Chapter 11
Chinese Outward Foreign Direct Investment in Africa: Political Economy, Aid, and Bargaining Power

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ABSTRACT

China has rapidly expanded outward foreign direct investments through its remarkable economic growth and the ‘go global’ policy. The country has extended aids to developing countries particularly in Africa. The Chinese approach for aid in the region is built on the principles of unconditionality, which do not explicitly require political openness, strong economic and management practices, good human rights performance, or environmentally responsible policies on the part of recipient governments. Such principles are welcomed by the African states. However, their overall successful development is linked to the long-term substantial institutional reforms. This chapter addresses the rising debates on the Chinese approach to aid and investment in Africa. The chapter includes discussion on the political economy of China and its motivations for investment in the continent, the bargaining process for investment opportunities between the two governments, and the dilemmas of Chinese engagement in Africa. Implications for managers and policy makers are provided in the last section.

INTRODUCTION

With remarkable economic growth, China has rapidly expanded the scale and scope of its outward foreign direct investment (FDI) in the developing world in recent years (MOFCOM, 2014). Together with this global expansion, the country has extended aids to many countries particularly in Africa. Natural resource seeking is one of the most important motives for Chinese aid and investment in the continent (Buckley

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et al., 2007; Wang, Ozanne, & Hao, 2014b). China’s fast-growing investment in Africa has been mainly driven by state-owned enterprises (Davies, Draper, & Edinger, 2014). However, investments made by Chinese private business have also significantly increased their presence (Gu, 2009). The engagement in the continent responds to political stakeholders in pursuing a defined national interest rather than private shareholders. The investment approach is characterized by commercial ties and sovereign capital investment, which focus on infrastructure and commodities rather than traditional aid-driven approach of the Western governments (Wang et al., 2014b). Because the traditional investment and assistance from the West failed to lift Africa out of poverty, China’s increasing presence in the continent with a different approach provides an alternative opportunity for African states (Zhao, 2014).

The traditional aid from the Western governments is well known for its conditionality and is focused on direct financial support, whereas the alternative aid from China is unconditional and largely directed to infrastructure building (Wang et al., 2014b). Unlike the Western approach, China’s aid policy is built on the principles of non-interference and mutual benefit, which do not explicitly require political openness, strong economic and management practices, good human rights performance, or environmentally responsible policies on the part of recipient governments (Grim, 2014). The recent dramatic expansion of the Chinese state-owned and privately owned enterprises in Africa thus raises extensive debates about its impacts on political economy of the continent (Davies et al., 2014; Zhao, 2014).

Africa’s developing economies are generally acknowledged for having the long-term growth potential. However, the continent is short of funding in response to the necessary development tasks (Grim, 2014). Although high demand in other emerging economies drives up the price for ample mineral resources in Africa, the positive effect is not sufficient to provide income to meet the large infrastructure needs and sustain development in the continent. One way to meet this funding need is to create public debt. However, Africa is considered a high-risk lending destination. Available credits are based on the assumption that the debtor will be able to repay the loan. Accessibility of African states to international credits is therefore very limited. Chinese policy banks, on the other hand, follow a very different risk assessment approach from those of the West. Thus, the Chinese credit becomes an option for the African states to meet their funding needs. The important challenge for them is to explore the Chinese interests and to link them with their own interests.

This chapter addresses the rising debates about the Chinese approach to aid and investment in Africa. The chapter begins with discussion on the political economy of China and the factors that drive its investment in the continent. The subsequent section discusses the bargaining process for investment opportunities and the allocation of associated risks between Chinese investors and the African governments (Li et al., 2013). This section emphasizes largely on the mineral resource extraction because this sector is the main motive for the Chinese government to have influence in the continent. Besides, this sector is strategically important to the host country, and thus it is highly regulated by the host country’s government. The investments in this sector are also subject to significant political risks and high possibility of appropriation by the host government (Shapiro, Russell, & Pitt, 2007). The last section highlights dilemmas of Chinese aid and investment in Africa and provides implications for managers and policy makers respectively.
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