Jamey Hurst
INST 381
Dr. Centallas
October 18th, 2010

Chinese Investment in Africa: Savior or Hegemony?

Until the end of the 19th century, the world was fairly evenly developed. A person living in Africa was no better off than someone living in Europe. After the Industrial Revolution, Africa began to lag behind the rest of the world. Over the first half of the 20th century, Africa developed fairly well, even higher than some Asian countries. But sometime during the latter half of the 20th century, something happened in Africa. Africa's GDP growth began to slow, infrastructure ceased to improve (much), government across the continent regressed towards authoritarianism, and for some reason, Africa could not keep up with the global average of development. As it stands now, Africa is the epitome of the undeveloped world. In his book *The Bottom Billion*, Collier even refers to the undeveloped world as Africa+, a position of dubious honor. If that is the case, what can be done about Africa?

Before examining that question, we should look at country with a very different path of development. During the mid-20th century, a new world power was being born in Asia: China. Mao Zedong revolutionized the economically dragging country, making huge efforts to modernize. However, his reforms as a whole failed, leaving communist China in shambles by Mao's death in 1976. Or was it? Beginning with the Reform and Opening Act (1979), China made huge gains economically, boasting one of the world's highest yearly GDP growth rates from the 1980s through the 2000s. Then something happened: whereas China was once the go-to location for cheap manufacturing, they suddenly began outsourcing and investing outside the country. The once-lagging, dynastic China had become a – somewhat – developed country.

And where did China decide to invest? Africa. Through this research, I do not want to examine why Africa fell behind economically, or why China grew at such a rapid pace (although these would certainly make interesting topics to research). I do hope to answer two questions: Why did China invest in Africa? Does this investment have the potential to spur the economic growth of the stagnating African continent? I hypothesize that as China's investment in Africa increases, development in Africa will increase as well.

Defining Models of Development

China's development in Africa has sparked quite a bit of debate in the academic community, raising a number of important issues: *Is* China a developed country, and *is it* developed enough to be investing in other countries, technically? *What* will China's investment bring for Africa? When looking at development, there are a number of models advocated in the academic world. Jeffrey Sachs, a prominent development expert who has worked for Harvard's School for international development, the IMF, and a host of other international aid organizations, claims that multilateral aid is the best remedy for the development "crisis" in Africa. He states that the West has been slow in producing their promised funds to promote development, but once the developed world offer the promised .07% of GDP, this aid will be enough to push Africa over the development threshold. One of the biggest flaws with this model is that the Western world is probably very unlikely to ever put forth that much of their country's GDP for foreign development, especially the US.

Paul Collier, another development expert, claims that the development cure needs to be more complicated, using a smattering of "tools" to fix the lack of development, including international norms and treaties, aid, trade, and military intervention. According to Collier, Africa, along with other undeveloped regions of the world, is caught in a number of traps that impede their ability to grow economically: the conflict trap, the bad governance trap, the resource trap, and being landlocked with bad neighbors. In a recent NY Times article, Collier was quoted as saying that China's investment in Africa may be one of the worst things that could happen to Africa. This is his reasoning: when a country becomes reliant on exporting natural resources, that reliance causes Dutch Disease, an economic effect that leads to lower growth. And natural resources are one of the main objectives for China's investment in Africa. Also when another country, such as China, gives positive feedback to an inefficient government in an undeveloped country – Zimbabwe, Sudan – that country is unlikely to undertake valuable governmental reforms that will aid growth. However, China has invested in a number of industries in Africa, helping promote economic diversification, and diversification is the best way to combat Dutch disease and poor economic performance – according to Collier himself.

Still others propose that the path to development is microfinance and women's empowerment. Muhammed Yunus, the creator of the Grameen Bank in Bangladesh, along with others like Jacqueline Novogratz, founder of the Acumen Fund – a charity organization devoted to assisting microfinance and ground-level development organizations, contend that microfinance is the best way to increase development. These organizations focus on increasing women's agency by making low-interest loans to groups of women so that they can create self-sustaining businesses. Many less developed countries (LDCs) hold discriminatory attitudes towards women, which keeps women out of the workforce and education, decreasing women's literacy rates and increasing women's fertility and infant mortality rates. These countries are effectively ignoring 50% of their working population, and this added labor could help drive development in LDCs. They argue that increasing women's agency – their ability to help themselves – is the best way to promote development. While this model *is* good in some areas of the world, microfinance is unable to create large-scale change across countries because microfinance is a small-budget, regionally focused development agency. And while this model has performed well in the past, it has begun to experience problems with getting women to pay back their loans, due to high interest rates and a lack of incentives for debtors to pay back loans.

Others view China's investment in Africa as a race to the bottom. This "race to the bottom," is the developed world's search for the lowest possible labor and operating costs for cheap, labor-intensive consumer goods, and Africa has become our China's source for cheap goods. But this theory leaves some questions unanswered. Why would China not invest in somewhere closer to home, or somewhere that is politically more stable than Africa? After all, when investing in other countries, one of the biggest fears of a company is nationalization of the foreign industry, many times uncompensated expropriation. And Africa does not have the best record when it comes to expropriation.

However, I believe that China's investment in Africa is a different model of development entirely. China has entered a number of African states that would have otherwise not received development funds – not easily at least – and essentially said that China is ready to be there for the long haul. China has not voiced concerns over human rights violations in Africa, to the alarm of the western media, nor do they seem to care about the status of the governments of African countries. The only thing that China seems especially worried about is the economics of the situation. China needs cheap labor; it needs more food; it needs minerals, all to fuel their incredible growth. And this reciprocal need in the China-African development (it goes without saying that Africa needs development), just may be the best way to spur economic growth in Africa.

Case Selection

China has investments in nearly every African country, and investigating these countries individually would be virtually impossible. However, my research will primarily involve a large-

N data analysis, and this will allow me to look at *every* country in Africa, getting a comprehensive view of Chinese investment on the continent. I may also separate African countries on the basis of the percentage of Chinese investment. Those countries with a level of FDI more than 10% of GDP have *high* investment, between 5-10% of GDP *mid* investment, and less than 5% of GDP have low Chinese investment. By separating these countries on the basis of investment as a percentage of GDP, it allows me to examine the actual effect of Chinese investment in African countries, removing the bias of looking at the *amount* of investment. China would logically have more investment in South Africa, for example, as it has the largest African economy, but this investment might not have the same effect as a smaller amount in a country like Tanzania.

This research will focus primarily on the last 20 years. China was not investing abroad very much before the mid-1980s, and the amount of Chinese overseas investment did not begin to attract attention until the mid-1990s, as this is the time at which China began to invest more heavily abroad. According to the World Bank, China's FDI in Africa peaked in 2005, but I will include data from up to 2008 in my study. The WB data past 2008 is not available at this time, but when the 2009 data becomes available, I will attempt to include that data in y analysis as well.

Data and Methods

The main source of hard data that will be used in this research comes from the World Bank (WB), from the WB's website and database. The WB's studies are less likely to be tainted by a desire to over-report good data, as many governments would be tempted to do. Also, many governments do not have the capabilities to keep records of their aid and FDI inflows, much less possess the accountability and oversight to report this data honestly. Despite the incentives for the WB to report honestly, much of the data involving African FDI is still dismally inaccurate. This inaccuracy may "muddy" some of the results in my statistical analysis.

As mentioned earlier, my primary research method is a large-N statistical analysis of Chinese investment in Africa. I hope to look at the changes precipitated by this investment over time, and this will necessitate the use of panel-estimated regressions. The model is described as follows: GDP_per_capita = $\beta_0 + \beta_1$(Chinese_FDI) + β_2(HDI) + β_3(Infrastructure)+ u. Through this model, I will be able to discern if Chinese FDI does, in fact, have the impact that I anticipate on the African continent.

Variables

The independent variables for this research are human development, infrastructure, and Chinese FDI. I will operationalize human development through the use of the human development index, as defined and provided by the WB and United Nations. The human development index (HDI) is a composite of literacy rates, infant mortality rates, health rates, and a number of other indicator's of a country's development. Using this index will simplify the model, for although HDI cannot directly replace literacy rates and other development indicators, they can give me a fairly clear picture of these trends in the host country. In short, HDI will substitute for a number of other variables that I would like to include. I am going to operationalize the amount of infrastructure in each country through my own infrastructure indicator comparable to the HDI (varying from .000 to .999). I will take the percentage of citizens that are fixed line and mobile phone users, Internet users, and vehicle owners, then average these three scores together. Finally, I am going to operationalize Chinese FDI in these countries by examining FDI as a percentage of annual GDP. Looking at FDI as a percentage of GDP will give me a clearer picture of the effect of Chinese FDI in these countries. Thus, all of my variables in this study will be based on a percentage scale, and this will allow me to compare variables side-by-side that would be otherwise difficult to compare.

The dependent variable in this model is GDP per capita growth per year. Per capita income is one of the best indicators of an individual's economic freedom and development, and is also a better indicator of the per capita growth in a country. As many of the African countries I will examine are quite small, a small growth in GDP should have a fairly large impact on per capita income. In many of the WB publications, the GDP per capita growth is not included in the development indicators. In that case, I will calculate the growth using this formula:

$$GDP\_growth = \frac{GDP\_year_1 + GDP\_year_0}{GDP\_year_0}$$ (where $year_0$ and $year_1$ are two consecutive years)

Given that part of my research question involves determining *why* China decided to invest in Africa, I would like to complement the statistical analysis with interviews that I hope to conduct while I am abroad this spring. I hope to interview members of companies that have pioneered the Chinese presence in Africa, companies such as Sinopec, China National Offshore Oil Corporation (CNOOC), China Minmetals Corp, Huawei Technologies, ZTE Corporation, Lenovo, and TCL. Through these interviews, I hope to look at these corporations strategic positioning in Africa, and also their motivations for entering the market in light of the high costs of entry and political instability in these countries. I would also like to understand the ideas of these businesses concerning their actions and future African development. Do they consider African development a priority? Are they actively pursuing courses of action that will increase African human development and infrastructure?

Conclusion

When doing some initial research on this topic, two things became instantly apparent: there is very little data available on this topic, and the existing data is quite unreliable. Thus, while my statistical analysis is a very important facet of this research, I may have to ignore some of the data or remove it from the analysis, given its inaccuracy. Additionally, I have not had much success in persuading any employees of Chinese businesses working in Africa to talk with me. This topic, while to me does not seem especially sensitive, may be taboo in China. This may be the case, considering the amount of secrecy that has shrouded Chinese FDI in Africa since its beginnings.

Despite the general lack of information on this topic, Chinese FDI in Africa may have the biggest potential to change current strategies for development. There are a few sources that investigate this investment in Africa, but a large portion of this data is imbued with emotional claims against the "terrorism" that China is supporting in Africa. Still others view this investment as a direct military threat to the United States. I would like to look at this investment in a more scientific way, and determine the *real effect* that Chinese FDI has in Africa. This FDI may be the best way to alleviate some 50 years of "undevelopment" in Africa, and lead these countries towards development in ways that the West has been unable to do.