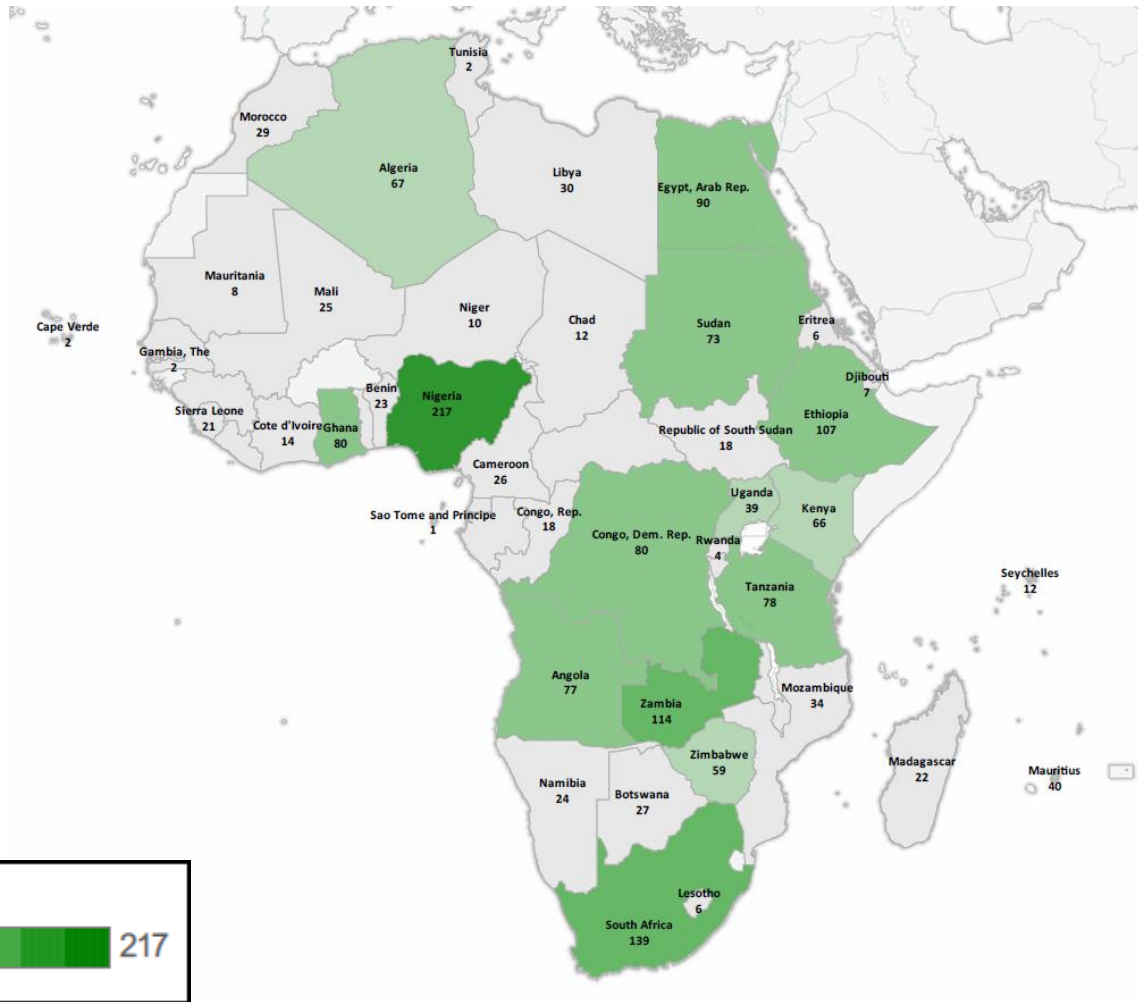
Acquisitions by Chinese Companies, By Destination



Source: MOFCOM



Overview of Chinese ODI Deals into Africa





Top 20 destination countries

Country	number of projects	number of firms
Nigeria	404	240
South Africa	280	152
Zambia	273	125
Ethiopia	255	114
Egypt	197	99
Congo (DRC)	193	80
Ghana	192	90
Angola	189	80
Zimbabwe	167	68
Tanzania	149	85
Sudan	148	78
Kenya	137	71
Algeria	123	75
Mozambique	94	41
Uganda	89	45
Gabon	71	23
Mali	68	33
Namibia	66	30
Mauritius	65	40
Cameroon	60	28

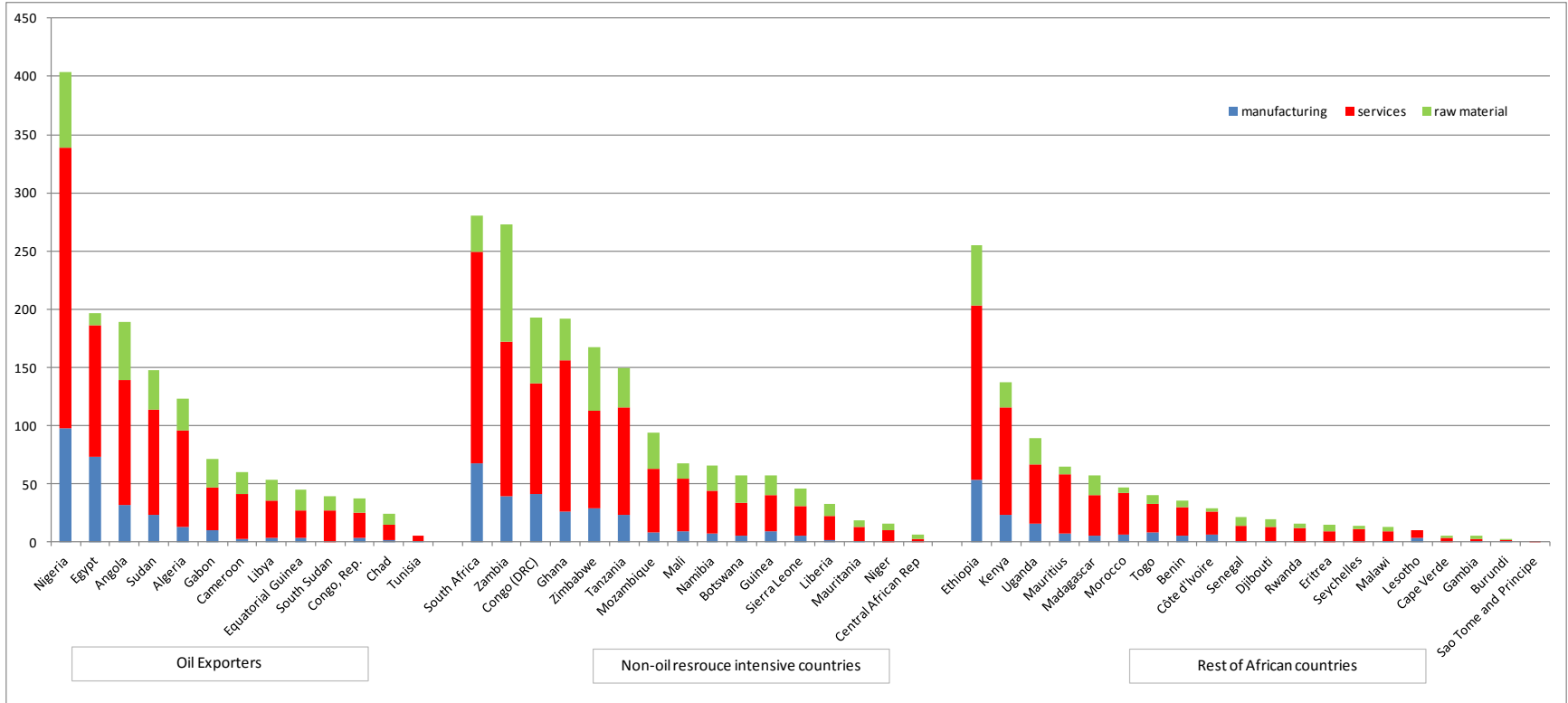


Allocation of deals by sector

Sector ID	Sector Description	Nb of Deals
<u>Agricultural and Manufacturing</u>		
1	live animals; animal products	41
2	vegetable products	72
3	prepared foodstuffs; beverages, spirits and vinegar; tobacco	64
4	mineral products	319
5	products of the chemical or allied industries	45
6	plastics and articles thereof; rubber and articles thereof	22
7	raw hides and skins, leather, etc.	9
8	wood and articles of wood.	35
9	pulp of wood or of other fibrous cellulosic material	15
10	textiles and textile articles	75
11	footwear, headgear, umbrellas, etc.	54
12	articles of stone, plaster, cement, etc.	96
13	other manufacturing	45
14	base metals and articles of base metal	148
15	machinery and mechanical appliances; electrical equipment; parts thereof.	76
16	vehicles, aircraft, vessels and associated transport equipment	40
17	miscellaneous manufactured articles	17
<u>Service</u>		
18	construction, transportation, storage and postal services	392
19	information transmission, computer services and software	14
20	wholesale and retail	693
21	business service	1053
22	finance	68
23	social service	12
24	import and export	539
<u>Mining</u>		
25	petroleum, water and electricity production and supply	45



Chinese ODI goes everywhere





Where does manufacturing investment go?

- **Allocations influenced by factor endowments**
- **More capital-intensive sectors attracted to less capital abundant countries (foreign investors bring mobile capital)**
- **More skill-intensive sectors attracted more skill abundant countries (rely on local labor)**



Republic of South Sudan





Why is China investing in Africa?

- **Aggregate data influenced by big, resource-related deals**
- **Chinese investment not influenced by the governance environment**
- **Typical private Chinese investor smaller scale, not attracted to natural resources**
- **Chinese private investment in manufacturing and services, motivated by profit**



**Thank you,
comments welcome!**