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A New Strategy of Economic Growth in Sub-Saharan Africa

Leveraging Chinese Foreign Direct Investments

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ABSTRACT

Il coinvolgimento cinese in Africa sub-sahariana si configura come un fenomeno ormai assodato e in continua crescita, attirando l'attenzione di numerosi giornalisti, politologici, storici, esperti di geopolitica ed economisti. Si potrebbero riempire pagine e pagine se si riunissero tutte le considerazioni e le interpretazioni avanzate relativamente alle politiche che hanno guidato e che guidano l'avanzata cinese sul continente africano. Ciò che però emerge in maniera dirompente è una presa di posizione ostile nei confronti della Repubblica Popolare Cinese, dipinta come il nuovo colonizzatore che si vuole comprare l'Africa, nel tentativo di sfruttare la sua immensa disponibilità di risorse naturali e forza-lavoro. La presenza cinese sul continente africano prende così le forme di una vera e propria minaccia, invece di essere considerata una fonte di opportunità da valutare attentamente e cogliere negli aspetti che più si confanno alle necessità dei Paese dell'Africa sub-sahariana. Parallelamente, vi sono poi studiosi, economisti ed esperti convinti della necessità di fornire un resoconto chiaro e obiettivo sulle attività cinesi in Africa, facendo luce sulle loro motivazioni, dinamiche e conseguenze, e demistificando, all'occorrenza, narrazioni non corrispondenti alla realtà dei fatti o semplicemente lacunose, frutto di un sempre maggior timore dell'Occidente verso l'impressionante crescita economica del vecchio Impero di Mezzo.

Dall'inizio degli anni Duemila la presenza cinese in Africa ha attirato sempre maggior attenzione, in particolar modo per l'aumento dei flussi commerciali, degli aiuti allo sviluppo e degli investimenti cinesi rivolti verso il continente africano.

Il presente elaborato mira ad approfondire il tema degli investimenti diretti esteri (IDE) cinesi in Africa sub-sahariana, evidenziandone le caratteristiche principali che rendono la Cina un investitore non convenzionale. L'obiettivo principale è proporre una riflessione sull'importanza degli investimenti diretti esteri cinesi per la crescita economica dell'Africa sub-sahariana, partendo

dall'identificazione dei bisogni e delle sfide che tale area dovrà affrontare in un futuro imminente.

Parlare di Africa sub-sahariana significa prendere in considerazione la vastissima area geografica che si trova a sud del Deserto del Sahara con l'eterogeneità dei ben quarantotto Paesi che ne fanno parte. Sebbene non si possa parlare di un'uguaglianza di storia, popolo, lingua, cultura, credo religioso e percorsi di crescita economica, si possono però prendere in considerazione alcuni problemi che i governi e i *policymaker* africani devono fronteggiare ogni giorno. L'idea di una comunanza di difficoltà e di destini legittima l'adozione dell'etichetta "Africa sub-sahariana" non solo per designare un'area geografica, ma anche per parlare di un'entità composta da stati che condividono sorti simili e intrecciate.
Gli anni Ottanta furono per l'Africa sub-sahariana quello che è stato definito il *decennio perduto*, caratterizzato da una gestione del debito insostenibile che la fece precipitare in un baratro economico e sociale. Inoltre, le difficoltà si riversarono e si protrassero per tutti gli anni Novanta, affossando ulteriormente la situazione socio-economica della regione. Nonostante questo, nel primo decennio degli anni Duemila si assistette a una rinascita africana, frutto di tre principali elementi: la crescita dei prezzi mondiali delle materie prime, che portò a maggiori entrate derivanti dalle esportazioni, e il miglioramento sia del quadro macroeconomico che dello scenario politico in molti Paesi sub-sahariani, fattori che contribuirono alla creazione di un clima più favorevole per gli investitori stranieri. Il tasso di crescita annuale pari al 5 per cento che si protrasse per quasi quindici anni, portò gli economisti a ben sperare per la futura crescita eminentemente economica dell'Africa, ma anche per le ricadute positive che essa avrebbe potuto avere sulla società in generale. Tuttavia, sebbene l'Africa sub-sahariana abbia registrato importanti miglioramenti nel proprio Indice di Sviluppo Umano (ISU), essa si configura ancora come l'unica regione a non aver raggiunto un livello medio di sviluppo umano. Per di più, l'Africa sub-sahariana ha visto una drastica diminuzione nel suo livello di crescita del PIL dal 2014 in poi, registrando la peggior performance economica da vent'anni a questa parte. La regione mostra i livelli più bassi di PIL pro capite e una profonda diseguaglianza nella

distribuzione della ricchezza. Si deduce che l'Africa sub-sahariana non sia stata in grado di cogliere a piene mani dei frutti di una sostenuta crescita economica durata quindici anni. Di fronte a questo suo disattendere le aspettative degli esperti, ci siamo chiesti in che modo e in che misura l'Africa a sud del Sahara potrebbe trarre vantaggio dall'incremento dei flussi di investimenti provenienti dalla Cina per dare nuovo vigore a una crescita economica ormai fiacca e per promuoverne i risultati in maniera più inclusiva.

La questione degli investimenti diretti esteri cinesi in Africa non solo si inserisce pienamente nel contesto della progressiva affermazione dei Paesi in via di sviluppo sia come beneficiari di investimenti diretti esteri che come diretti investitori, ma è anche l'esempio per eccellenza di un Paese tradizionalmente beneficiario di IDE e appartenente al gruppo dei BRICS (la Cina), che investe in economie in via di sviluppo (i Paesi sub-sahariani), alimentando il fenomeno della *cooperazione Sud-Sud*.

Mentre i flussi di investimenti diretti in Africa sono aumentati in modo significativo nel corso degli ultimi decenni, l'Africa sub-sahariana si è dimostrata incapace di attrarne una quantità rilevante rispetto ad altre regioni del mondo in via di sviluppo. La ragione fondamentale è la percezione ancora radicata negli investitori stranieri di avere di fronte una regione altamente e intrinsecamente instabile sia dal punto di vista economico che dal punto di vista politico. Si è visto che gli investimenti diretti esteri cinesi si contraddistinguono per una più alta predisposizione al rischio rispetto a quelli provenienti da altri Paesi. Tale baldanza però sta venendo sempre meno, alla luce dei fallimentari investimenti verificatisi in zone nelle quali le mediocri condizioni di *governance* la fanno da padrone.

Gli investimenti diretti esteri cinesi hanno iniziato a fluire in Africa sub-sahariana solo in una fase avanzata della cooperazione sino-africana, incentivati da due fattori principali: la *Going Out strategy*, promossa dal governo di Pechino alla fine degli anni Novanta e resa ufficiale nel 2001 con l'obiettivo di spronare le imprese cinesi ad investire all'estero, e la componente del risparmio aggregato cinese che, superando gli investimenti, ha fatto sì che la Cina avesse notevoli risorse da investire al di fuori dei suoi

confini nazionali. L'impegno relativamente recente di fornire IDE all'Africa sub-sahariana spiega la limitata quantità di IDE cinesi in Africa in termini di stock. Per quanto riguarda la quantità di flussi di IDE cinesi nella regione, essa risulta essere più limitata di ciò che comunemente viene riportato e si configura come una minima parte dei flussi finanziari che giungono in Africa dalla Cina. Inoltre, se l'OSCE, l'FMI e l'UNCTAD classificano gli IDE come investimenti di natura privata, ciò che costituisce un elemento non ortodosso degli IDE di origine cinese è il fatto che essi comprendono anche investimenti di origine statale, che giungono in Africa grazie all'attività delle grandi imprese statali cinesi. In realtà, nel panorama africano si assiste a una considerevole coesistenza di attori statali e privati che operano su diversi livelli. Gli IDE che affluiscono grazie all'operato di imprese statali o provinciali sono per lo più indirizzati al settore estrattivo e al settore delle costruzioni. Recentemente si è assistito all'emergere di un ampio spettro di rappresentanti del settore privato, da imprese private di piccole e medie dimensioni, impegnate soprattutto nel settore manifatturiero, del commercio all'ingrosso o dei servizi di comunicazione, a imprese di piccolissime dimensioni, attive in piccole attività produttive e commerciali. È proprio la presenza di una considerevole rappresentanza del settore privato, che investe in settori diversi dall'industria estrattiva e delle costruzioni, che demolisce le continue critiche che vedono la Cina come investitore che mira solo ad accaparrarsi le risorse naturali e il capitale umano dell'Africa sub-sahariana. Viene evidenziato il fatto che l'entrata in gioco del settore privato come motore di investimento abbia contribuito a una diversificazione degli investimenti cinesi nella regione africana.

Se in un primo momento la Cina si rivolse verso l'Africa attirata dalla sua enorme disponibilità di risorse naturali utili a sostenere la sua sbalorditiva crescita economica, è stato rilevato che l'interesse cinese per le risorse africane non è dissimile da quello dimostrato da altri investitori stranieri. La Cina indirizza i suoi investimenti diretti esteri in modo equilibrato verso Paesi ricchi di petrolio, Paesi dotati di altre materie prime e verso Paesi che non sono particolarmente significativi in termini di disponibilità di risorse naturali. Da un lato la Cina ha incoraggiato internamente gli investimenti sul suolo

africano servendosi della *Going Out strategy* per cercare risorse naturali che andassero ad alimentare la sua crescita economica senza pari e nuovi mercati dove riversare i prodotti che non trovavano sbocchi nel mercato cinese ormai saturo. Dall'altro lato gli IDE cinesi sono stati attirati dalle risorse naturali e dalla disponibilità dell'Africa sub-sahariana a offrire mercati pienamente recettivi, grazie ad una crescente classe media. A tali fattori vanno ad aggiungersi il miglioramento del clima per gli investimenti e la liberalizzazione economica e la deregolamentazione, alle quali si sottoposero molti Paesi dell'Africa sub-sahariana.

Nel tentativo di valutare l'impatto degli investimenti diretti esteri cinesi in Africa sub-sahariana e individuare le necessità dei Paesi che la compongono, alle quali gli IDE cinesi potrebbero offrire una risposta, sono state individuate quattro aree di interesse: la creazione di nuove opportunità lavorative per la popolazione locale, lo sviluppo di una rete ben strutturata di infrastrutture, l'aiuto offerto per entrare a far parte delle catene di produzione globali e il trasferimento di tecnologie e conoscenze.

La letteratura, infatti, descrive gli investimenti diretti esteri come catalizzatori del processo di crescita nei Paesi beneficiari. Oltre ad essere fonte di ulteriore capitale di investimento, gli IDE solitamente sono accompagnati dalla creazione di nuovi posti di lavoro e innescano la diffusione di tecnologie nuove o più aggiornate insieme a un maggiore know-how, assistendo indirettamente all'arricchimento del capitale umano. Contribuiscono inoltre a una maggior integrazione nei processi di produzione e distribuzione globale, facilitando gli scambi commerciali, e aiutano a creare un ambiente più favorevole per altri investimenti. Gli Stati beneficiari hanno quindi la possibilità di assistere a una crescita economica.

L'Africa sub-sahariana si trova in una delicata situazione di transizione demografica, caratterizzata da un alto tasso di crescita della popolazione determinato da tassi ancora molto alti di fertilità accompagnati da una sostanziale riduzione della maternità infantile. Ciò che la regione sperimenterà nei prossimi vent'anni sarà un incremento esorbitante della propria forza-lavoro. Per cogliere i frutti di un possibile "dividendo

demografico", l'Africa sub-sahariana ha la necessità di creare milioni di nuove posizioni lavorative per assorbire parte della nuova forza-lavoro, in modo da non lasciarla disoccupata e soggetta a quella che costituisce la ragione principale della decisione di emigrare, ossia la ricerca e la prospettiva di trovare condizioni economiche e lavorative migliori. È stata dimostrata la capacità degli investimenti esteri cinesi di creare nuove opportunità lavorative in Africa, unita alle loro potenzialità derivanti dal trasferimento di attività legate al settore manifatturiero ad alto uso di forza-lavoro. Inoltre, la maggior quantità di investimenti nel settore manifatturiero e dei servizi e la dislocazione di attività legate alla manifattura in Africa rispondono alla necessità di quest'ultima di avviarsi sulla strada di una maggior diversificazione della propria economia verso una sempre minor dipendenza dalle esportazioni di materie prime.

Se l'innegabile interesse della Cina nel settore delle costruzioni infrastrutturali in Africa sub-sahariana ha portato ad ampie critiche del modello cinese basato su accordi che prevedono una mescolanza di investimenti, aiuti allo sviluppo e commercio legato alle materie prime, ciò che risulta altrettanto inconfutabile è il beneficio che i Paesi sub-sahariani possono trarre da questi grandi investimenti. Non solo essi possono promuovere una più profonda e solida integrazione regionale, con la conseguente facilitazione dei flussi commerciali e la riduzione dei costi e dei tempi di trasporto, ma gli interventi cinesi nel settore delle infrastrutture possono permettere una maggior integrazione anche a livello mondiale, alla luce dell'ambizioso progetto di dare nuova vita all'Antica Via della Seta, nel quale anche l'Africa è stata inserita. Se da un lato ciò si configura come una importante conquista per l'Africa sub-sahariana, dimenticata dal resto del mondo per lunghissimo tempo, dall'altro si offre come un grande contributo al raggiungimento degli obiettivi dell'Agenda 2063, che si prefigge il miglioramento della situazione socio-economica africana in un arco di tempo di cinquant'anni facendo leva sul grande potenziale delle infrastrutture.

Il supporto offerto dalla Cina ai Paesi dell'Africa sub-sahariana per entrare a far parte delle catene di produzione e distribuzione globale si basa su tre interventi essenziali. In primo luogo, il contributo cinese allo sviluppo della

rete infrastrutturale costituisce un fattore di attrazione per nuovi investitori che saranno più propensi a dislocare un numero sempre maggiore di segmenti della produzione su un territorio che offre la certezza di trasporti più efficienti e operazioni commerciali più fluide. In secondo luogo, il trasferimento di attività manifatturiere nel continente africano, determinato dall'aumento dei salari dei lavoratori cinesi, porterà con sé la creazione di catene del valore differenti da quelle legate al settore estrattivo, che hanno relegato i Paesi africani al loro fondo, come semplici fornitori di materie prime. Oltre a ciò, la diffusione di tecnologie e di conoscenze che solitamente accompagna gli IDE potrebbe risultare utile ai Paesi sub-sahariani per raggiungere il livello di efficienza, qualità e capacità richiesto per entrare a far parte delle catene del valore globale.

In riferimento alla capacità degli IDE cinesi di portare a un aumento della dotazione tecnologica e della conoscenza nei Paesi sub-sahariani beneficiari, è necessario sottolineare l'importanza delle Zone Economiche Speciali come aree di attrazione di queste due componenti. Si potrà assistere a reali ricadute positive sull'economia in generale solo se queste aree saranno adeguatamente messe in contatto con l'intero contesto del Paese beneficiario, senza diventare territori isolati.

A questo proposito e relativamente a tutti i campi nei quali gli IDE cinesi possono avere una qualche influenza, è necessario porre l'accento sull'importanza dell'intervento del governo di ciascun Paese sub-sahariano. Risiedono proprio nelle loro mani la responsabilità e la decisione ultima sui limiti da porre all'intervento cinese nei loro Paesi e sulle condizioni per fare della presenza cinese sul loro territorio una risorsa dalla quale ricavare il supporto per una maggiore e più inclusiva crescita economica. Ciò che è stato sottolineato nel presente lavoro è il dovere dei governi africani di non pensare solamente alla crescita economica come un mero aumento dei valori del PIL, ma di guardare a essa come lo strumento per promuovere il miglioramento del capitale umano dei loro Paesi.

Ciò che emerge chiaramente nell'elaborato è come l'interesse cinese in Africa sub-sahariana non sia spinto da ragioni umanitarie, ma scaturisca

dall’attenta ricerca di opportunità di business. Andando oltre alle considerazioni etiche avanzate sulle ragioni e sui modi di operare della Cina sul suolo africano, bisogna riconoscere che l’avvento dei capitali cinesi in Africa sub-sahariana ha condotto a risultati migliori e superiori rispetto a quelli generati dalle ricette di sviluppo intrise di condizionalità che le potenze occidentali hanno propinato ai Paesi sub-sahariani. Tuttavia, se da un lato appare sbagliato considerare la Cina alla stregua di una mera minaccia per l’Africa sub-sahariana, dall’altro sembra altrettanto errato pensare che la Cina si presenti come la panacea per tutte le difficoltà dell’Africa. Parimenti, il coinvolgimento cinese in termini di investimenti diretti esteri non può offrirsi come soluzione ultima a tutti i problemi e a tutte le sfide che l’Africa sub-sahariana si troverà ad affrontare. Tale obiettivo non è neppure ravvisabile nei piani della Repubblica Popolare Cinese, che non si è mai presentata come salvatrice del continente africano. Piuttosto, tenendo fede ai propri obiettivi politici prima ed economici poi, è riuscita a conquistarsi la fiducia dei governi africani creando amicizie di lunga durata e dimostrandosi presente e proattiva sul territorio africano. Non si può tuttavia trascurare l’attrazione che l’esperienza cinese nell’emancipare milioni di persone da condizioni di vita miserabili ha esercitato e continua a esercitare in Africa. La Cina è riuscita ad ottenere risultati significativi nella riduzione della povertà facendo leva sul potere degli investimenti provenienti dall’estero, sul commercio e sulla tecnologia, strumenti che sta fornendo anche ai Paesi sub-sahariani, lasciandoli però liberi di seguire il percorso di sviluppo a loro più congeniale.

INTRODUCTION

Summer 2013. I was in Uganda, three hours of red and dusty streets far away from the capital Kampala. On a Sunday like all the others, I was walking in Jinja directed to the Source of the Nile, when suddenly I bumped into Ling Ling Chinese Restaurant. “The Chinese are everywhere!”, I thought immediately. And the idea of the particular taste of a *gongbao chicken* or a *sweet-and–sour pork* accompanied by a Ugandan *chapatti* just made me smile and pass by, craving for some Chinese food.
Right at that moment, I began to ask myself the reasons for the presence of a Chinese restaurant in such a distant place. Even though I could not realize it at that time, I was beginning to wonder the reasons for China’s engagement with Sub-Saharan Africa. I just became curious about Chinese modes of engagement with Africa, discovering a largely debated topic and related issues, which had been for the most part unknown to me before that apparently trivial moment.

Reading as much as I could just for mere personal interest, I went through a huge amount of sources talking about a neo-colonial predatory hunger of China towards Africa’s natural resources and its large pool of labour force, exuding the perception of China as a real threat rather than a source of opportunities for Sub-Saharan Africa. On the other hand, I found out other scholars and economists who have tried to convey a clear and unbiased image of Chinese activities in Africa and to shed lights on their motives, dynamics and consequences, demystifying narratives mostly created by Western political concern about China’s astonishing rise as economic power. Indeed, in just twenty year China managed to grow and become one of the first actors on the international stage sitting side by side with the other world powers and setting itself as a model for developing countries.

The Sino-African cooperation, which was initially grounded in China’s support to African movements of liberation and independence and which reached a

deadlock during the 1980s, regained strength at the end of the 1990s, in conjunction with the official proclamation of the Going Out strategy aiming at encouraging Chinese enterprises to invest abroad. In the following years, China's presence in SSA became stronger and stronger, less spurred by political reasons and mostly driven by economic factors. Many researches and experts have identified different channels through which China is affecting and exerting its influence on Sub-Saharan Africa's economies, namely, trade flows, aid flows and flows of direct investments. The difficulty in assessing the actual impact of these different kinds of flows is due to the fact that China's ways of engagement usually does not fit into traditional categories. As a matter of fact, Chinese modes of operation show original patterns entailing links between investments, trade and finance.

The present work aims at exploring the issue of Chinese direct investment flows in Sub-Saharan Africa, highlighting their particular features. The objective is to advance a reflection on the importance of Chinese direct investments for Sub-Saharan Africa economies' growth starting from the identification of Africa's needs and of the challenges it is facing.

In order to serve this purpose, the present work is divided into five chapters.

The first chapter aims at providing a portray of Sub-Saharan Africa's economic growth in historical perspective. Come out from the 1980s' *lost decade,* which also spilled out in the 1990s, this macro-economic region was subjected to a prolonged period of economic growth that make experts talk about an *African rising*, which, has not materialized into a substantial progress in poverty reduction and actual improvements in living standards. Furthermore, the region has been living years of economic slowdown. This analysis gives rise to considerations on the main future challenges that Sub-Saharan Africa will face and to the identification of the main areas in which Chinese investments could give an answer to African needs.

The second chapter presents the theoretical framework traditionally used to describe the different modes and motives of foreign direct investments in order to give tools to understand China's ventures on the African continent. The chapter also provides an overview on the increasing global foreign direct investments flows in a more and more interconnected world, and in particular

on the trend which sees traditional foreign direct investment recipient countries becoming investors in other economies, as in the case of China.

The third chapter is focused on investigating direct investments' trends in Sub-Saharan African's region. It has been noticed that, despite the fact that Africa managed to attract an increasing amount of flows, these resulted to be much less significant in comparison with foreign direct investments attracted by other developing regions in the world, revealing a marginalization of Sub-Saharan Africa. In detecting the factors hampering investments in the region, there is the attempt to identify the peculiarity of Chinese pattern of direct investments in relation to the elements that held off other investors.

The fourth chapter proceeds with the analysis of China's direct investments in Sub-Saharan Africa, both in quantitative and qualitative terms. The chapter includes frequent references to the historical background of the Sino-African relations and to China's internal changes, in order to track down the main drivers of Chinese investments on the continent and to understand China's changing pattern of involvement in Sub-Saharan Africa. Indeed, an increasing diversification of investment decisions is evident as well as an already begun transfer of manufacturing production to the continent, prefiguring great opportunities for Sub-Saharan Africa's economies.

Leaving aside the presumption to find a unique and ultimate solution capable of giving an answer to all the challenges of Sub-Saharan Africa, the fifth chapter is focused on explaining the reasons why foreign direct investments are usually perceived as catalysts of the process of economic growth in host countries. On the basis of this explanation, four main areas have been identified to evaluate Chinese direct investments' positive impacts and potentialities in relation to Sub-Saharan Africa's needs. These main areas are the creation of employment opportunities for local people, the development of infrastructural networks, the support to enter global production networks and the transfer of technology and know-how.

This final chapter tries to deviate from the standpoint which suffused much of the literature dealing with China's engagement with Africa, i.e., the perception of China as a new colonialist trying to buy or to conquer Africa. In this perspective, it is essential to consider Sub-Saharan Africa's countries as real actors and not as mere recipients of Chinese direct investments.

Chapter One

OVERVIEW ON SUB-SAHARAN AFRICA

1.1 Defining the subject: Sub-Saharan Africa between heterogeneity and homogeneity

With reference to the name “Sub-Saharan Africa”, using this expression means borrowing a label often and widely used to define the geographical area of the African continent that encompasses those countries located south of the Sahara Desert.

According to the World Bank’s classification[1], this area is made up of 48 countries: Angola, Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Eritrea, Ethiopia, Gabon, the Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Republic of Congo, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Swaziland, Tanzania, Togo, Uganda, Zambia and Zimbabwe (Figure 1.1).

[1] The list of countries that are part of Sub-Saharan Africa is available at <http://data.worldbank.org/region/ sub-saharan-africa>.

Figure 1.1: Sub-Saharan Africa: Countries

Source: Personal elaboration according to World Bank's data.

As the Zambian-born economist Dambisa Moyo[2] observes[3], referring to Africa means talking about a continent, not a single country, and it is impossible to attribute to it the feature of homogeneity. Indeed, not only do African countries have different histories and African people speak different languages, have diverse cultures and practice various religious beliefs, but African countries are also travelling along different paths of economic growth.

Nevertheless, there are common bonds that link Sub-Saharan African countries together, i.e., the amount of shared problems that, albeit in varying degrees of severity, different African countries' governments and policymakers have to face and deal with on a daily basis.

Moyo draws up a list of them: the high degree of poverty, the rampant corruption, the incidence of diseases, the lack of infrastructure, the erratic

[2] Dambisa Moyo (Lukasa, 1969) is a famous international economist, who focuses on studying global affairs and the macroeconomics. She studied at Oxford and Harvard and worked for the Word Bank and Goldman Sachs before launching herself as a book author and a public speaker. She writes regularly for prominent newspapers as the Financial Times and the Wall Street Journal. Retrieved from Moyo's official website <http://dambisamoyo.com/about/biography/> (accessed on 28/12/2016).

[3] MOYO, D. 2010. *La carità che uccide*. *Come gli aiuti dell'Occidente stanno devastando il Terzo mondo*. Milano: RCS Libri S.p.A., at pp. 18-19.

and mainly poor economic performances, the unstable political situation and the historical tendency to be subjected to violent unrests and civil wars.
These common ties, which are a *leitmotiv* of problems and issues African countries have to grapple with, are the reason that justifies the use of the label "Sub-Saharan Africa", hinting at homogeneity across this region's countries.

Therefore, it is possible to talk about Sub-Saharan Africa as a subject that is far more than just a geographical area, namely, an entity made up of countries sharing common challenges and with interlaced fortunes and misfortunes, which go far beyond differences.
The matter of a *fil rouge* that connects Sub-Saharan African countries' destiny can be grasped in Dambisa Moyo's statement: "*even when there are pockets of economic success, it is worth remembering that in the long term no country in Africa can truly exist as an island of prosperity on its own."* [4]

In the light of the above-mentioned considerations about the possibility to talk about homogeneity within a heterogeneous region as Sub-Saharan Africa, a strictly economic analysis of SSA growth will follow.

1.2 An economic snapshot of Sub-Saharan Africa

Not many years ago, economists, analytical works from the main international organizations, the media and politicians talked about Africa as a continent living and with prospects of continuing on the path of a robust and sustained growth. There was a renewed attention on Africa's potentialities and its "headline growth", beyond its endemic problems which had relegated it to the sidelines of the economic and financial strategies. Until 2014 the International Monetary Fund (IMF) declared a strong and continued dynamism in SSA economy continuing a long trend of expansion only briefly interrupted in 2009, and real expectations for further acceleration in economic growth. Nevertheless, looking at the current SSA situation, the

[4] *Ibidem.*

excitement has abated. While on the one hand, there are countries that still persist on high economic growth rates, on the other hand there are some countries that are under severe strains and that also represent large and influential economies in the whole region, impacting the aggregate image of SSA.

In this chapter, we will analyse the current situation of SSA's economic growth, in the light of what happened in the past. Indeed, actual Sub-Saharan Africa is the result of its troubled past and of a vigorous and prolonged economic growth, which boded well for the future of SSA, but which has slowed down and has not resulted in substantial progress in poverty reduction and actual improvements in living standards.

In doing this, there will be a constant reference to SSA countries' GDP and its growth, to give concrete measure to the phenomenon of economic growth. As a matter of fact, Gross Domestic Product (GDP) stands for the total value of all final goods and services produced within the borders of a country in a given period of time, which is usually a year time. In other words, GDP in considered to be the measure of the overall economic output of a country, with the advantage to provide an overview of the country's economy as a whole. Moreover, when its value increases, it can be inferred that the economy is going through a phase of economic growth. Indeed, an increase in GDP means that there is also an increase in income and employment. On the contrary, when GDP value decreases, it can be concluded that the economy is experiencing a phase of recession, a phase of slowdown in economic activity. In addition, GDP annual growth rate is useful to grasp how fast an economy is growing, in particular putting it into comparison with other countries' or regions' speed of growth. Referring to GDP and its percentage growth is important for our analysis to the extent that it gives us a purely quantitative measure of the economic growth.

I will also resort to per capita Gross Domestic Product, which is considered to be the measure of the level of economic development, i.e., the wealth at disposal of each individual in a country, and to the percentage growth of per capita GDP, i.e., the measure of the pace of economic development over a period of time of one year. Over the years, per capita GDP has taken the role

of indicator of the overall economic development and of the social progress of the society as a whole, thus, the increase in per capita GDP is usually associated to an economic development as a long-term sustainable phenomenon. Nevertheless, it is important to underline the fact that the term "development" should be interpreted as a process of transformations that affects different levels of the economy and of the society, and as changes that encourage the increase of a widespread and common wealth. Development takes the meaning of what individuals can achieve with the result of an increase of the economic growth in their own hands. Given its quantitative nature measuring the economic activity, per capita GDP reveals its limits in measuring the real development of a given country, and in particular, it is not always a good predictor of human development in that country.[5] The perspective of growth as represented by per capita GDP should be therefore integrated with other indicators to convey the general situation of well-being in the region of SSA.

For this reason, I will refer to the Human Development Index, developed by the Pakistani economist Mahbub ul Haq in collaboration with Amartya Sen, in the attempt to put people in the middle, shifting the focus on economics from national product to a more people-centre perspective. Looking at indicators more related to human development will be important for our analysis to grasp the actual living standards in SSA and to have a broader overview of a past economic growth, which anticipated a bright future for SSA on the mere basis of the numbers, but have not led to the expected substantial improvements for the population as a whole.

The chapter also include a paragraph on the main future challenges for SSA, namely managing to diversify its economy and raping the potential demographic dividend. Looking at these challenges is important to hint at how Chinese engagement with the region could be favourable for a SSA's more sustainable and inclusive growth.

[5] REINERT, K.A. 2012. *An Introduction to International Economics: New Perspectives on the World Economy*. New York: Cambridge University Press, at pp. 356-357.

1.2.1 From the *lost decade* to the *Africa rising* narrative

With the beginning of the new millennium, there was a general raise of expectation of good news about SSA's industrial development, since there were favourable signs of change in the region's economic performance and in the external environment which framed SSA's economic development. In the first ten years of the 2000s, SSA's GDP grew to an annual growth rate of 4.7 per cent from an average annual rate of 2.0 per cent between 1990 and 1999, thus, more than twice its pace in the 1980s and 1990s. This striking improvement occurred when the global GDP growth rate remained stable and moderate at an average of 2.6 per cent [6], leading economists to celebrate what they termed *Africa rising*.

Africa was coming from a *lost decade* of economic crisis, which also expanded into the 1990s. In the early 1980s a great part of SSA's countries was strongly reliant on export of primary commodities. Thanks to the boom in commodity demand, a lot of loans flew into SSA and by the end of the 1970s, Africa was awash with loans. With the 1979 oil crisis and the consequent manoeuvre of raising interest rates on loans implemented by the central banks in the industrialized world, the debt which developing countries had to repay became unsustainable, given the fact that most of the bank loans in the hand of developing countries were at floating interest rates. While in 1975 African debt service accounted for a total amount of US$ 2 billion, it increased fourfold in less than ten years, arriving to an amount of US$ 8 billion in 1982.[7] A global recession unavoidably followed, bringing to a drastic reduction of demand for developing countries' exports; therefore, SSA countries had to face declining demand for their exported goods, falling income from trade and the heavy burden of debts. In this context, the policy agenda of the so-called *Washington Consensus* [8] was introduced, entailing a

[6] KAPLINSKY, R., MORRIS, M. and KAPLAN, D. 2012. *One Thing Leads to Another: Promoting Industrialisation by Making the Most of the Commodity Boom in Sub-Saharan Africa.* EBook version retrieved from <http://www.prism.uct.ac.za/Downloads/MMCP%20Book.pdf>.

[7] MOYO, D. 2010, *supra* note 3, at pp. 46-49.

[8] The term *Washington Consensus* was coined by John Williamson in 1989 to designate the set of policies and reforms that indebted countries had to adopt in order to be allowed to enter into new negotiations with international institutions, foreign governments and private creditors to have a debt-rescheduling. The reference to Washington is given to the fact that this development strategy was designed and implemented by the IMF, the World Bank and the US Treasury Department,

standard package of discernible economic policy prescriptions, mainly focused on fiscal policy discipline, liberalization and privatization. This policy agenda for Africa development had to go hand in hand with aid-based programmes such as the IMF's Structural Adjustment Facility (SAF) and the successive Enhanced Structural Adjustment Facility (ESAF), which consisted on the disbursement of loans at concessional annual interest rates of 0.5 per cent to be repaid biannually, starting from five and a half years and finishing ten years after the loan was granted. This approach not only failed to improve SSA's fortune, but it also contributed to depress further its already difficult situation. By the beginning of the 1990s, Africa found itself up to its neck in debts and struggling to repay the colossal cost of servicing these obligations. In 1994, Thomas Darnton drew for the *The New York Times* an appalling picture of SSA's conditions. SSA still endured the effects of the economic failure experienced in the 1980s, which not only was weakening any attempt of political liberalization, but also was undercutting living standards. The trend in Africa was not just downwards, but Africa was lagging far behind the rest of the world. The continent with the highest number of poor people was getting poorer and poorer. Indicators such as infant mortality rates and maternal mortality rates, life expectancy and access to drinking water, which had improved in the 1970s, stopped improving. As a matter of fact, African countries under severe strains had decided to cut public health expenditures in their budgets, hoping that the major part of the burden would have been taken on by foreign humanitarian organizations. Malnourishment and diseases were the order of the day. In addition, education was also hit by the cut in countries' budgets: one-third of expenditures per student was cut; primary school enrolment decreased from 79 per cent to 67 per cent, while an estimated one-third of all graduates from the college went to increase the phenomenon of brain drain, with the consequent SSA's loss of intellectual

which were all based in Washington DC. To know more, see WILLIAMSON, J. 1990. *What Washington means by policy reform,* in *Latin American Adjustment: How Much Has Happened*. Ed. John Williamson. Washington DC: Institute for International Economics, at pp. 7-20.

capital. The deputy director of the United Nations Children's Fund (UNICEF) wondered *"What future is there for the continent?"*. [9]

At the end of 1990s, it was not possible to paint a colourful and vibrant image of the African continent: gloomy economic scenarios, crumbling infrastructural systems or already laying in ruins, unbridled corruption and frequent mismanagement, despotic regimes in power, repressive political climate and badly deteriorated social situation. This brought Tony Blair to state during the Labour Party Conference in October 2001 that "*the state of Africa was a scar in the conscience of the world"* [10], hinting at the responsibilities which the West could not exempt itself from taking.

Nevertheless, in the 2000s the world witnessed an African revival, denoted by annual growth rate around 5 per cent. In other words, Africa seemed to have escaped its chronic status of being and remaining doomed to an adverse future. The recovery of the African continent was due to three main factors, tracked down by Moyo into the hike of commodity prices, i.e. prices of oil, metals such as gold and copper, and foodstuffs soared on rising global demand, which brought to African countries higher revenues from exports. Just to give some numbers, oil increased from less than US$ 20 a barrel in 1999 to more than US$ 145 in 2008. The commodity boom showed to be so relevant that in the period 2000-2008 Africa's GDP growth depended for one-third on a higher quantity of revenues from natural resources. It must be underlined that the other two-third stem from improvements in other sectors, such as wholesale and retail, manufacturing, telecommunications and transportation. [11] There was also the contribution of the positive policy dividend arising from the market-based policies introduced in the late 1980s, which had shaped a favourable macroeconomic environment with increasing economic growth, declining inflation, and more cautious, transparent and stable monetary and fiscal conditions. In addition, some social indicators had considerably improved. The third element was the improvements in the

[9] DARNTON, J. *'Lost Decade' Drains Africa's Vitality.* The New York Times, June 19,1994. Retrieved from <http://www.nytimes.com/1994/06/19/world/lost-decade-drains-africa-s-vitality.html?pagewanted=all>.

[10] *Cit.* by Tony Blair at the Labour Party Conference in October 2001.

[11] LEKE, A., LUND, S., ROXBURGH, C. and van WAMELEN, A. *What's driving Africa's growth.* McKinsey Global Institute, June 2010. Retrieved from <http://www.mckinsey.com/global-themes/middle-east-and-africa/whats-driving-africas-growth#0>.

political field, where nearly a half out of the forty-eight SSA's countries organized and held democratic and competitive elections, with the general perception in countries such as Angola, Ghana, Nigeria, Senegal, Tanzania and Uganda that corruption did not come to a halt, but, at least, it did substantially decline. This led to a better environment and climate for investments.[12]

At the beginning of 2014, trying to illustrate the reasons for the African highest growth prospects in relation to any other region in world, Amadou Sy, the director of the African Growth Initiative at the Brookings Institutions, highlighted the importance of the increase of demand in natural resources especially from emerging markets, such as China, and the sky-high commodity prices as key drivers of growth for SSA and, in particular, its considerable impacts on oil exporters, such as Angola, Nigeria and Ghana. Even countries with limited resources to export, such as Ethiopia, Rwanda and Uganda, benefitted from the situation, growing at East Asian rates since the mid-1990s. Another positive factor that counted as much as the surge in commodity prices was the perpetuation of structural reforms and virtuous medium-term policies and the improved political governance environment, with elections that was deemed to be free and fair. All these changes contributed to give Africa a more "democratized" and liberalized face, with more space for groups which had been marginalized before and with less violence and internal conflicts, although some civil wars and struggles went on in a few hot zones.[13] *The Economist* renegotiated the unpleasant label *"the hopeless continent"* changing it into *"the hopeful continent",* looking at the fact that in the first ten years of the 2000s there were six African countries among the first ten world's fastest-growing economies. Moreover, Africa was growing even faster than East Asia, so that *The Economist* wrote in 2011 *"Africa has a real chance to follow in the footsteps of Asia"*. [14] In 2013, the IMF expected that SSA's headline growth would have continued at a strong pace in the two-year period 2013-2014 to reach an annual growth rate of 5.5

[12] MOYO, D. 2010, *supra* note 3, at pp. 27-29.

[13] SY, A. *Five Questions Answered on Africa's Rising Economic Growth.* Brookings Institution, February 3, 2014. Retrieved from <https://www.brookings.edu/blog/africa-in-focus/2014/02/03/five-questions-answered-on-africas-rising-economic-growth/>.

[14] ECONOMIST, *The*. *The Hopeful Continent. Africa rising.* The Economist, December 3, 2011. Retrieved from <http://www.economist.com/node/21541015>.

per cent in 2013 and of about 6.0 per cent in 2014. Prospects were so positive given the fact that the SSA's robust performance was largely driven by exports, continuing private consumption and momentum in investment in infrastructure and productive capability, especially in the extractive sector.[15] In the second half of 2013, outlook for SSA's future economic growth had already weakened, although only marginally, due to the fact that since 2011 the commodity prices had already began to decline, anticipating their slump in 2014, and due to the sluggishness in external demand, especially from China, affecting medium-term growth in resource-exporting countries. Beyond any potential distress related to domestic security and political uncertainty, what represented the main threats to SSA's economic outlook mainly stemmed from the external environment, and in particular from the not remote possibility of a slowing down of growth in China and in other major emerging countries, weakening the amount of exports from SSA's countries, lowering commodity prices or decreasing FDI to the region.[16]

Despite the great optimism about Africa's economic growth and its possible positive prospects, there was the well-founded concern about the real sustainability of the strong growth in the long-term. The high volatility of commodity prices was not a novelty, as well as the growth of the economy related to the increase in commodity prices was not. As a matter of fact, in the 1970s, the energy crisis with the peak in oil prices had led many countries towards an economic growth, which had turned out to be fictitious at a later stage, when the prices of oil and other raw materials decreased and the economic growth came to a halt. The idea that SSA's remarkable improvements had to be taken with a pinch of salt came forward, as the region has always too much exposed to external economic shocks due to the structure of its export. There was the perception that the high demand for commodities exportable from Africa and the high commodity prices had truly opened a window and a broad range of opportunities for African countries, but that this window would not have remained wide open forever. According

[15] IMF. 2013a. *World Economic Outlook, April 2013. Hopes, Realities and Risks.* Washington, DC: International Monetary Fund. EBook version retrieved from <http://www.imf.org/external/pubs/ft/weo/2013/01/pdf/text.pdf>, at pp. 67-69.

[16] IMF. 2013b. *World Economic Outlook, October 2013. Transitions and Tensions.* Washington, DC: International Monetary Fund. EBook version retrieved from <http://www.imf.org/external/pubs/ft/weo/2013/02/pdf/text.pdf>, at pp. 76-79.

to experts, think tanks and international organizations, Africa had to take advantage from it, but, at the same time, be ready to step up the transformation needed by its economy. For instance, Dani Rodrik, Professor of International Political Economy at Harvard University, pointed out that African countries had to focus on strengthening its weak structural transformation of their economies, by replicating what East Asian countries had done in their growth path, i.e., focusing on the diversification of their economies, with the consequent smaller dependency from commodities, the transformation of farmers into manufacturing workers and the export of more sophisticated goods.[17] The IMF strongly suggested that SSA's countries implement structural reforms aimed at the promotion of economic diversification, at the encouragement of private investments and at the improvement of competitiveness.[18] Moreover, the IMF pointed at the need to make SSA's economic growth more inclusive, undertaking efforts to encourage employment, to invest in both physical and human capital, to promote the business and the investment climate, to tackle infrastructure gap and to mobilize revenues so that they could be also addressed to social needs.[19]

While analysts and economists wondered whether the economic growth that characterized SSA was likely to continue over time, with the result of making the region take off, or whether it was just a flash in the pan due to particular external factors, they were also interested in understanding whether the economic growth would have had substantial impacts on poverty reduction across the countries of the region. The economic situation which has come up since 2014, as we will see in the next paragraph, gives an answer to all these questions. As experts had already underlined in the past years, SSA has been a highly vulnerable region to external international

[17] RODRIK, D. *Africa's Structural Transformation Challenge.* Project Syndicate, December 12, 2013. Retrieved from <https://www.project-syndicate.org/commentary/dani-rodrik-shows-why-sub-saharan-africa-s-impressive-economic-performance-is-not-sustainable?barrier=accessreg#DXLC5Bq5yAoAZX2R.99>.

[18] IMF. 2014. *World Economic Outlook, April 2014. Recovery Strengthens, Remains Uneven.* Washington, DC: International Monetary Fund. EBook version retrieved from <http://www.imf.org/external/Pubs/ft/weo/2014/01/pdf/text.pdf>, at pp. 68-71.

[19] IMF. 2013b, *supra* note 16.

turmoil, thus, it has been likely to suffer setbacks when these shocks occur. This is what actually occurred in SSA.

1.2.2 A past robust economic growth that did not proceed as expected: Sub-Saharan Africa today

Analysing the *IMF World Economic Outlook*, a semi-annual report published by the International Monetary Fund, it is possible to get a portray of Sub-Saharan Africa's economic performance and to situate it in the context of analysis of the world economy growth's trend, with attempted projections of its progress in the near future.

According to the *IMF World Economic Outlook Update, January 2016* [20], the global economy in 2015 was very far from what could be considered a very fast growing global economy. Instead, it remained sluggish, subdued and weak, growing at an estimated 3.1 per cent and at 2.8 per cent in the second half of the year, with a sizable slowdown in the last quarter of the year. If a small and modest recovery was registered in advanced economies, a decline in growth was performed by emerging markets and developing economies. The *IMF World Economic Outlook, April 2016* [21] talks about a global recovery that is going on, but at an ever-slowing and increasingly weak pace, projecting a global growth at a modest 3.2 per cent in 2016, with a 0.2 percentage point downward revision relative to the projections in January 2016 WEO Update. The *IMF World Economic Outlook, October 2016* [22] revised down the April 2016 forecast, estimating a global economic growth at 3.1 per cent in 2016.

The current economically weak global environment is the background against which Sub-Saharan Africa's economic performance stands out. What

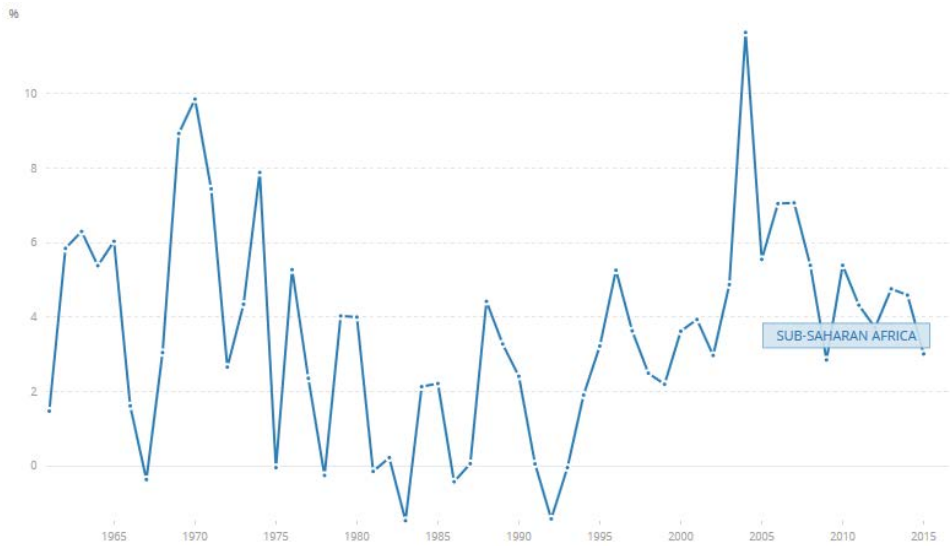
[20] IMF. 2016c. *World Economic Outlook Update, January 2016*. EBook version retrieved from <http://www.imf.org/external/pubs/ft/weo/2016/update/01/pdf/0116.pdf>, at p. 1.

[21] IMF. 2016d. *World Economic Outlook, April 2016. Too Slow for Too Long.* Washington, DC: International Monetary Fund. EBook version retrieved from <http://www.imf.org/external/pubs/ft/weo/2016/01/pdf/text.pdf>, at pp. xiii – xv.

[22] IMF. 2016f. *World Economic Outlook, October 2016. Subdued Demand. Symptoms and Remedies*. Washington, DC : International Monetary Fund. EBook version retrieved from <http://www.imf.org/external/pubs/ft/weo/2016/02/pdf/text.pdf>, at p. xv.

Sub-Saharan Africa as a whole has been experiencing for two years now is a completely different situation compared to the past fifteen years. Reading the *IMF Regional Economic Outlook for Sub-Saharan Africa, April 2016* [23], it emerges that in the two-year period 2015-16, economic growth in Sub-Saharan Africa has decelerated sharply, falling to its lowest level and registering the worst economic performance in more than twenty years. The region's growth in 2015 was estimated to have declined to 3.4 percent, just a little above population growth, down from 5.1 per cent in 2014 and the high growth rates experienced before 2014 (Figure 1.2).The same downward trend continued throughout 2016 and it is estimated that growth in SSA has slowed further down to 1.5 per cent, its worst result since 1994.[24]

Figure 1.2: Sub-Saharan Africa: GDP growth (%), 1961 – 2015



Source: World Bank Data, available at <http://data.worldbank.org>.

It is important to underline that this is an aggregate image of SSA performance, which partly conceals what the IMF analytical works called *the*

[23] IMF. 2016a. *Regional Economic Outlook, Sub-Saharan Africa, April 2016. Time for a Policy Reset.* Washington, DC: International Monetary Fund. EBook version retrieved from <https://www.imf.org/external/pubs/ft/reo/2016/afr/eng/pdf/sreo0416.pdf>, at pp. ix and 1.

[24] WORLD BANK. 2017. *Global Economic Prospects, January 2017. Weak Investment in Uncertain Times.* Washington DC: World Bank. EBook version retrieved from <https://openknowledge.worldbank.org/bitstream/handle/10986/25823/9781464810169.pdf>, at p. 165.

tale of two Africas[25], hinting at the existing heterogeneity in growth paths across the region's countries. The causes of the evident economic slowdown in SSA have been tracked down into diverse factors, which determined multiple shocks. The main one was the presence of a weak global environment that turned out to be less favourable for SSA, because of the moment of uncertainty and slowdown in the advanced economies usually representing the main trading partners of SSA countries – if the US has lost impetus in its strong recovery, Europe has passed through a phase of great uncertainty, while China, despite its continuous solid expansion, is in a period of transition from an investment-heavy growth model to a new growth model based on productivity, innovation and consumption, thus, less dependent on raw materials and on commodity imports, with consequences on commodity prices and commodity trade volumes and, therefore, with certain impacts on SSA, which is a traditionally big exporter of commodities. The weak global demand for raw materials determined the mid-2014 sharp slump in commodity prices and its further weakening in 2015, which hit severely SSA commodity exporter and resource-intensive countries. As a matter of fact, SSA is particularly exposed to changes in commodity price shock, due to it pattern of exports – over the period 2010-2014, 60 per cent of the region's total exports consisted of fuels, ores and minerals.[26] Of course, this high vulnerability is for better or for worse. According to the analysis of the African Development Bank (AfDB), the Organization for Economic Cooperation and Development (OECD) and the United Nations Development Programme (UNDP), the average increase in commodity prices registered between 2010 and 2014 is the reason under about 30 per cent of growth in Africa's commodity exporters.[27] The fact that the decline in commodity prices put under severe strain many large countries in the region, on the one hand influenced the regional aggregate, and on the other hand, highlighted a

[25] *Ibidem.*

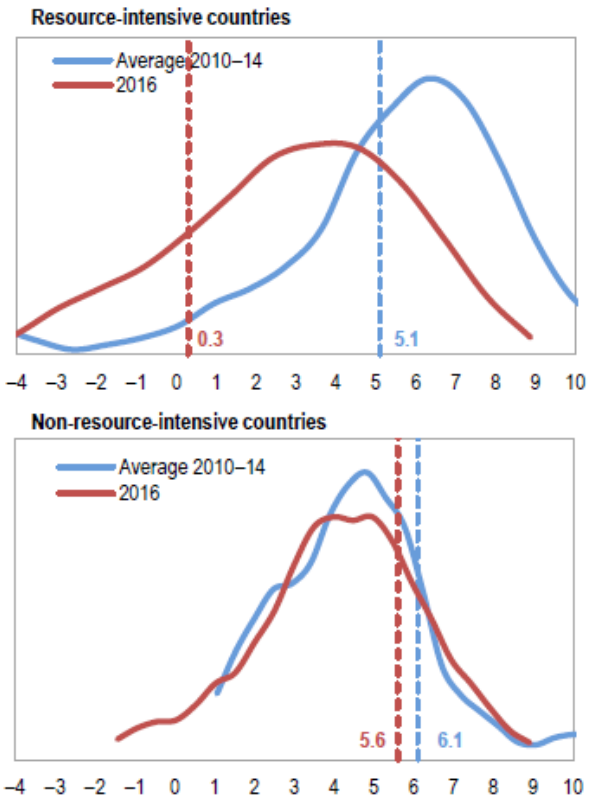
[26] WORLD BANK. 2016b. *Global Economic Prospects, January 2016. Spillovers amid Weak Growth.* Washington DC: World Bank. EBook version retrieved from <https://openknowledge.worldbank.org/handle/10986/23435>, at pp. 153-155.

[27] AfDB, OECD and UNDP. 2016. *African Economic Outlook 2016. Sustainable Cities and Structural Transformation.* EBook version retrieved from <http://dx.doi.org/10.1787/aeo-2016-en>, at p. 36.

situation of dichotomy of economic performances and divergent economic paths.

It is possible to distinguish between the almost unaltered and still robust economic growth at an average rate of 5.6 per cent registered in non-resource-intensive countries, such as Côte d'Ivoire, Senegal, Kenya and Ethiopia, just to name a few, and the evident fall of the average growth rate in resource-intensive countries from 6.2 per cent over the period 2010-2014 to 3.2 in 2016 (Figure 1.3).

Figure 1.3: Average Rate of Growth in Sub-Saharan Africa, 2010 - 2014 and 2016



Source: IMF, Regional Economic Outlook, October 2016, at p. 5.

Among the countries which are still performing well and experiencing an upward trend in economic growth, there are oil importers which are moderately reliant on their exports of commodities. They are now enjoying a strengthening of their previous growth path thanks to lower oil import prices, a business environment which has been improved by resilient private

consumption and large public infrastructural investments, and they are now recording growth rates of more than 6 per cent.

Conversely, the countries which have been severely affected by the slump in commodity prices have been commodity-exporting countries, and in particular oil exporters such as Angola, Nigeria, Cameroon, the Central African Republic, Chad, Republic of Congo, Gabon, Equatorial Guinea and South Sudan. Angola and Nigeria are strongly dependent on revenues coming from oil export – 60 per cent of their fiscal revenues comes from oil and oil exports account for more than 80 per cent of their total exports - which gives an idea of the narrow diversification of these economies. In these two countries, the decline in export income led governments to the decision of tightening the belt by reducing public expenditures and the private to the choice of decreasing their domestic investments, which contributed to push the economies into recession.

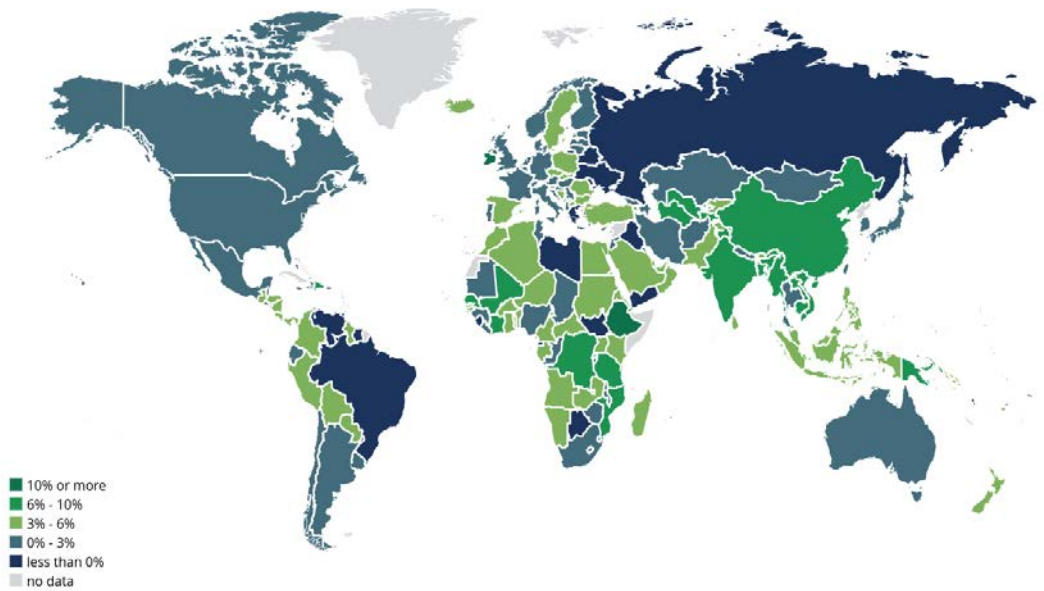
It is possible to define a third group of countries, i.e., non-oil commodity exporters, which are living the same severe contraction in their economies and are stuck in low gear, but they have fared relatively better than SSA's oil exporters. Examples are the Democratic Republic of Congo, Ghana, Liberia, Zambia, and to a lower extent, Niger and Sierra Leone. In Zambia, for instance, mining companies cut production and hold off some planned investments because of the sharp decline in copper and iron ore prices. Consequently, exports, employment and domestic spending sharply decreased. [28]

In addition to external adverse headwinds, there are also some domestic factors that have weighed on the slowdown of SSA economic activity, such as political instability and conflicts, environmental problems and frequent electricity shortages.

[28] IMF. 2016b. *Regional Economic Outlook, Sub-Saharan Africa, October 2016. Multispeed Growth.* Washington, DC: International Monetary Fund. EBook version retrieved from <https://www.imf.org/external/pubs/ft/reo/2016/afr/eng/pdf/sreo1016.pdf>, at pp. 1-2 and 5-6. See also WORLD BANK. 2016b, *supra* note 26 and WORLD BANK. 2016a. *Africa's Pulse*. No. 14, October 2016. Washington DC: World Bank. EBook version retrieved from <https://openknowledge.worldbank.org/bitstream/handle/10986/25097/108582.pdf?sequence=7&isAllowed=y>, at pg.9-11.

In a broader analysis which put African economic growth in the last years in comparison with other regions' (Figure 1.4), in 2015 Africa turned out to be the world's fourth fastest growing economy after South Asia, East Asia and the Pacific region, Middle East and North Africa (MENA) – registering 7.1 per cent, 3.9 per cent and 3.1 per cent of growth rates respectively. According to the World Development Indicators, North America as well as Europe and Central Asia are growing at a slower pace, with respective growth rates of 2.4 per cent and 1.7 per cent, whereas Latin America and the Caribbean region is gasping behind in economic recession.[29]

Figure 1.4: Real GDP growth (annual percentage change), 2015



Source: IMF World Economic Outlook (October 2016), in IMF DataMapper, available at <http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/SSQ>.

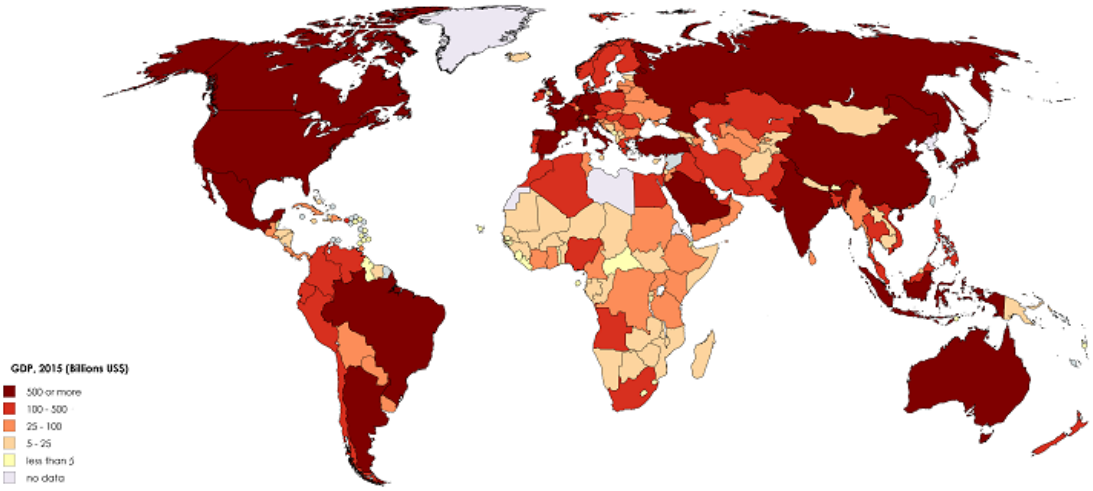
Undoubtedly, this perspective provides a more positive image of SSA's economic growth. Nevertheless, just consider that in 2007 the African Progress Panel expressed its concern about Africa's growth rate of 5.4 per cent in 2006, which was considered by the Panel far short of the annual growth rate of 7 per cent needed to make significant steps towards a

[29] WORLD BANK. *World Development Indicators: Size of the economy*. *Table 1.1.* Retrieved from <http://wdi.worldbank.org/table/1.1> .

substantial reduction of poverty in the region.[30] In the light of these considerations, nowadays, with a GDP growth of 3.1 per cent, SSA is still and even more far away from the economic growth rates which could lead to general better conditions for the region's population as a whole.

In order to gain a deeper insight, we will resort to GDP of SSA's countries, comparing them with the rest of the world's (Figure 1.5).

Figure 1.5: Countries' annual GDP, 2015 *(Billions of US$)*



Source: Personal elaboration according to World Bank's World Development Indicators 2015, available at <http://wdi.worldbank.org/table/4.2>.

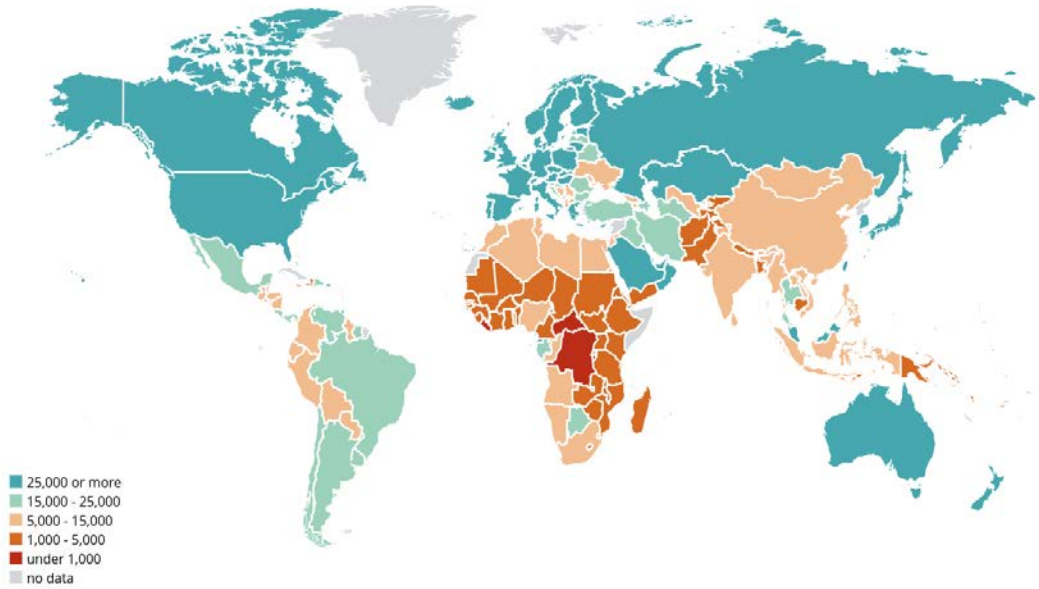
Beyond the values of each country's GDP estimated by the World Bank for 2015, what can be immediately grasped looking at Figure 1.5 is that the region that gathers the highest number of countries with a GDP ranging from US$ 5 to US$ 25 billion, with the exception of some cases, is Sub-Saharan Africa. Looking at the 2015 GDP rankings compiled by the World Bank, if United States (US$ 18,036.6 billion), China (US$ 11,007.7 billion) and Japan (US$ 4,123.3 billion) were the top of the rankings, the first SSA's country is Nigeria (US$ 481.1 billion) which positioned itself at the twenty-third place, followed by South Africa (US$ 314.6 billion) at the thirty-second position,

[30] SARPN (Southern African Regional Poverty Network. *African Progress Panel Communiqué* 2007. Retrieved from <http://www.sarpn.org/documents/d0002595/Africa_progess_panel.pdf>.

Angola (US$ 102.6 billion) at fifty-ninth place and Sudan (US$ 97.2 billion) at the sixty-second position. [31]

Taking into consideration per capita GDP in 2015 based on the purchasing power parity (PPP), according to the estimates processed by the International Monetary Fund, will provide us with a clearer image of the negative economic situation in which SSA stands.

Figure 1.6: GDP based on PPP per capita (Thousands of current international dollars per capita), 2015



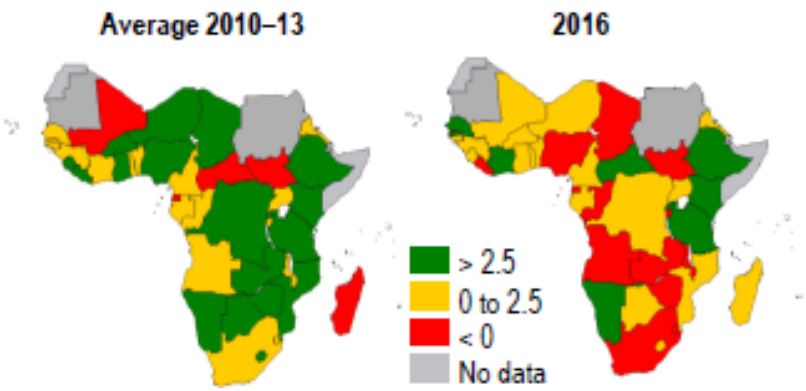
Source: IMF World Economic Outlook (October 2016), in IMF DataMapper, available at <http://www.imf.org/external/datamapper/PPPPC@WEO/SSQ>.

In the IMF rank which gathers 190 countries, the last sixteen positions are all occupied by SSA's countries, with Liberia ($ 874.53), Burundi ($ 831.09), Democratic Republic of Congo ($ 767.49) and Central African Republic ($ 627.64 thousand) at the very last four places. To better contextualize these figures, consider that at the top of the rankings there are Qatar ($ 132.87 thousand), Macao ($ 101.29 thousand) and Luxembourg ($ 99.51 thousand) and the first SSA's country is Equatorial Guinea ($ 43.52 thousand)

[31] WORLD BANK. *World Development Indicators: Structure of output*. *Table 4.2.* Retrieved from <http://wdi.worldbank.org/table/4.2#>.

that ranks twenty-seventh. These data convey a worrying picture of SSA in comparison to all the other world's regions. Indeed, SSA is the region with the lowest GDP per capita. Furthermore, GDP per capita developments can sum up the divergence in economic realities across the region and of their multispeed growth explained previously (Figure 1.7). What can be immediately grasped from the figure is a remarkable general slowdown in economic growth in comparison to the economic growth of the previous years, of course, with some exceptions. According to the IMF's estimates, in 2016 a hypothetical median country in SSA still experienced an increase of 1.75 per cent in GDP per capita growth. Nevertheless, this growth rate was worsened by the negative per capita growth registered by fifteen countries in the region, including the three main contributors, namely, Angola, Nigeria and South Africa. Thus, for the first time in twenty-two years, SSA's average GDP per capita growth rate contracted by 0.9 per cent.

Figure 1.7: Sub-Saharan Africa: Real GDP per capita growth (%), 2010-2013 and 2016



Source: IMF, Regional Economic Outlook, October 2016, at p. 9.

The IMF pointed out that this weakened growth will undoubtedly have negative implications on job creation, with higher rates of unemployment, and will undermine past social improvements in living standards for the population

at large, further highlighting the pressing need to deal with the current economic difficulties.[32]

It is also interesting to have an idea of income distribution in SSA's countries. According to the IMF, SSA is the second region with the highest level of income inequality in the world after Latin America and the Caribbean, even after taking into consideration its level of development. (Figure 1.8). Despite the past fifteen years of robust economic growth, SSA has not seen a noteworthy reduction in income inequality, which has rather persisted on its previous level, remaining roughly unchanged. The IMF also underlines that impacts of improvements in reduction of income inequality on economic growth should not be underestimated, especially in middle-income countries. Indeed, in this group of countries a reduction in income inequality to the levels registered in ASEAN countries is estimated to bring to the increase of SSA's economic growth by 1 percentage point. Conversely, in SSA's low-income countries, higher growth dividends are considered to be carried on by improvements in infrastructure and education, whereas in oil-exporting countries income inequality seems to be linked to their structural reliance on revenues which come from oil export and which tend to be concentrated in few hands.[33] Looking at the Gini coefficient index [34] calculated by the UNDP for the period 2005-2013, the highest indices in the world were registered in SSA, and in particular in Seychelles (65.8), South Africa (65.0), Comoros (64.3), Namibia (61.3) and Botswana (60.5).[35]

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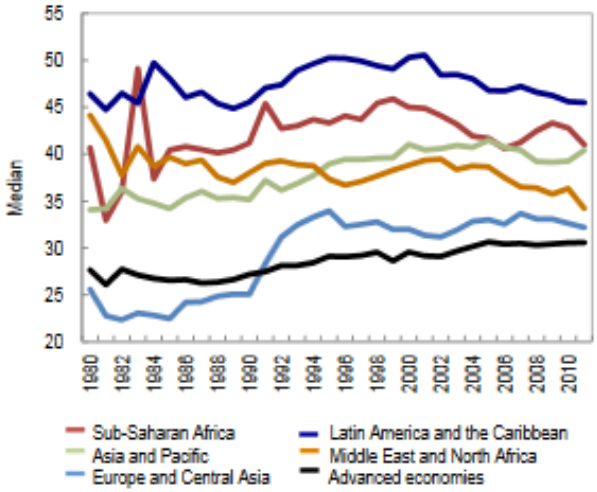
[32] IMF. 2016b, *supra* note 28, at pp. 8-9.

[33] IMF. 2015b. *Regional Economic Outlook, Sub-Saharan Africa, October 2015. Dealing with the Gathering Clouds.* Washington, DC: International Monetary Fund. EBook version retrieved from <https://www.imf.org/external/pubs/ft/reo/2015/afr/eng/pdf/sreo1015.pdf>, at p. x and 55-57.

[34] *Gini coefficient index* ranges from zero to 100 and its calculation is based on the multiplication of Gini coefficient by 100. Gini coefficient is in turn based on the Lorenz curve, i.e., the standard way to calculate the deviation of the income distribution among individuals or households in a certain country from a condition of perfectly equal income distribution. If a value of 0 of the Gini coefficient index means perfect equality and a value of 100 means absolute inequality, a value of 25 represents a condition of relatively low inequality and a value of 60 depicts a situation of relatively high inequality.

[35] UNDP. 2015. *Human Development Report 2015. Work for Human Development. New York: UNDP.* Retrieved from <http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf>, at pp. 216-219.

Figure 1.8: Gini Coefficient Index of Income Inequality for Selected Regions, 1980-2011



Source: IMF, Regional Economic Outlook, October 2015, at p. 57.

What emerges from our analysis is that SSA as a whole is now going through a phase of economic growth which is at the same time faster than that of some other regions of the world and slower than that experienced in the period before 2014. Moreover, SSA is the region where GDP per capita still remains at the lowest levels in the whole world, and, what is more, where income still remains distributed in the most uneven and unequal way.

Referring to these purely quantitative measures is both needed to give a trustable picture of the current situation of SSA and because economic growth can have positive impacts on living conditions for a wide range of the population in a country. This latter idea is well explained in the words written by William Easterly in his famous book *The Elusive Quest for Growth: "We experts don't care about rising gross domestic product for its own sake. We care because it betters the lot of the poor and reduces the proportion of people who are. We care because richer people can eat more and buy more medicines for their babies".*[36] Thus, increases in GDP per capita turn out to be a matter of what can be done thanks to these improvements, and not the hint for a discussion with an end in itself.

[36] *Cit.* by William Easterly.

1.3 A closer look at Sub-Saharan Africa's human development

It has been previously underlined the need for an integration of the mainly quantitative perspective of economic growth based on GDP and on GDP per capita, in order to grasp an essential picture of human development in SSA, which would be otherwise difficult to have. As a matter of fact, analysing the economic development of a region or of a country just looking at GDP and GDP per capita has the inherent risk of overlooking some important aspects and considerations. Living in a country or in a region where GDP per capita is extremely low, such as in SSA, does not only mean that there is little or insufficient income to cope with basic needs, but it also means that the life in that particular country or region is limited by economic circumstances, entirely dedicated to the struggle against poverty-related problems, such as hunger, high infant mortality and low life expectancy, illiteracy, diseases and all the other obstacles which can impede the achievement of a full psychophysical well-being.

This is precisely what is expressed by the Human Development Index (HDI), which synthetically measures development in terms of three important aspects which should determine human development, i.e., the possibility to enjoy a decent standard of living, the possibility to live a long and healthy life as well as the possibility to go through an education process. The decent standards of living is measured by per capita income in a way that higher levels of income have decreasing weight, so that increases in per capita incomes are more relevant when the income starts from a low basis. The possibility to have a long and healthy life is represented and measured by life expectancy at birth. The third element, i.e., education is measured by adult literacy rate and enrolment ratio. Each of the three components, which can be simply referred to as per capita income, health and education, counts for

one-third of the total index, which turn out to be average of the three factors.[37]

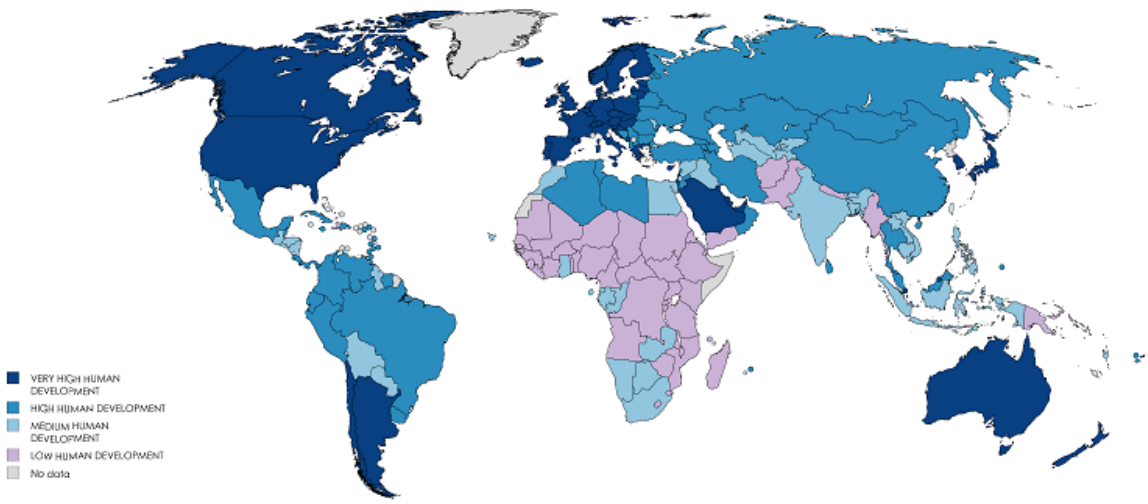
Consulting the *Human Development Report 2016* and, in particular, the ranking of countries according to their Human Development Index, it is possible to make some general considerations. At the first three positions there were Norway (0.944), Australia (0.935) and Switzerland (0.930), which are all classified as countries with a very high human development level. Thirty-five out of forty-eight SSA's countries fell into the last category of low human development, accounting for the 80 per cent of the whole group. The seventeen countries which were placed last in the ranking were all from SSA. In particular, Chad (0.392), Eritrea (0391), Central African Republic (0.350) and Niger (0.348) proved to be the countries with the lowest human development in the world. It is important to underline that not all the countries in SSA have low human development. Indeed, ten SSA's countries have achieved medium human development levels (Botswana, Gabon, South Africa, Cabo Verde, Namibia, Congo, Equatorial Guinea, Zambia, Ghana, and Sao Tome and Principe) and two were ranked in the high human development group (Mauritius and Seychelles).[38]

Not only does SSA gather the highest amount of countries with low human development levels (Figure 1.9), but it is also the only region in the world that had not reached the medium human development classification by 2014 and it is the only region with a low level of human development in aggregate terms, with an average HDI of 0.518.

[37] The HDI ranges from 0 to 1. The more the index is far from 1 and closer to 0, the more the country level of human development is far from the optimal and maximum level of human development. According to the value of HDI, four groups are defined: *very high human development* (HDI higher than 0.800), *high human development* (HDI ranging from 0.700 to 0.799), *medium human development* (HDI ranging from 0.550 to 0.699) and *low human development* (HDI lower than 0.550).

[38] UNDP. 2015, *supra* note 35.

Figure 1.9: Human Development Index, 2014



Source: Personal elaboration according to data in UNDP, Human development Report 2015.

Nevertheless, it must be stressed that SSA's HDI has constantly increased over time (Table 1.1), with one of the fastest rates of improvement over the past two decades. Despite these improvements, actual level of human development in SSA is very low, due to the fact that the region started from a very low basis of human development.

Table 1.1: Human Development Index Trends, 1990-2014

	Human Development Index (HDI)							Average annual HDI growth			
	Value							(%)			
	1990	2000	2010	2011	2012	2013	2014	1990-2000	2000-2010	2010-2014	1990-2014
Regions											
WORLD	0.597	0.641	0.697	0.703	0.707	0.709	0.711	0.71	0.85	0.47	0.73
Arab States	0.553	0.613	0.676	0.679	0.684	0.686	0.686	1.02	0.99	0.38	0.90
East Asia and the Pacific	0.516	0.593	0.686	0.693	0.702	0.707	0.710	1.39	1.48	0.87	1.34
Europe and Central Asia	0.651	0.665	0.731	0.739	0.743	0.746	0.748	0.22	0.94	0.59	0.58
Latin America and the Caribbean	0.625	0.684	0.734	0.738	0.743	0.745	0.748	0.91	0.70	0.47	0.75
South Asia	0.437	0.503	0.586	0.596	0.599	0.603	0.607	1.42	1.55	0.86	1.38
Sub-Saharan Africa	0.400	0.422	0.499	0.505	0.510	0.514	0.518	0.54	1.68	0.94	1.08

Source: UNDP, Human Development Report 2015.

The picture of SSA that emerges from UNDP's analytical analysis is the image of a region which usually classifies at the last positions of each ranking related to the different indicators used to measure various aspects of human development. We have seen that HDI is related to per capita income, life

expectancy at birth and education. If per capita income in SSA has been largely discussed in the previous paragraph, it is possible to make some further considerations about the other two elements. The average life expectancy at birth in SSA is 58.5 years, considerably below the world's average of 71.5 years and the other world regions'. While in Cabo Verde, Mauritius and Seychelles life expectancy is 73-74 years, thus even above the global average, the situation in Swaziland, Lesotho and Central African Republic is quite different, with a life expectancy of 49-50 years. Moreover, in 2015, SSA had the highest child mortality – just to give an idea, 86 deaths per 1,000 live births in SSA against 11 in East Asia – and the highest maternal mortality ratio – 510 deaths per 100,000 live births in SSA and 190 in South Asia. It is undeniable that SSA realized the absolute largest decline in child mortality over the past two decades; however, the region still lags behind all other world's areas.

As far as education is concerned, the expected years of schooling in SSA are 9.6, while the mean years of schooling are 5.2, when the world's averages are 12.2 and 7.9 years respectively. Also in this case, there are countries such as Mauritius, Seychelles and South Africa, which registered higher values than the average ones, with more than 13 expected years of schooling and more than 9 mean years of schooling. The situation is particularly troubling in Eritrea and Niger, where the expected years of schooling are 4-5 and the mean years of schooling are just 2-3. According to the UNDP, 33 million out of the 57 million out-of-school children at primary-level school are in SSA, with an estimated 50 per cent of them who have never and will never go to school. Though, SSA is the region which scored the best performance in increasing the net enrolment rate in primary school and between 1990 and 2012 the absolute number of children enrolled in primary school more than doubled, from 62 million to 149 million. However, in SSA the secondary enrolment ratio is lower than 50 per cent, while in other regions such as East Asia, Europe and Central Asia and Latin America and the Caribbean it is higher than 80 per cent.[39]

[39] UNDP. 2015, *supra* note 35, at pp. 59 and 208-211.

In the period 1990-2015 important strides were done in the whole world towards poverty reduction. Just consider that the global extreme poverty[40] was reduced to 14 per cent starting from a 47 per cent. Considerable improvements were also registered in SSA, although they turned out to be minor – it was reduced from 57 per cent to 41 per cent.[41] Thus, SSA has the world's highest poverty headcount ratio. Just notice that this means that nearly half of SSA's population is still living in a condition of extreme poverty. In 2013, of the 767 million people living on less than $1.90 a day in the whole world, 389 million were in SSA. According to the World Bank's estimates, nowadays SSA still houses nearly half of the global extreme poor. Within the eight Millennium Development Goals (MDGs) established by the United Nations in 2000, the first intended *"to eradicate extreme poverty and hunger"* with the specific target of halving the 1990 proportion of people whose income was less than $1.25 a day by 2015. SSA was the only region in the world that did not reach the predetermined target, managing to reduce its rate of people living in extreme poverty by 28 percentage points.[42] William Easterly raised his voice to denounce the unfairness to Africa in the establishment of the targets of MDGs and in the assessment of the success or failure of the region's performance. In his critics, he stated that MDGs had been poorly and arbitrarily designed to assess improvements in poverty reduction and that their design would have made Africa's relative performance look worse than it really was. Beyond the content of the critique, what is important is his appraisal of SSA's economic growth between the 1990s and 2000s as eminently respectable, although this outstanding performance would not have been enough to meet the first MDG. To him, SSA tells an unambiguous successful story in terms of GDP growth. The reason he adduced for the fact that this economic growth was not followed by remarkable improvements in poverty reduction in relation to other world's regions is that the percentage reduction in poverty is linked to improvements

[40] Extreme poverty had been defined as living on or below $1.25 a day since 2008, but in October 2015 the World Bank adjusted the new poverty line at $1.90 a day, in order to reflect the periodical changes occurred in the cost of living across the world.
[41] UNDP. 2015, *supra* note 35, at pp. 58-59.
[42] UN. 2015. *Millennium Development Goals Report 2015.* New York: United Nations. EBook version retrieved from <http://www.un.org/millenniumgoals/2015_MDG_Report/pdf/MDG%202015%20rev%20(July%201).pdf>, at pp. 14-16.

in per capita income through a nonlinear relation. More precisely, if a region starts from a low initial per capita income level, it will need a higher income growth to achieve the same percentage of poverty reduction than that needed by a country with a higher per capita income.[43]

Overlooking the comparison between countries with low and high per capita income and going back to the link between SSA's economic growth and its advancement in poverty reduction as well as in living standards, from Easterly's analysis it can be inferred that if SSA wants to go on and increase its improvements in living standards, it must be focused on making its economic growth, which is now proceeding at a slower pace, accelerate again and gain more speed, so that economic growth could also sustain progress in the human development sphere. This will be the real challenge in the SSA's future.

1.4 From Sub-Saharan Africa's future challenges to the benefits from the relationship with China

As we have seen in the previous analysis, SSA is highly exposed to the volatility of commodity prices, which are projected to recover by 2021, but only to 60 per cent of the 2011 peak.[44] Thus, the prices for most natural resources produced by the region are likely to persist at relatively low levels in the foreseeable future.

Before the slump in commodity demand and the decline in commodity prices, experts projected that SSA's following economic growth would have continued to be sustained by its production of oil and natural gas, which are estimated to account for 10 per cent of the global oil and 9 per cent of natural gas production in 2035.[45] Furthermore, the projections saw SSA's long term economic growth mainly driven and boosted by its abundance of riches, namely, about 12 per cent of oil reserves, 40 per cent of the world's gold,

[43] EASTERLY, W. 2009. *How the Millennium Development Goals are Unfair to Africa*. World Development, 37(1), pp. 26-35. DOI: 10.1016/j.worlddev.2008.02.009.
[44] IMF. 2016b, *supra* note 28, at pp. 3-4.
[45] SY, A., *supra* note 13.

from 85 to 95 per cent of the global chromium and platinum, 85 per cent of phosphate, more than 50 per cent of the total cobalt and one-third of the bauxite in the whole world as well as timber, the newly discovered iron-ore and diamonds and the huge arable land.[46] All this endowment of natural resources had to go hand in hand with an ever-increasing or, at least, with a high and steady demand for commodities from emerging countries such as China, India and Brazil. Experts underlined the high potential of the encounter of SSA's extraordinary resource wealth and of the demand for natural resources and the will to invest in Africa from emerging markets in order to promote structural transformation in SSA's economies. Indeed, rents from resources could be productively used and canalized towards investments in social, human and physical capital, which could substantially improve living standards of population. Along with the appraisal of the link between natural resources endowment and development, experts often underlined that natural resource exploitation would have to be informed by and articulated according to the needs of SSA's countries with the aim of benefitting the population of the region. In this regards, governance mechanisms in SSA's countries should be fundamental in supervising the conduct of foreign investors in the region and in bargaining and negotiating better and sounder deals from foreign investors' proposals, in order to grab more value from SSA's resources.

Despite the projections of a SSA's economic growth driven by commodities and given the high volatility of their prices, at the time there had already been calls for an enhancement of the growth through the diversification of the economy, in particular in resource-exporting countries. Indeed, these can usually count on high revenues from exports of natural resources, but manufacturing and services usually account for just one-third of the GDP. The same calls still persist today. The challenge for these countries would be to evolve towards a more diversified economy, which will give them a higher certainty of growth.[47]

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[46] AfDB (African Development Bank). *Africa's Natural Resources: What is the Agenda?* Retrieved from <https://www.afdb.org/en/annual-meetings-2013/programme/africa%E2%80%99s-natural-resources-what-is-the-agenda/>.

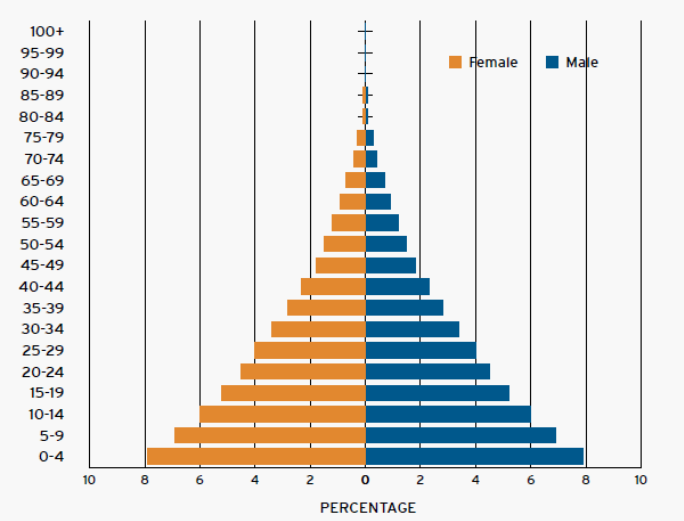
[47] LEKE, A., LUND, S., ROXBURGH, C. and van WAMELEN, A., *supra* note 11.

As we will see in the Chapter 4, it is undeniable that SSA's endowment in natural resources was a key reason for Beijing's decision to engage economically with SSA around 2000. Indeed, Chinese growth model based on a high-investment logics needed natural resources and found in SSA the abundance of resources it craved for. While SSA greatly benefitted from China's increasing appetite for commodities at the time, the region experienced an estimated slump of 40-50 per cent in the value of exports to China in 2015. If on the one hand the deceleration of SSA's economic growth is usually ascribed also to China's evolving growth pattern now more biased on consumption than on investment, on the other hand China with its interest in investing in almost all SSA's countries and across different sectors in region's economies could spur the diversification of the economy that Africa should be focus on to catch up with a sustainable economic growth with positive spillovers for the population as a whole.

As far as SSA's population is concerned, the region is in the middle of a demographic transition characterized by a strong population growth driven by a still high fertility rate accompanied by a substantial reduction of infant and maternal mortality thanks to the spread of better health care and education services. The direct consequence is a spur in the population given to the fact that more children and young women survive birth complications. SSA is the region with the fastest-growing population in the world. Over the period 2000-2015, population numbers increased from 667.7 million to 1 billion at an average annual growth rate of 2.7 per cent and it is projected to grow to 1.29 billion by 2025, maintaining the same speed of growth. Just consider that the global average annual growth rate is 1.2 per cent. SSA is also an extremely young region, with 43 per cent of its population below the age of 15.[48] This can be intuitively understood by looking at its population pyramid (Figure 1.10).

[48] WORLD BANK. *World Development Indicators: Population Dynamics*. *Table 2.1.* Retrieved from <http://wdi.worldbank.org/table/2.1>.

Figure 1.10: Africa's Population Pyramid, 2016



Source: UN DESA, Population Division, in Dollar, 2016, at p. 79.

This will quite certainly translate into a dramatic increase of the labour force in the next 20 years, thanks to a vast youth bulge entering the workforce. Despite the fact that fertility rate is likely to decline gradually in the next future, as it is projected and already observed in some SSA's countries, the trend of a noteworthy growth of the labour force is likely to be registered for a long time in the future. In coming years, SSA is projected to have the most favourable development in terms of population at working age, which is defined as people between 15 and 64. According to the IMF, by 2035, the number of SSA's people reaching the working age will surpass that of the rest of the world combined, with important implications for both the region and the economies interacting with it, such as China. It is estimated that, by 2050, SSA's population will increase to 2 billion and 1.25 billion will be the working-age people, tripling from the current number. This means that more than 60 per cent of population will be ready to enter the labour market.[49]

A similar demographic transition is usually associated to the possibility of a demographic dividend, i.e., higher economic growth pushed by changes in the population's age structure and appropriate policies to effectively canalize this change. The potential demographic dividend is generally intended as

[49] IMF. 2015a. *Regional Economic Outlook, Sub-Saharan Africa, April 2015. Navigating Headwinds.* Washington, DC: International Monetary Fund. EBook version retrieved from <https://www.imf.org/external/pubs/ft/reo/2015/afr/eng/pdf/sreo0415.pdf>, at pp. 25-40.

capable of bringing improvements to GDP per capita through labour supply, as well as higher savings and investment.[50] Indeed, as IMF well explains, with an increase in labour force and in its employment, the economic output will be greater and, in turn, labour income per household will be higher, with the possibility of having more savings and private investments.

If SSA manages to benefit from a significant demographic dividend, the region will experience an increase by 25 per cent in income per capita in 2050, not to mention the increase by 55 per cent projected for 2100.[51] Although these IMF's estimates could seem too high and airy-fairy, they can give an idea of the potential that SSA is going to deal with. The great potential of demographic dividend on economic growth will materialize, i.e., SSA's labour force will help drive region's development, only if high-productivity jobs are created. It is estimated that SSA needs an average of about 18 million job positions per year until 2035 [52], and 30 millions of jobs per year in a few decades in order to absorb all the new entrants in the workforce.[53] Otherwise, they will be discouraged even before entering it, or, once entered, they will not manage to find a job, feeding unemployment. In other words, demographic dividend is both an opportunity and a challenge for SSA's countries and the difference will be made by their capacity to create sufficient jobs. Their failure could result in worrisome economic and social problems. Just imagine what the perpetuation of unemployment and poverty could bring in a country where living standards are still very low and where inequality is extremely high. The IMF underlines the importance of the promotion of a more flexible labour market, of the development of labour-intensive sectors and of the liberalization of trade in order to increase employment opportunities.[54]

As it was previously stated, SSA's increase in working-age population will also have implications on other world's economies. SSA's share of the global

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[50] AfDB, OECD and UNDP. 2016, *supra* note 27, at pp. 41-48.
[51] IMF. 2015a, *supra* note 49.
[52] *Ibid.*
[53] DOLLAR, D. 2016. *China's Engagement with Africa. From Natural Resources to Human Resources.* Washington DC: The John L. Thornton China Center at Brookings Institution. EBook version retrieved from <https://www.brookings.edu/wp-content/uploads/2016/07/Chinas-Engagement-with-Africa-David-Dollar-July-2016.pdf>, at pp.78-82.
[54] IMF. 2015a, *supra* note 49.

labour force is projected to increase to 37 per cent by 2100 starting from 10 per cent in 2010. The global labour force, in particular in developed countries, is aging and declining, following an opposite trend in comparison to SSA's. The potential that SSA could face is important to the extent that, as IMF stressed: *"labour could flow from Sub-Saharan Africa to other regions and capital flow from other regions to Sub-Saharan Africa"*.[55] The question of China well inserts at this point, because China is one of those countries which dynamically interact with SSA and which have started to see their working-age population age and decline. In other words, SSA's and China's demographics are moving in opposite directions. When the economic relationship between China and SSA took off after 2000, China-Africa pattern of trade and investment mirrored the fact that China was labour-abundant and aimed at creating employment, especially in manufacturing sector, while Africa was endowed with resources. Over the past decades, China experienced a rapid population growth as well as a fast growth in its working-age population after 1980, which turned out to be a key factor prompting economic reforms and opening. Nowadays, China's age group between 25 and 54 is the most copious, which is the result of the fast population growth between the 1960s and the 1970s. China's working-age population is now starting to age and decrease in numbers. The Brookings Institution underlines the fact that aging of population in China and in other countries will mean the necessity for the aged population to look for appropriate locations to invest their savings and SSA could turn out to be one of these. Moreover, China is likely to be a great supplier of foreign investment to other countries, contributing to create some of the job positions SSA's population is eager for.[56]

Another aspect to consider in relation to the profound demographic transition that SSA is living is its possible implications on SSA migration. Migration from SSA will be basically shaped by the increase in working-age population, given the fact that the working-age population is the age group which typically swells the ranks of migration. According to the IMF, SSA's migrants

[55] *Cit.* from IMF (International Monetary Fund). 2015a, *supra* note 49, at p. 30.
[56] DOLLAR, D. 2016, *supra* note 53.

to OECD countries could grow from 7 million in 2013 to a projected 34 million by 2050, making SSA's migrant population in OECD countries increase from 0.4 per cent in 2010 to 2.4 per cent in 2050. If until the 1990s, 75 per cent of SSA's migrants remained in the region, feeding the phenomenon of intraregional migration, over the past fifteen years, they have mainly turned towards OECD countries, which housed one-third of the total stock of migrants in 2013.[57] In the attempt to identify the determinants of migration from SSA to OECD countries, the IMF observed that the two main crucial factors are the income differential and the population pressure, i.e., the ratio of working-age population in the country of origin to that in the country of destination. Given the fact that SSA's income differential with OECD countries is likely to persist in the next decades and population pressure is likely to become even more pronounced, future migratory flows of working-age population from SSA to OECD countries are going to continue stronger and stronger.[58] Thus, SSA is likely to become a big labour supplier to many countries in the world. The IMF also stressed the fact that migration of working-age population is usually driven by economic considerations, by prospects of better economic opportunities. There has already been the severe risk of brain drain, which corresponds to a large drain of the already limited human and intellectual capital, with consequent severe social costs. In addition, brain drain usually translates into welfare losses beyond purely economic ones, if it involves professional figures such as doctors, nurses and other professions badly needed by countries with low human development. An intriguing perspective on this problem is that China's presence in SSA with its large-scale investments – 2,233 km of railways, 3,530 km of roads, 132 hospitals and schools, six Special Economic Zones, just to give some numbers – as well as its projected megaprojects could provide SSA's countries with a large number of employment opportunities. The creation of new jobs could be useful not only to absorb a large part of the working-age population of the next years, who otherwise would think to migrate abroad, but also to give a reason to migrants to go back to their countries of origin with new skills, knowledge and experience acquired abroad. To sum up,

[57] IMF. 2016f, *supra* note 22, at pp. 197-198.
[58] IMF. 2016b, *supra* note 28, at pp. 26-28.

creating occupation to reduce future huge migratory flows; of course, investments will not be the only and ultimate solution. An Italian TV programme asked provocatively: *"What if China would stop those boats full with migrants?"*[59], hinting at China's unstoppable willingness to build roads, railways, bridges, industrial zones and entire cities in SSA as a possible way to make SSA an option to choose for SSA's working-age population rather than a place to escape from.

SSA's long-term economic growth will be also favoured by the urbanization process. While only 22.4 per cent of Sub-Saharan Africans lived in urban areas in 1980, the percentage increased to 35.4 per cent in 2015 and it is projected to rise to 54.8 per cent in 2050.[60] While urbanization is usually seen as a risk, given its possibility to create slums and breed misery if it is not well administered, it could be very important for SSA. Indeed, when workers move from agricultural works into urban job positions, productivity is boosted, with prospects of higher incomes per household and consequent creation of a burgeoning middle class.[61]

According to the African Development Bank, Africa as a whole has the fastest-growing middle class in the world, grown from 126 million in 1980 up to nowadays' 350 million people and projected to raise to 1.1 billion by 2060. This corresponds to a growth rate of 3.1 per cent between 1980 and 2010 in the middle class population, while Africa's overall population over the same period of time grew at a growth rate of 2.6 per cent. Middle class is usually seen as an important source of demand for goods and services, thanks to the higher disposable income and the larger spending power; indeed, along with middle-class population growth, the continent also witnessed an increase in consumer spending, which is expected to double in the next fifteen years. The process of urbanization and the growth of the middle class require investments in infrastructures, energy, transport and improvements in

[59] MARUCCI, G. 2016. *China Compact.* Report RAI, episode 31/10/2016. Retrieved from <http://www.report.rai.it/dl/Report/puntata/ContentItem-cf0a316d-5b3d-4958-862a-d14a38fcf9c5.html>.

[60] UN/DESA. 2015. *World Urbanization Prospects: The 2014 Revision.* (ST/ESA/SER.A/366). New York: United Nations. EBook version retrieved from <https://esa.un.org/unpd/wup/Publications/Files/WUP2014-Report.pdf>, at pp. 204-205.

[61] Middle class is defined by the African Development Bank Group as those with an income ranging from US$ 4 to US$ 20 a day.

standards of living.[62] In other words, SSA's cities are becoming larger consumer markets exerting allure on foreign investors. This is exactly what China's perception of SSA is. While SSA's urban and middle-class population crave for employment opportunities, consumer goods, services and better conditions or life, Beijing sees its economic engagement with Africa as a real business opportunity in terms of trade and investments, in what could be conceived as an encounter of demand and supply.

In the next chapters, we will delve more deeply into the pattern of Chinese direct investments in Sub-Saharan Africa, in order to understand how they can be beneficial to the region's economic growth. If Chinese direct investments cannot be considered the one, the only and the ultimate solution to all SSA's problems, they can at least do a lot for today's and future Sub-Saharan Africa.

[62] AfDB (African Development Bank). 2015. *Tracking Africa's Progress in Figures*. Retrieved from <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Tracking_Africa%E2%80%99s_Progress_in_Figures.pdf>, at p. 24.

Chapter Two

THEORETICAL FRAMEWORK OF FOREIGN DIRECT INVESTMENTS

The analysis of Chinese direct investment behaviour in Sub-Saharan Africa, which follow in next chapters, needs to be based on the description of the theoretical FDI framework as it is often presented in economic literature.

2.1 Definition and classification

Foreign direct investment has played an important role in the global economy and has been an essential part of an open and effective international economic system.[63] Due to the consistent trend towards an increasingly globalized and deeply interconnected world, FDI flows are expected to keep their centrality and importance in the future.

The standard UNCTAD definition of foreign direct investment (FDI) states that FDI is

> "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)". [64]

Thus, FDI can be defined as a cross-border direct investment made by a home-country firm in a business situated in a host country. FDI flows follow

[63] OECD. 2002. *Foreign Direct Investment for Development. Maximizing Benefits, Minimising Costs.* Retrieved from <https://www.oecd.org/investment/investmentfordevelopment/1959815.pdf>, at p. 3.

[64] UNCTAD. 2007. *World Investment Report 2007*. *Transnational Corporations, Extractive Industries and Development.* New York and Geneva: United Nations Conference on Trade and Development. EBook version retrieved from <http://unctad.org/en/Docs/wir2007_en. pdf>, at p. 245. UNCTAD definition of FDI is presented substantially unchanged in different sources concerning FDI.

logics and reasons of industrial and production type, suggesting that the investor acts in his own long-term interest in exerting a substantial degree of influence or control over the management of the enterprise located in the host economy. The dimension of the durability of the interest in a long-lasting relationship is represented by the fact that FDI involves the acquisition of at least 10 per cent of the shares in the foreign productive enterprise, which has become the minimum threshold designating a significant ownership level and a certain managerial influence over the host-country's firm [65]. The effective influence on the foreign affiliate is given by the fact that holding at least 10 per cent of its shares corresponds to have 10 per cent or more of the voting power in the foreign affiliate.[66] As it is stated in the *OECD Benchmark Definition of Foreign Direct Investment*, it is the motive of acquiring a certain degree of influence or control over the affiliate enterprise that allows to make a distinction between direct investments and cross-border portfolio investments. In the latter case, the investor does not aim at establishing a long-term relationship based on the managerial influence and control over the assets implied by the investment operations. Rather, portfolio investors acquire and sell shares and other securities to have return on the assets. On the contrary, foreign direct investors focus on a lasting form of relationship with the purpose of optimizing production, which could also imply a solid financial flows and transfer of technology. [67]

[65] REINERT, K. A. 2012, *supra* note 5, at p.142.

[66] Indeed, the equivalence between holding at least 10% of foreign affiliate's shares and having 10% or more in the foreign affiliate's voting power is not automatically given. It is mainly a conventional methodology that the ordinary shares are reflected into the same voting power to ensure uniformity. Not only are there some cases in which they are not corresponding and the voting power must be determined, but it can also happen that the ownership of 10% of the voting power does not effectively translate into a significant influence or, conversely, the investment can account for less than 10% of shares, but implicating a real managerial ascendency of the investor over the affiliate. From the OECD. 2008. OECD *Benchmark Definition of Foreign Direct Investment. Fourth Edition.* Retrieved from <*https://www.oecd.org/daf/inv/investmentstatisticsandanalysis/40193734.pdf>,*at pp. 48-49. For a deeper and more detailed description of investment mechanisms, see the *OECD Benchmark Definition of Foreign Direct Investment*.

[67] OECD. 2008. *OECD Benchmark Definition of Foreign Direct Investment. Fourth Edition.* Retrieved from <*https://www.oecd.org/daf/inv/investmentstatisticsandanalysis/40193734.pdf>,* at pp. 22-23.

2.1.1 FDI as foreign market entry modes

Foreign direct investment is considered as one of the possible foreign market entry modes and strategies that a home-country firm has at its disposal to branch out abroad.

As Kenneth A. Reinert well illustrates [68], a home-country firm can opt for *exporting* and selling its output in specific foreign markets in a direct mode, i.e., taking upon itself all the necessary stages of the export transaction from the research to the logistics, including marketing and finance, or in an indirect mode, i.e., charging another firm, which is usually known as sales agent or trading company, with the task of completing all the required export operations.

A lot of firms actually choose other foreign market entry options, wishing to effectively *produce* in a foreign country instead of exporting their output abroad. In these cases, firms can consider two categories of options, namely, the contractual modes and the investment ones.

The contractual modes include licensing, franchising and subcontracting and, as efficaciously identified by Dunning and Lundan, these modalities of foreign market entry are preferred when a product needs a specific market to be created, when local consumers have some particular requirements which the product should conform to, when there is more than one product to promote and the coordination of the sales of all them can bring benefits or when offering a well-organized after-sales usage, repair and maintenance services could affect positively the product's attraction.[69] Furthermore, the firm could be lacking in international production experience and, therefore, reluctant to undertake production in a foreign market on its own. For these reasons the firm would be brought to opt for one of the previously mentioned contractual modes, which are based on the benefits of piggybacking the market knowledge of the foreign firm.

Another way to produce in a foreign country is engaging in FDI. This category of choices offers to the investing firm three possible options: to form

[68] REINERT, K.A. 2008, s*upra* note 5, at pp. 143-146.

[69] DUNNING, J.H. and LUNDAN, S.M. 2008.*Multinational Enterprises and the Global Economy*. Cheltenham: Edward Elgar Publishing Limited, at p. 217.

a joint venture (JV), to go for a merger and acquisition (M&A) or to decide for a greenfield investment.

When the home-country firm starts a *joint venture*, it establishes a separate corporate identity in a foreign country that will be jointly owned with a foreign country firm. Opting for a JV means choosing a form of partnership between companies that, despite with two different corporate cultures requiring a certain degree of compromise and consultations, can be beneficial to both entities. On the one hand, the home-firm country may be led to create a JV in a foreign market it would like to enter in order to take advantage of the foreign company's local assets, i.e., local market expertise and local regulatory environment knowledge[70] as well as commercial and political networks the local company already has. Indeed, the help and the image of a firm already known in the chosen business environment means simplifying the gruelling work of a firm entering a new market as an outsider.[71] On the other hand, the common benefits from which both firms could enjoy might include achieving a greater efficiency and better products as well as a mutual strengthening that can result in the increase in their market shares with the consequent reduction in competition.[72] Cohen sees the search for synergy as one of the main motives for the creation of a JV. This push towards synergy reveals the allure exerted by the prospect for both firms of having more economic benefits, namely, operational, financial, and technological ones, resulting from the JV. [73]

The home-country firm can consider the option of buying part of or all the shares of an already existing production facility in a foreign country. [74] In the former case, the investment will be defined as a *merger*, whereas in the latter case, it will be regarded to as an *acquisition*.

This modality of investments came to be a substantial percentage of FDI only in the 1990s and it was thanks to an incredible surge in this mode of investment that FDI reached its highest pick in the 1990s. FDI as M&As increased from an annual average value of US$10 billion in the years 1987-

[70] REINERT, K.A. 2008, s*upra* note 5, at p. 145.
[71] COHEN, S. D. 2007. *Multinational Corporations and Foreign Direct Investment. Avoiding Simplicity, Embracing Complexity.,* at pp. 76-77.
[72] *Ibid.,* at pp. 75-76.
[73] *Ibidem.*
[74] REINERT, K.A. 2008, s*upra* note 5, at p. 146.

1994 to US$65 billion in the 1998-2003 period. [75] Nowadays, cross-border M&As are the most practised form of FDI [76], accounting for a value of US$432 billion in 2014 and surging to a value of US$721 billion in 2015 out of US$ 1.76 trillion of global FDI flows in 2015, representing the most decisive factor behind the global rebound in FDI flows since the 2008-2009 global economic and financial crisis. [77]

M&As' allure lays in the fact that the home-country firm can benefit from an already started and working business.

On the contrary, the foreign direct investing firm cannot be eased in its operations of market entry by an already existing firm if it chooses the third mode of engaging in FDI, namely, the *greenfield investment* (juxtaposed to M&As, which are also called *brownfield investments).* The home-country firm sets up from scratch, *ex nihilo,* a new subsidiary and its related brand-new production facility in the foreign country that is fully own by the investing firm.[78] Although this is the investment option that calls for the highest level of commitment on the part of the investing firm, it provides the firm with the highest control over the new subsidiary. In addition, while FDI in the form of M&As are not considered as able to bring substantial incremental changes in production activities, employment and tax revenues of the production facility that is merged or acquired in the host country, FDI taking the form of greenfield investments are regarded as capable of deepening and enlarging the economic performance of the foreign economy along with the direct investor' gains. [79] M&As tend to be interpreted just like a mere transfer of ownership and, as a result, FDI recipient countries are inclined to look with much more favour on greenfield investments, which are considered to have the capacity for boosting the existing industrial system. [80] This inherent feature of greenfield investments are named by Cohen *incrementalism.*[81]

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[75] COHEN, S.D. 2007, s*upra* note 71, at pp. 51 and 73.
[76] REINERT, K.A. 2008, s*upra* note 5, at p. 146.
[77] UNCTAD. 2016. *World Investment Report 2016. Investor Nationality: Policy Challenges.* New York and Geneva: United Nations Conference on Trade and Development EBook version retrieved from <http://unctad.org/en/Publications Library/wir2016_en.pdf>, at p. x.
[78] REINERT, K. A. 2008, s*upra* note 5, at pp. 143 and 146.
[79] OECD. 2008, s*upra* note 67, at p. 87.
[80] VANOLO, A. 2011. *Geografia economica del sistema-mondo. Territori e reti nello scenario globale*, at p. 136.
[81] COHEN, S.D. 2007, s*upra* note 71, at p. 73.

2.1.2 Horizontal and vertical FDI and related motivations for international production

FDI can also be classified into two main types of flows: horizontal FDI flows and vertical FDI flows.

Horizontal FDI occurs where the home-country firm invests abroad in the same business that it runs domestically. In other words, it is an investment aiming at setting up in a foreign country the production of that same product that is simultaneously produced in the home economy.

Two main motivations usually lead the home-country firm to engage in horizontal FDI: *market-seeking* motives and *strategic asset-seeking* reasons[82]. With reference to *market-seeking* FDI, it aims at protecting or expanding a foreign market. The underlying motive that brings to this kind of investment is the assumption that the physical closeness of production facilities to the foreign country' potential consumers is better than exporting products, which are sometimes massive and entail considerable transportation time and costs. Other reasons are that being already present in a foreign market could protect the home-country firm in the case that new import barriers are erected or could advantage the home-country in a market that is expected to grow substantially in the future. Other further considerations are that "being on the spot" is useful to better grasp and intercept local consumers' tastes and their changes over time and to provide a positive picture of the company and its business as home-grown and close to the local environment and, therefore, able to offer some benefits to the host economy. As a matter of fact, FDI is much more than a capital transfer to build and equip a new plant: a market-seeking subsidiary can provide new job positions and additional tax revenues along with transferring advanced production facilities and technologies and know-how in the foreign country. In addition, with its presence the foreign direct investor increases the level of competition in the host economy with the result of leading local companies to

[82] VANOLO, A. 2011, s*upra* note 80, at p. 139.

a more efficient production, an improved quality of products and to the decrease of prices.[83]

As far as *strategic asset-seeking FDI* is concerned, the home-country firm's aim is to gain assets that can strengthen its competitive position or weaken that of competitors. This can be done by using different strategies. Among them, there is the acquisition or the upgrading of a technology that allows the improvement of the firm's product line or the fact of preventing strategic assets from being acquired by a third company.[84]

On the other hand, *vertical FDI* occurs when a firms decides to split its activities into different stages of production that are located in different countries. As Cohen underlines [85], in this case there is no one factory that is able to carry on all the stages needed. Rather, there are subsidiaries set up in various countries that are charged with one stage of the production process with the result that a huge number of transactions among subsidiaries of the same company will occur, originating what is known as intra-firm trade. The choice to divide the production process in various tasks situated in different parts of the world is based on the premise that these different phases of production need various inputs, whose prices vary greatly depending on their location. Thus, according to a logic of cost-effectiveness, opting for a multinational structure might be convenient.[86] At the bottom of vertical FDI decision, there are *resource-seeking* reasons and *efficiency-seeking* motivations. As regards *resource-seeking FDI*, it is attributed to the home-country firm's attempt to gain access to particular resources in a foreign country ranging from natural resources, such as extracted minerals and metals or specific "exotic" commodities, to human resources, such as low-cost or well-trained labour. Even though this kind of investment is the most ancient one as well as the most debated and criticized motivation of investment, because of its inherent logic of exploitation, a gradual shift away over time from this motive of international production should not be

[83] COHEN, S.D. 2007, s*upra* note 71, at pp. 67-69.
[84] VANOLO, A. 2011, *supra* note 80, at p. 139.
[85] COHEN, S.D. 2007, s*upra* note 71, at p. 52.
[86] VANOLO, A. 2011, *supra* note 80, at p. 140.

neglected.[87] As for *efficiency-seeking FDI*, the main object is the reduction of production costs, thus products are competitive by virtue of being cheap. This is generally achieved through two rationales, namely, setting up the subsidiary in a low-wage country or achieving economies of scale.[88]
Unlike horizontal FDI, vertical one is considered to be able to expand international trade, since it implies the movement of intermediate products among the various locations where the supply chain is distributed.[89]

By being engaged in FDI and deciding to place their productive assets, production sales and service operations in more than one country[90], investing firms are regarded as multinational enterprises (MNEs), which are traditionally the dominant players in cross-border FDI transactions [91] and which have grown in importance in the global economic landscape in the last few decades. As far as the above-mentioned capacity of FDI to increase international trade is concerned, it is estimated that approximately one-third of world trade in goods and services takes place within MNEs.[92]

2.2 Advantages of doing business abroad: the OLI framework

Deciding to engage in FDI in a foreign country, the home firm also agrees to take on some additional costs inherent to a business that is operated internationally, namely, coordination, communication and transportation costs. If the home firm decides to invest abroad regardless of this additional financial burden, there must be some other advantages that the home firm can benefit from and that outweigh the disadvantages it will find in some areas vis-à-vis local firms in the foreign country.

In the effort to identify these advantages, Dunning came up in the 1970s with what has remained for more than two decades the predominant

[87] REINERT, K. A. 2008, s*upra* note 5, at p. 147.
[88] COHEN, S.D. 2007, s*upra* note 71, at pp. 67-69.
[89] VANOLO, A. 2011, *supra* note 80, at p. 140.
[90] REINERT, K. A. 2008, s*upra* note 5, at p. 461.
[91] OECD. 2008, s*upra* note 67, at p. 14.
[92] REINERT, K. A. 2008, s*upra* note 5, at p. 5 and VANOLO, A. 2011., *supra* note 80, at p. 140.

analytical framework in academic literature for explaining the determinants of firms' choice to engage in FDI and international production. This framework is known as the *eclectic paradigm* or more commonly as the *OLI (*Ownership-Location-Internalization) *framework*. Resorting to John Dunning's own words, "*the subject to be explained is the extent and pattern of international production, i.e., production financed by FDI and undertaken by MNEs".*[93] According to the theory, at any time the firm's choice for international production is determined by three different types of variables of advantages: ownership (or O) advantages, location (or L) advantages, and internalization (or I) advantages, which have maintained their essential meaning over time along with a change in their relative significance in accordance with the emergence of more globalized and interconnected markets and the increased importance of knowledge intensive activities.

Ownership advantages are the competitive advantages that the investing firm comes to have over foreign competitors in supplying a market or a set of markets. These advantages may present themselves when the investing firm possesses and exploits a monopoly power – creating barriers to entry to final product markets to other firms that do not possess it – or when it owns unique resources and advanced technology – turning out to be more efficient than its competitors and preventing them from entering factor or intermediate product markets – or when the investing firm has outstanding managerial skills in identifying and harnessing assets from other countries and in coordinating them in a way which will bring benefits to the firm in the long run. If in the 1970s firm's ownership advantages were mainly understood as its ability to organize assets for production in a way which could match well the needs of supplied markets, in more recent times this set of advantages has turned out to represent a firm's ability to organize and coordinate assets across national boundaries, even looking at other firms' assets involved in complementary value added activities and trying to integrate with them.[94]

[93] DUNNING, J.H. 2001. *The Eclectic (OLI) Paradigm of International Production: Past, Present and Future*. International Journal of the Economics of Business, 8(2), pp. 173-190. DOI: 10.1080/13571510110051441, at p. 176.

[94] DUNNING, J.H. 2000. *The eclectic paradigm as an envelope for economic and business theories of MNE activity.* International Business Review 9 (2), pp. 163-190. DOI: 10.1016/S0969-5931(99)00035-9, at pp. 168 - 170.

One example of ownership-related advantages is the increase in the firm's size following the opening of new plants in a foreign country. *Ceteris paribus,* larger firms have more possibilities to acquire their productive inputs at lower and more favourable prices thanks to their larger set of financial opportunities and their stronger bargaining power. Furthermore, their bigger size offers to theirs brand and products much more visibility.[95]

Location advantages are the competitive advantages that the investing firm gets from locating its value-adding activities in a foreign country or region. They are determined by non-transferable and non-reproducible factors present in the foreign country. Traditionally, these advantages have been mainly understood as the proximity to productive inputs – immobile natural resources – or to final markets, lower input costs, production costs and transportation costs, promotional policies and fiscal incentives advanced by the foreign government. Even though these factors still remain fundamental in determining location advantages, over time other two more intangible factors gained importance. One of them is the possibility of the investing firm to form alliances with indigenous firms creating clusters of economic activities.

The other one is the possibility to gain access to a suitable business environment with appropriate economic and social infrastructure provided by the foreign country's authorities.[96] Location advantages are often closely related to the main motivations for international production, namely, market-seeking, resource-seeking and efficiency-seeking motivations.

The initial paradigm that just included these two sets of choices available to firms was later expanded to include internalization advantages, to explain why the investing firm decides to make use of its O and L advantages, i.e., deciding to engage in FDI, rather than contracting and relying on a foreign firm.[97] The decision of engaging in FDI in a foreign country will be met when the costs of internalization are lower than transaction and coordination costs of relying on an external markets for the exchange of assets, such as

[95] VANOLO, A. 2011, *supra* note 80, at p. 108.
[96] DUNNING, J.H. 2000, *supra* note 94, at pp. 174 – 179.
[97] DUNNING, J.H. 2001, *supra* note 93, at pp. 174 - 175.

intermediate products, information, technology, marketing techniques, etc.[98] If the internalization process is particularly taken into account by the investing firm when there are firm-specific assets related to knowledge capital, along with their related dissemination risk, i.e., the risk that the foreign firms can get this knowledge capital and exploit it for its own commercial purposes, it is also true that internalization process is also relevant in presence of intangible assets such as reputation or particular managerial practises, which cannot be separated from the firm's human resources and which are difficult to be transferred using a contractual mode such as licencing.

Business environment has changed significantly since the years in which the OLI framework was first developed. For this reason some scholars have suggested the paradigm to be augmented with advantages coming from *linkages*, with the purpose to explain the new form of outward FDI from the Asian Tigers. Linkage advantages bring firms to invest abroad by virtue of the fact that they will have the opportunity to expand their own capabilities by learning from their operations and activities in the host country.[99]

What can be inferred is that the configuration of the OLI factors that any firm faces in the moment of deciding to engage in FDI or not as well as the response the firm will give is highly depending on the context. The decision of the investing firm will be influenced not only by the economic and political environment of its home country and of the host country, but also by the sector of industry in which the firm operates, by the firm's strategies and its reasons to deal with FDI.[100] As Ajayi well summarized, *"in making decisions to invest abroad, firms are influenced by a wide constellation of economic, political, geographic, social and cultural issues".*[101]

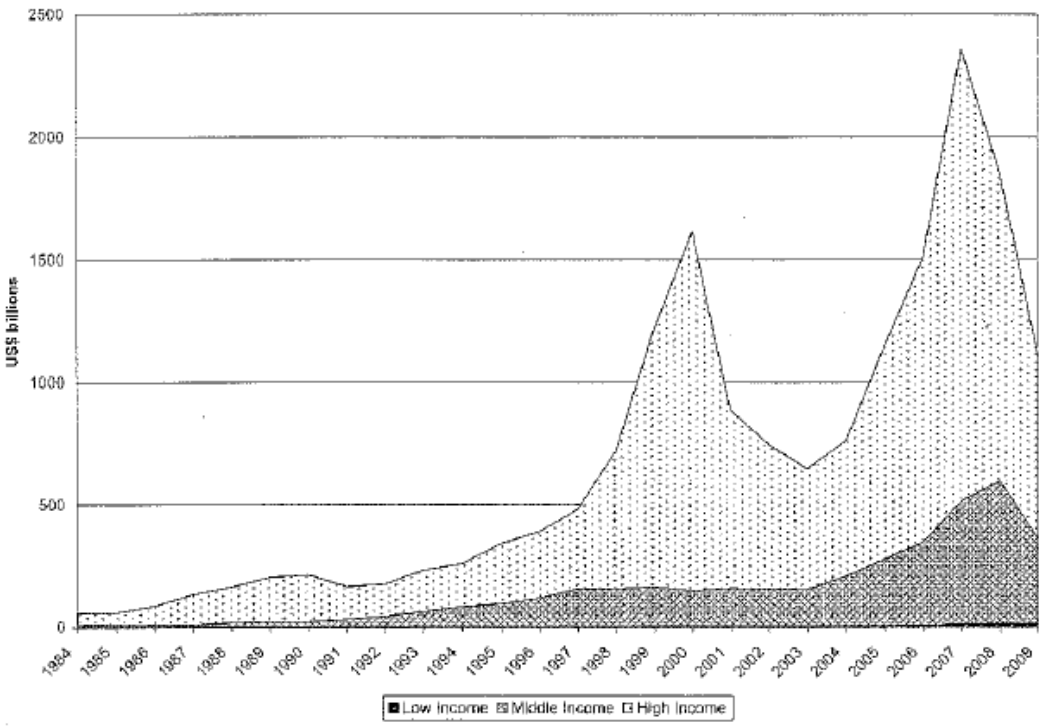
[98] DUNNING, J.H. 2000, *supra* note 94, at p. 179.
[99] KAPLINSKY, R. and MORRIS, M. 2009. *Chinese FDI in Sub-Saharan Africa: engaging with large dragons.* European Journal of Development Research, 21(4), pp. 551-569. DOI: 10.1057/ejdr.2009.24.
[100] DUNNING, J.H. 2000, *supra* note 94, at pp. 178 - 179.
[101] AJAYI, S.I. (ed.). 2006. *Foreign Direct Investment in Sub-Saharan Africa: Origins, Targets, Impact and Potentia*l. Nairobi, Kenya: African Economic Research Consortium, at p. 16.

2.3 Historical overview on FDI flows

One way to detect the growing importance of FDI is to refer to the annual *World Investment Report (WIR)* produced by the United Nations Conference on Trade and Development (UNCTAD), which systematically collects data on trends in FDI worldwide.

In the 1990s, the world experienced a large wave of FDI flows, partly due to an increase in mergers and acquisitions activities. This surge was poured for the most part into high-income countries. Traditionally, this has been the main trend, i.e., both inward and outward have been generally limited to developed countries, with the exclusion of low-income countries from the phenomenon of economic globalization represented by FDI (Figure 2.1).[102]

Figure 2.1: FDI Inflows to Low, Middle, High Income Countries, 1984 – 2009



Source: World Bank, World Development Indicators, in Reinert, 2012, at p. 5.

[102] REINERT, K.A. 2008, s*upra* note 5, at pp. 5 – 6.

In the period 1950-1975, FDI scene was dominated by US, British and French MNEs, which were challenged by the emergence of Germany and Japan as the main protagonists of a second FDI upsurge in the 1970s. The rise of Japan as a main investor in the global investment landscape was impressive to such an extent that it obscured the appearance of the first FDI flows coming from the global South. Nevertheless, these flows could be attributed to a limited number of countries, i.e., four-fifth of the investments coming from the South originated from just seven countries, six of them located in South-East Asia.[103]

The *1998 WIR* came upon the fact that

> "the regional distribution of outward FDI stock is heavily skewed towards developed countries, reflecting the fact that, in the past, most FDI originated and stayed in developed countries, though there are some noticeable recent increases in the stock of developing countries".[104]

The emergence of developing countries in FDI panorama observed in the late 1990s has not come to a stop and, in more recent time, the pattern of exclusion of developing countries has changed.

UNCTAD reports provide unambiguous evidence of a global FDI trend on the rise, despite the 2008-2009 crisis and the 2012 and 2014 slumps in FDI mainly due to economic fragility and policy uncertainty for investors. Along with this upward trend, the position of developing countries both as recipients and as investors has gained strength. Looking at the UNCTAD rank of the main world's investors by value of FDI outflows in 2015, it is possible to see China at the third position, Hong Kong, Singapore, the Republic of Korea, the Russian Federation and Chile, which are categorized as developing or transition economies (Figure 2.2). Similarly, examining the UNCTAD list of the main FDI recipient countries, it is evident the fact that half of the top 10 largest recipients of FDI were developing economies (Figure 2.3).

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[103] VANOLO, A. 2011, *supra* note 80, at pp. 142 – 144.

[104] UNCTAD. 1998. *World Investment Report 1998. Trends and Determinants.* New York and Geneva: United Nations Conference on Trade and Development. EBook version retrieved from <http://unctad.org/en/Docs/wir1998_en.pdf>, at p. 1.

Figure 2.2: FDI Outflows, Top 20 Home Economies, 2014 and 2015 *(Billions of dollars)*

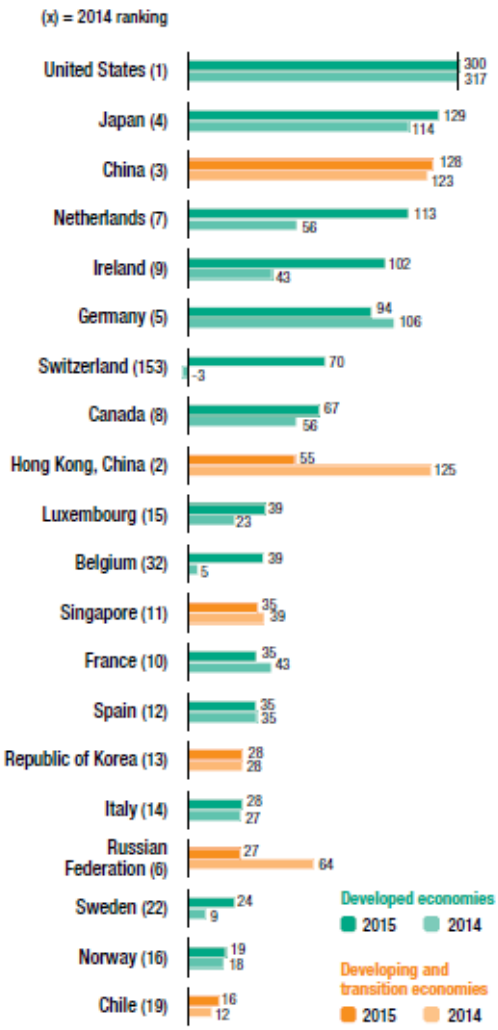
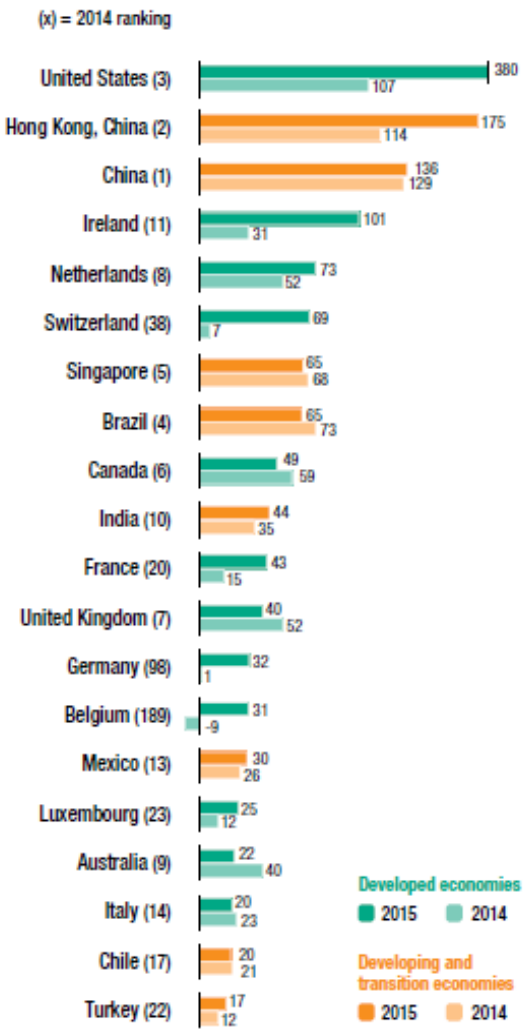


Figure 2.3: FDI Inflows, Top 20 Host Economies, 2014 and 2015 *(Billions of dollars)*



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics), in UNCTAD, World Investment Report 2016, at pp. 5-6.

In 2010, developing and transition economies together attracted more than half of global FDI flows and, in addition, outward FDI from these economies reached record levels and most of their investments were directed to other countries in the South.[105]

In 2013, with FDI flows back to a moderate but steady growth after the 2012 sharp fall, developing economies maintained their lead over developed

[105] UNCTAD. 2011. *World Investment Report 2011. Non-Equity Modes Of International Production And Development.* New York and Geneva: United Nations Conference on Trade and Development. EBook version retrieved from <http://unctad.org/en/PublicationsLibrary/wir2011_en.pdf>, at p. 1.

countries with 54 per cent of the total global flows, against the 39 per cent of developed economies and the 7 per cent of transition economies. Despite of this trend, given a higher expected FDI growth in developed countries, UNCTAD projected that regional distribution of FDI in the years to come could lean back to what had been the traditional pattern, i.e., a higher share of global inflows in developed countries.[106] Actually, this projection did not come true in 2014, when global FDI inflows declined; notwithstanding, not only did inward FDI flows to developing economies reach their highest level, but outward FDI from developing countries also increased by 23 per cent, with investments by developing-country MNEs reaching record highs.[107]

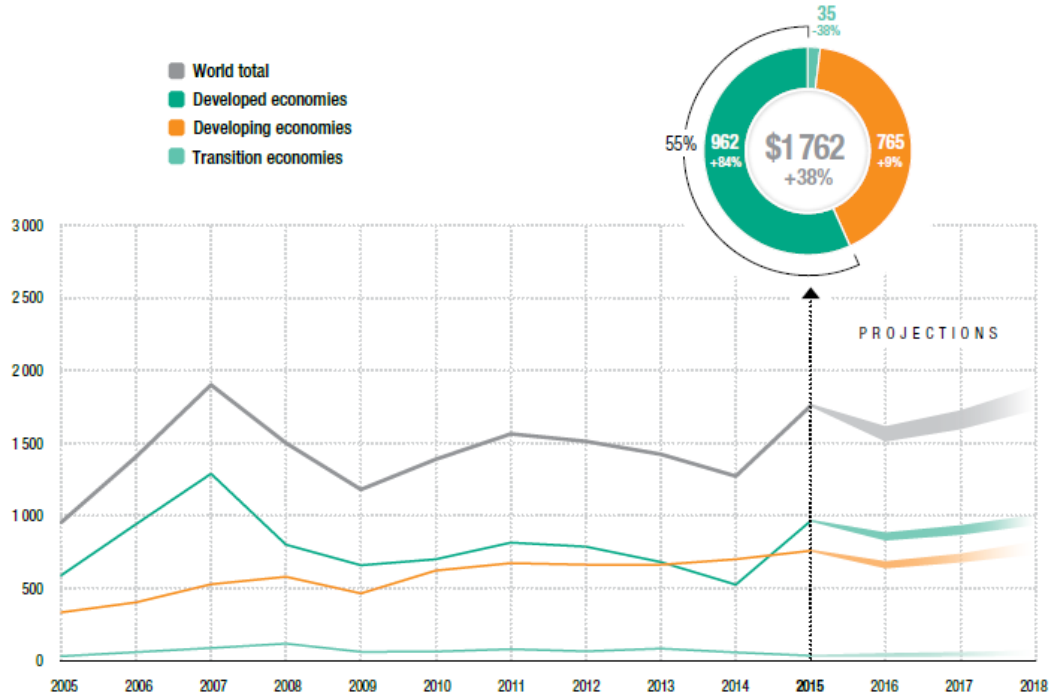
In 2015 the world attended to a strong recovery in global FDI flows raised by 38 per cent to an overall amount of US$ 1.76 trillion, reaching their highest level since the 2008-2009 global economic and financial crisis and pulled by a surge in M&As from a US$ 432 billion in 2014 to US$ 721 billion in 2015, while greenfield investment remained high at the amount of US$ 766 billion. Developed economies doubled their inward FDI flows to US$ 962 billion, grabbing 55 per cent of global FDI and tipping the balance again in their favour. FDI inflows in developing countries has increased by 9 per cent since 2014, reaching a new high of US$ 765 billion (Figure 2.4).[108]

[106] UNCTAD. 2014. *World Investment Report 2014. Investing In The SDGs: An Action Plan.* New York and Geneva: United Nations Conference on Trade and Development. EBook version retrieved from <http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf>, at pp. ix – xiv.

[107] UNCTAD. 2015. *World Investment Report 2015. Reforming International Investment Governance.* New York and Geneva: United Nations Conference on Trade and Development. EBook version retrieved from <http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf>, at pp. ix, 2 and 30.

[108] UNCTAD. 2016, *supra* note 77, at pp. x – 2.

Figure 2.4: Global FDI Inflows by group of economies, 2005 - 2015, and projections, 2016 – 2018 *(Billions of dollars and per cent)*



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics), in UNCTAD, World Investment Report 2016, at p. 2.

Nowadays, the general trend seems to be tilted towards a more even distribution of FDI flows, where countries that have traditionally been major recipients of FDI are becoming main investors in other economies.

The example *par excellence* is China, but also other BRICS countries have become growing sources of investments for other developing economies, consolidating what is known as the South-South cooperation.[109] It is in this context that foreign direct investments into SSA, and in particular Chinese direct investments into the region can be understood.

[109] To know more about South-South Cooperation, visit the website of the United Nations Office for South-South Cooperation (UNOSSC), available at <http://ssc.undp.org/content/ssc.html>.

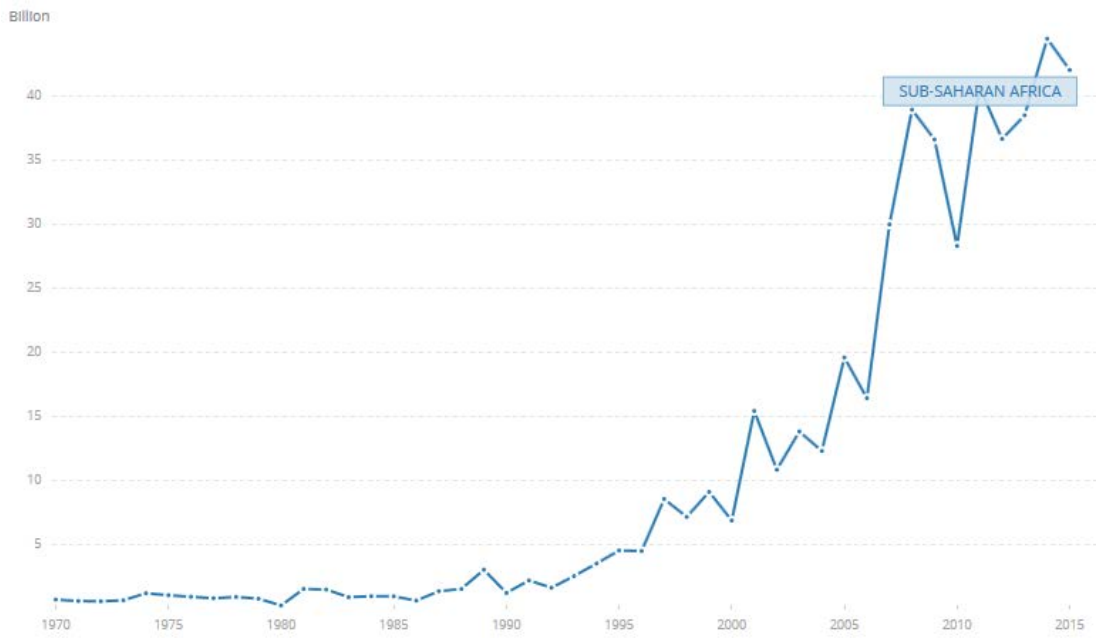
Chapter Three

FDI IN SUB-SAHARAN AFRICA AND THE DIFFERENT PATTERN OF CHINESE INVESTMENT

3.1 FDI trends in Sub-Saharan Africa

FDI flows into Sub-Saharan Africa have increased significantly over the past decades (Figure 3.1).

Figure 3.1: FDI Inflows to SSA, 1970 - 2015



Source: World Bank Data (http://data.worldbank.org), on the basis of IMF, BoP database, UNCTAD and official national sources.

Already in the late 1990s, it was possible to underline that FDI inflows into Sub-Saharan Africa had stabilized at a remarkable level than at the beginning of the 1990s: if the average annual inflows of FDI into the region during 1991-1993 amounted to US$ 3.2 billion, they were an amount of US$ 5.2 billion in 1994-1996.[110] Comparing the average annual inflows of FDI to the region in the last three decades, the surge is even more evident:

[110] UNCTAD. 1998, *supra* note 104, at pp. xxv and 177.

they reached US$ 1.31 billion in the 1980s with an increase to US$ 4.78 billion in the 1990s and arrived to US$ 27.47 billion in 2000-2010. [111] They reached a peak of US$ 38.9 billion in 2008, but they decreased to US$ 36.6 billion in 2009 and US$ 28.3 billion in 2010 as result of the global crisis. In 2012, when the world only registered 60 per cent of the 2007 FDI inflows, FDI into Sub-Saharan Africa recovered the pre-crisis level of US$ 36.6 billion [112]. For this reason, according to UNCTAD, Africa was a "bright spot" for FDI.[113]

FDI inflows to Africa in general were recently estimated to a value of US$ 54 billion in 2015, in spite of a decrease of 7 per cent over the previous year, with FDI inflows into SSA in particular accounting for an amount of US$ 41.4 billion.

A rise in FDI into North Africa was more than counterweighted by shrinking FDI flows into SSA, in particular to Central and West Africa. Weak commodity prices deeply depressed FDI to SSA, in particular to those economies largely based and depending on natural resources. [114] It is for this reason that West Africa saw a decline by 18 per cent of inward FDI, mostly because of a fall in investment to Nigeria, the main economy of the region.

Central Africa experienced an even sharper decline in FDI inflows, which fell by 26 per cent, mainly driven by a significant decrease of flows to the two countries that are rich in commodities, namely, Congo and the Democratic Republic of Congo.

East Africa attended to a 2 per cent decrease from the 2014 level of FDI inflows. The downward trend of FDI flows into the United Republic of Tanzania was offset by large FDI inflows to Kenya, reaching record highs in

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[111] MICHAŁOWSKI, T. 2012. *Foreign direct investment in Sb-Saharan Africa and its effects on economic growth of the region.* Working Papers Institute of International Business University of Gdañsk 2012, no. 31, 687 – 701. Retrieved from <https://www.google.be/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwiJlcbuyYTUAhXFY1AKHVuiBOQQFggkMAA&url=https%3A%2F%2Fekonom.ug.edu.pl%2Fweb%2Fdownload.php%3FOpenFile%3D970&usg=AFQjCNGI7oUgPLRcvL-SkcTS6zACfc4mdw&cad=rja>.

[112] WORLD BANK. 2014. *Foreign direct investment flows into Sub-Saharan Africa*. Science, Technology, and Skills for Africa's Development. Washington DC: World Bank Group. Retrieved from <http://documents.worldbank.org/curated/en/505071468203651135/Foreign-direct-investment-flows-into-Sub-Saharan-Africa>,at p. 1.

[113] UNCTAD. 2013, *World Investment Report 2013*. *Global Value Chains: Investment and Trade for Development.* New York and Geneva: United Nations Conference on Trade and Development. EBook version retrieved from <http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf>, at p. xvi.

[114] UNCTAD. 2016, *supra* note 77, at p. x.

2015, and in Ethiopia. The latter is becoming a large manufacturing hub for many textile and garments firms coming in particular from China and looking for alternative production centres for export to the European Union and North America, in order to take advantage of privileged export agreements Africa signed with these countries, namely, the Economic Partnership Agreements (EPAs[115]) and the African Growth and Opportunities Act (AGOA[116]). As far as Kenya in concerned, it is becoming an ideal business hub, not only for oil and gas exploitation, but also for the manufacture, consumer goods and services. Factors that have made Kenya an attractive FDI location have passed through the country's effort to attract more foreign investors, e.g., allowing 100 per cent foreign ownership of companies, which has reawakened investors' interest and trust in Kenya's business environment.

Southern Africa, which accounts for the largest share of FDI in the whole SSA, was the only SSA macro-region registering an increase by 2 per cent in FDI flows, mainly due to large inflows in Angola, which has become the largest recipient country in the whole Africa. Angola is one of the main commodity-based countries in Africa – government revenues are built on oil for 52 per cent and on export earnings for 95 per cent – and falling oil prices were brutally undermining the country's economy. Accordingly, foreign affiliates in Angola received an injection of loans from their parent companies, which prevented them from drifting. Another large economy in Southern Africa is South Africa, where FDI decreased significantly by 69 per cent, because of widespread divestments in the country as a result of sluggish economic performance, weaker commodity prices and higher electricity costs.

[115] The Economic Partnership Agreements (EPAs) are trade and development agreements to be negotiated between the EU and the African-Caribbean-Pacific (ACP) Group of States aiming at promoting sustainable development and poverty reduction through trade, investment and economic cooperation. Within this framework, ACP countries can have duty- and quota-free access for exports to the EU market along with other benefits. Half of ACP countries are also Low Developed Countries (LDCs), which already enjoy duty- and quota-free access to the EU under the "Everything But Arms" (EBA) framework. These countries are encouraged to enter the EPAs to have more benefits. Agreements are to be entered on a regional basis. West and Southern Africa concluded EPA's negotiations in July 2014, whereas East African Community concluded it in October 2014. To know more about EPAs, visit the EU dedicated webpage <http://ec.europa.eu/trade/policy/countries-and-regions/development/economic-partnerships/>.

[116] The African Growth and Opportunity Act (AGOA) is a US - SSA trade act signed into law in 2000 by Clinton administration providing eligible SSA countries' manufacturers with duty-free access to US markets for 6,500 product lines. The aim was to support business in the US and to stimulate economic improvements in SSA region such as the expansion of production and manufacturing, job creation and respect of world standard on labour conditions and rule of law. After being valid for a period of 15 years, the Act was extended in 2015 by Obama until 2025. To know more about AGOA, visit the informative website <https://agoa.info/>.

Although Mozambique proved to be the third largest FDI recipient in Africa managing to attract a considerable amount of FDI, this was lower than 2014 inflows by 24 per cent, mainly because of political uncertainty that followed the 2015 elections and weak gas prices.[117]

Despite highs and lows also due to the global evolution of FDI flows, the upward trend of inward FDI to SSA is undeniable – they have grown nearly six-fold over the past decade [118]– and conveys the positive image of an increased interest of investors in looking towards SSA. Nevertheless, Sub-Saharan Africa just attracted 2.4 per cent of the total global flows in 2015. Even though it represents an unprecedented size of investments in SSA, it must be pointed out that the amount of FDI that Africa manages to corner is just a small piece of the whole cake, not only with reference to the total global FDI flows, but also in reference to other developing economies' shares of the total inward FDI. This can be clearly seen at a glance from Figure 3.2, which shows data presented in Table 3.1.

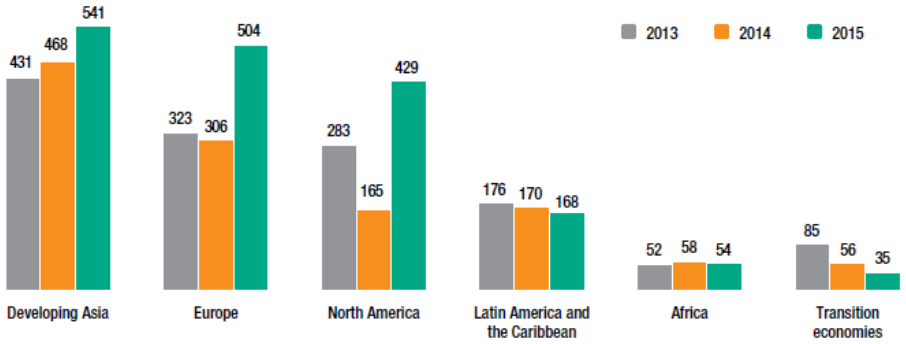
Table 3.1: FDI inflows, by region, 2013 – 2015 *(Billions of dollars)*

Region	FDI inflows		
	2013	2014	2015
World	**1 427**	**1 277**	**1 762**
Developed economies	680	522	962
Europe	323	306	504
North America	283	165	429
Developing economies	662	698	765
Africa	52	58	54
Asia	431	468	541
East and South-East Asia	350	383	448
South Asia	36	41	50
West Asia	46	43	42
Latin America and the Caribbean	176	170	168
Oceania	3	2	2
Transition economies	85	56	35

Source: UNCTAD, World Investment Report 2016, at p.36.

[117] UNCTAD. 2016, *supra* note 77, at pp. 38 - 42.
[118] WORLD BANK. 2014, *supra* note 112.

Figure 3.2: FDI inflows, by region, 2013 – 2015 *(Billions of dollars)*



Source: UNCTAD, World Investment Report 2016, at p.4.

If Africa attracted 3.7 per cent, 4.6 per cent and 3.1 per cent of the total global inward FDI in 2013, 2014 and 2015 respectively, developing countries in Asia managed to corner 30.2 per cent, 36.6 per cent and 30.7 per cent in the same years, while Latin America and the Caribbean took 12.3 per cent, 13.3 per cent and 9.5 per cent of the total FDI inflows (Table 3.2).

Table 3.2: Shares to the total FDI inflows, selected regions, 2009 – 2015 *(per cent)*

	2009	2010	2011	2012	2013	2014	2015
Africa	4.6	3.1	3.0	3.7	3.7	4.6	3.1
Developing Asia	27.5	29.7	27.2	27.1	30.2	36.6	30.7
Latin America & the Caribbean	7.1	12.0	12.3	12.6	12.3	13.3	9.5

Source: Personal elaboration with data taken from UNCTAD, World Investment Report 2016

Analysing SSA's shares in world total FDI inflows in comparison to those of all developing countries, the picture of the performance of SSA in attracting FDI turns out to be much less satisfactory and gives evidence of a marked marginalization of the region along with a widening gap between SSA and other developing economies.

As Elizabeth Asiedu pointed out in her study on FDI to developing countries, it was in the 1990s, and in particular in the second half of the 1990s, that developing economies witnessed a dramatic increase of inward FDI. This

was very good news for this group of countries that had difficulties in accessing international capital markets. FDI to SSA grew significantly, but it was nothing in comparison to FDI upsurge to other developing economies. [119] According to the World Bank data (Table 3.3), over the period 1980-1999 the annual average of FDI to developing countries in general increased by 1629 per cent, while there was an increase of 985 per cent for Latin America and the Caribbean, of 2167 per cent in South Asia and of 2472 for East Asia and Pacific. FDI flows into SSA also increased dramatically by 497 per cent, but at a percentage of growth that is much lower than those of the other developing economies. Consequently, SSA's share of the total FDI flows fell conspicuously from 36 per cent in 1970-1974 to 10 per cent at the beginning of 1980s and to 3 per cent at the end of 1990s.

Table 3.3: Developing countries and selected regions' annual average of net FDI inflows, 1970 – 1999 *(Millions of dollars)*

FDI flows	1970–74	1975–79	1980–84	1985–89	1990–94	1995–99
All developing countries	2,058	5,967	8,896	15,222	25,347	153,805
East Asia & Pacific	464	1,034	2,346	5,588	26,352	60,342
Europe & Central Asia	58	65	87	341	4,469	20,784
Latin America & Caribbean	1,500	3,496	5,467	5,960	15,629	59,332
South Asia	50	71	163	350	863	3,693
Sub-Saharan Africa (SSA)	741	803	866	1,337	1,847	5,170
SSA's share (%)	36	13	10	9	4	3

Source: World Bank Global Development Finance 2000, in Asiedu, 2002, at p.109.

According to these data, Asiedu stated that SSA, the poorest region in the world, did not benefit from the boom of FDI flows to developing countries, despite its numerous efforts to attract FDI from abroad. Her words are further corroborated and supported by UNCTAD analysis that saw Africa as remaining marginalized and as a continent that had been largely bypassed by FDI boom. [120] Sub-Saharan Africa has lagged behind in receiving FDI, although the rate of return on investment into this region has been higher

[119] ASIEDU, E. 2002. *On the Determinants of Foreign Direct Investment to Developing Countries: Is Africa Different?* World Development, Vol. 30, No. 1, pp. 107–119. Retrieved from <https://www.researchgate.net/publication/4764375_On_the_Determinants_of_Foreign_Direct_Investment_to_Developing_Countries_Is_Africa_Different>, at pp. 107-108.

[120] UNCTAD. 1995. *World Investment Report 1995. Transnational Corporations and Competitiveness.* New York and Geneva: United Nations Conference on Trade and Development. EBook version retrieved from <http://unctad.org/en/Docs/wir1995_en.pdf >, at pp. xxv-xxvi.

than the return on FDI to other regions in the world. [121] Asiedu reported that the average rate of return on US investment to Africa was 30 per cent over the period 1991-1996 in comparison with the 21 per cent in the case of Asia and Pacific and 14 per cent for Latin America and 16 for the developing countries as a whole.[122]

Dambisa Moyo talks about Africa as a continent that have been steadily disappointing in terms of capacity to attract inward FDI and that has not succeeded in treasuring the phenomenon of the global FDI surge.[123] The disappointment stems from the fact that a region as SSA should attract capital flows by virtue of gathering a high number of poor countries. As a poor region, it should have a large pool of cheap labour force, low costs of production and a high marginal product of capital. As a matter of fact, the marginal product of capital should be higher in poor countries than in rich ones, considering that with one dollar in a rich country only a certain amount of product can be produced, while in a poor economy a bigger amount of the same product can be obtained using the same sum of money. Furthermore, investors in SSA could have the possibility to take advantage of African countries' special agreements on exports, such as EPAs and AGOA. Thanks to these factors and to the countless investment opportunities in SSA, this region should be in theory the main target and the inevitable focus of FDI flows, but it has been largely unheeded, despite the fact that hardly anyone would question SSA' s effective readiness to inward FDI, as Moyo underlines. Even though developing countries comprise half of the top ten host economies for FDI flows, they all belong to developing Asia or Latin America and no African countries is present among the top twenty largest recipients of FDI.

It is therefore appropriate to investigate the reasons why FDI flows have mostly turned elsewhere in the world, although they have not completely ignored SSA, proving that this region has turned out to be relatively unsuccessful in attracting FDI.

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[121] AJAYI, S.I. (ed.). 2006, *supra* note 101, at p. 21.
[122] ASIEDU, E. 2002, *supra* note 119, at p. 109.
[123] MOYO, D. 2010, *supra* note 3, at pp. 156-157.

3.2 Why has Sub-Saharan Africa been relatively unsuccessful in attracting FDI?

Although it is a shared opinion that there must be some obstacles that have hindered what happened in other developing countries to happen also in SSA, the literature has not always been unanimous as regards these hampering factors.

In her study Elisabeth Asiedu[124] identified three important determinants of investments from abroad, namely, the return on investment, the availability and the efficiency of infrastructures and the openness to trade and she tested their importance for FDI into SSA and their impact on the region's attractiveness. From her comparison with the effects of these three factors in non-SSA developing countries, she derived that factors driving FDI to developing countries in general turn out to have different impact on FDI that flow into SSA. A higher rate of return on investment stimulates inward FDI in non-SSA countries, whereas it does not significantly influence FDI flows into SSA, other things being equal. The main reason is that Africa is seen by investors as an inherently risky environment. The factor of risk mostly associated to SSA countries is the policy uncertainty and in particular the high possibility of policy reversal. The uncertainty affects more the decision of engaging in FDI rather than the choice for other forms of investments, because of FDI's intrinsic characteristic of being in part irreversible and its costs to be irretrievable. Thus, a higher rate of return on invested capital does not compensate the risk of seeing investments go wrong and disinvestments follow. This perception of the African investment environment can explain the low impact of high return on investments on the FDI flows to the region.

As regards the variable of openness to trade, which is usually achieved by liberalization of trade regime, it impacts the decision to invest in both SSA

[124] ASIEDU, E. 2002, *supra* note 119. Dr. Asiedu made use of cross-sectional data on seventy-one different developing countries of both SSA and other parts of world, in order to answer these four questions: What factors drive FDI to developing countries? Are these factors drive FDI equally relevant for FDI to SSA? Why has SSA attracted so little FDI? Why has SSA been relatively unsuccessful in attracting FDI despite policy reform? Is Africa different?

and non-SSA countries, however, SSA benefits less than other developing countries from this factor. The reason under this result is that in the case of SSA a sort of legacy of the free-market policies adopted in the 1980s still remains, as Asiedu underlined. As a matter of fact, in the 1980s, when the debt crisis burst, a new development agenda of free-market policies inspired by the neoliberal political-economic thinking was prepared and sold to Africa and other indebted developing countries. The cores of the new agenda were two aid-based programmes, namely, the stabilization programme and the structural adjustment programme (SAP). The first was aimed at making the imbalances of a country – its fiscal position and its import-export ratio – return to acceptable levels, while the latter was intended to promote trade liberalization to make developing countries more market-based, so that they could focus on production and trade to support their economic growth. These policies were accompanied by a general and one-fits-all recipe entailing privatization of public companies, regulation of certain fields and deregulation of others and reduction of the role of the state as economic actor and of the importance of public administration. More specifically, under the aegis of the IMF and the World Bank, developing countries' governments received aid to support their budgets with the promise to adopt free-market policies as aid-attached conditionality. The complete failure of this strategy brought to even higher debts and colossal costs to repay debt obligations for emerging-market economies. In the 1990s, African countries witnessed a drastic fall of aid flows, with the consequent disappearance of the incentive for them to go on with implemented reforms, which were consequently perceived as unsustainable, not credible and subject to reversal by foreign investors. Therefore, the supposed lack of credibility of reforms has led to a smaller influence of openness to trade on FDI decision in the case of SSA.

With reference to the importance of infrastructure availability in promoting FDI flows, Asiedu came upon the fact that it plays an significant role in non-SSA developing countries, whereas it has no particular impact on FDI flows to SSA, although she highlights that according to the literature a good system of infrastructures underpins an increase in the productivity of investments and therefore encourages FDI inflows. In talking about infrastructural

development, the subject is not limited to buildings, transport facilities, water and power supplies, but it also includes telecommunications and financial infrastructures. When physical infrastructures are inadequate and of poor quality, they turn out to be real obstacles for investors, who attend to a dramatic increase in transportation time and costs resulting in a consequent severe increase in production time and costs.[125] This is the reason why a lot of products are produced in Asia and shipped to Europe rather than be produced in Africa, even though distances to cover are much more considerable. We have seen in Chapter 2.2 – about the advantages of doing business abroad and their identification through the OLI framework – that one type of location advantages that matter for developing countries to be able to attract international flows of FDI and international production is the proximity to particular markets, when market-seeking FDI are concerned. In this case, SSA could provide for the advantage of being located near the European Union market and being used as an export processing region in order to reach Europe. Nevertheless, the above-mentioned difficulties have prevented it from being used in this way for a long time.

What emerges from Asiedu's analysis and conclusions is that SSA is so inherently different from other developing countries that it is possible to talk about an "Africa effect", i.e., the relative failure of SSA's countries in attracting FDI may be attributed to these countries' bad reputation in the eyes of foreign investors and its perception as an intrinsically risky environment for many different reasons that can be summarized as economic and political uncertainty. In 1999, the UNCTAD Secretary General at that time Rubens Ricupero wrote in the preface of an UNCTAD study about FDI in Africa:

> "Foreign direct investment in Africa – which can make an important contribution to the economic development of the continent – has increased only modestly in recent years, as the image of Africa among many foreign investors still tends to be one of a continent associated

[125] MOYO, D. 2010, *supra* note 3, at p. 157.

mainly with political turmoil, economic instability, diseases and natural disasters." [126]

In other words, there has been a negative and adverse effect preventing inward FDI in being a country geographically located in SSA. Nevertheless, Asiedu did not forget to specify that the average lower impact of openness to trade and infrastructural development for SSA countries may depend on a "threshold effect" rather than on a "regional effect", i.e., openness to trade and infrastructure become determinant and crucial in attracting FDI only if they reach and overcome a certain substantial threshold.

Asiedu did not take into account other determinant variables that she analysed later in another research and that are broadly considered by literature when talking about catalysing and deterring factors of FDI flows. In her following study[127], she reached the conclusion that the large size of local market, the availability of natural resources, the development of the infrastructural system, the efficiency of the legal system and a good investment environment are all factors that promote FDI inflows. On the contrary, the presence of corruption and political instability in the host country deter them. According to Ajayi, the institutional environment of the host country is one of the main factors that affect business operations abroad and, therefore, the choice to engage in FDI into a foreign country. In other words, a good level of institutional quality has the power of attracting inward FDI flows. In talking about the institutional environment, a lot of elements and situations are contemplated. Rampant corruption and widespread bribery not only add further costs to investments, but they also instil a sense of uncertainty, with the result of inhibiting FDI flows. The second element is the level of bureaucracy needed to start a business in a foreign country, which sometimes turns into a real labyrinth. According to *Doing Business*, the World

[126] UNCTAD. 1999. *Foreign Direct Investment In Africa Performance And Potential.* New York and Geneva: United Nations Conference on Trade and Development. EBook version retrieved from <http://unctad.org/en/Docs/poiteiitm15.pdf>, at p. iv.

[127] ASIEDU, E. 2006. *Foreign Direct Investment in Africa: The Role of Natural Resources, Market Size, Government Policy, Institutions and Political Instability.* The World Economy, Vol. 29, No. 1, pp. 63-77. DOI: 10.1111/j.1467-9701.2006.00758.x. Analysing panel data on twenty-two SSA countries over the period 1984-2000, she assessed the impact on FDI flows of these factors: natural resources availability, market size, physical infrastructure, human capital, the presence of investment policies in the host country, host country's legal system reliability, the presence of corruption and political instability.

Bank's annual report that measures the regulations that boost business activity and those that constrain it [128], SSA is the region where business regulations are the most complicated on average. The World Bank annually compiles a ranking where economies are listed on the basis of their ease of doing business, from 1 to 190. A low level of ease of doing business ranking means that the regulatory environment is less conducive to the launching and operation of a local business. The SSA's country that has the highest level of ease of doing business is Mauritius, which ranks only at the forty-ninth position, while the other SSA's countries mostly occupy the second half of the rankings, with the Democratic Republic of Congo (184), the Central African Republic (185), South Sudan (186), Eritrea (189) and Somalia (190) at the very last positions [129]. Intricate and time-consuming red tape entails a huge number of procedures and a lot of days to get to the bottom of it, with the effect of deterring FDI. Furthermore, bureaucracy is often surrounded by a nebulous mystery about where to go and who to address. Moyo reports cases in which governments do not collaborate with possible investors, for example waiting for the investors to provide them with the exact coordinates of the plots of land near mines rather than auctioning them immediately.[130] All these results may be a valid contribution to explain why SSA has lagged behind investors' lists of favourable countries. Another positive element of the institutional environment is the presence of incentives in the form of fiscal and financial attractions, which turn out to be real ways to court foreign investors and are considered particularly attracting when also other positive factors are already present. The fourth factor is the existence of a solid, independent and authoritative judiciary system, which has in its own hands the duty to protect property rights and to enforce regulations and contracts. Relevant elements of the protection of property rights include the ownership and the control of productive assets, the right to returns on them, and the asset distribution. It is relevant, because it ensures that the use of productive assets will result in appropriate returns that will, in turn, provide incentives for

[128] The "Doing Business" project presents objective measures of business regulations that can be compared across 190 countries and selected cities at the subnational level. See <http://www.doingbusiness.org/>.
[129] See 2016 *Doing Business* Rankings at <http://www.doingbusiness.org/rankings/>.
[130] MOYO, D. 2010, *supra* note 3, at pp. 158-159.

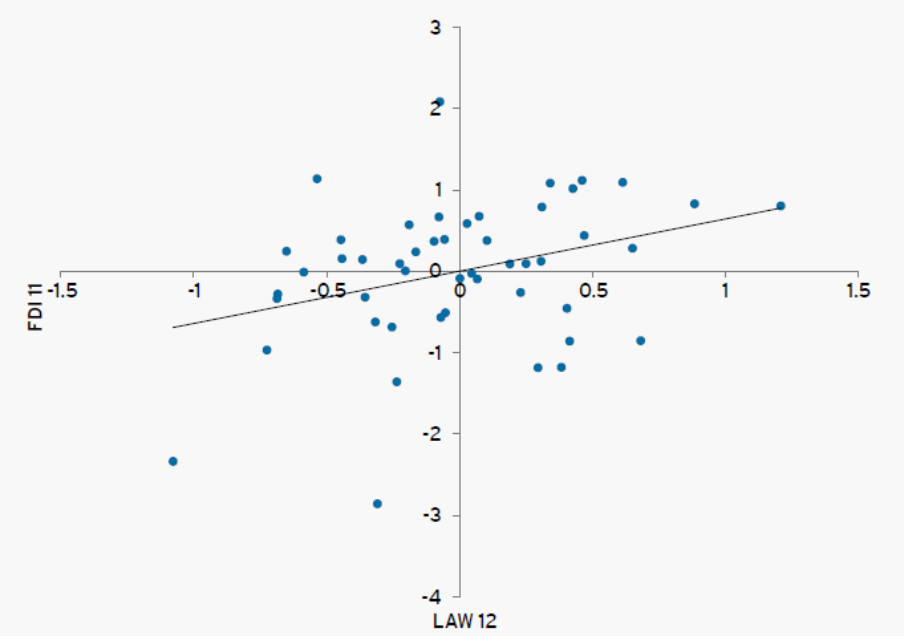
further development and use. Enforcement of regulations and contracts gives a minimum degree of certainty to all those interested in a long-term, credible and productive arrangement. [131] In particular, investors need escape clauses and means of legal recourse, when their contracts are at risk. In many cases, the lack of enforceability of contracts in SSA has held back FDI.[132]

3.3 The peculiarity of Chinese FDI pattern

In analysing the main parameters of FDI allocation to SSA used by Western investors and Chinese ones, Chen, Dollar and Tang [133] also took into account two measures for governance from the World Governance Indicators (WGI) composed by the World Bank, namely, rule of law and political stability and absence of violence/ terrorism. While the first reveals the extent to which agents trust in and respect the rules of society and its institutions, i.e., contract enforcement, property rights, the police and the courts, the latter measure captures perception of the likelihood of politically-motivated violence and terrorism that could cause political instability such as destabilization of the government in office or its overthrow. They found out that if generally and globally FDI is strongly attracted to countries in which there are both political stability and rule of law (Figure 3.3), Chinese FDI proved to be attracted to politically stable countries, but they are indifferent to the country's rule of law situation (Figure 3.4).

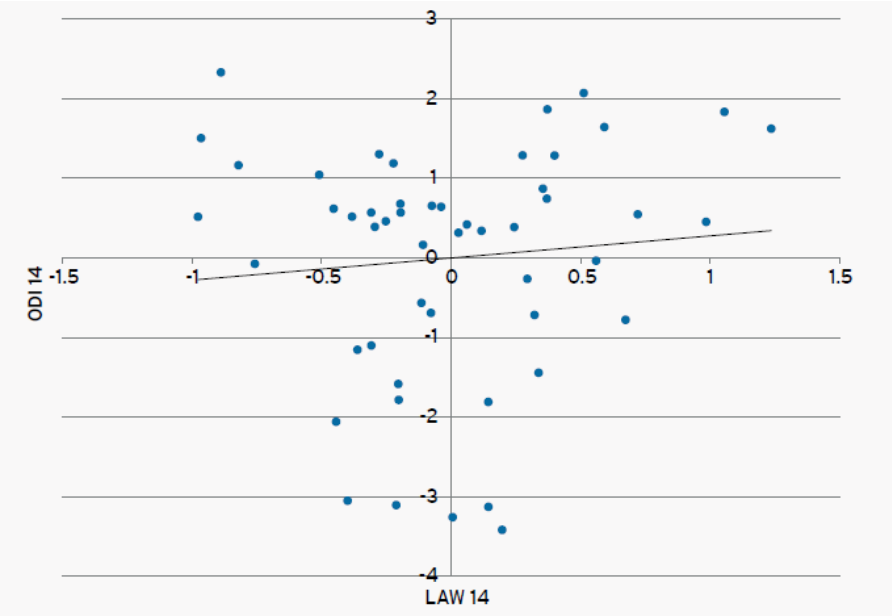
[131] REINERT, K. A. 2012, *supra* note 5, at pp. 382-384.
[132] AJAYI, S.I. (ed.). 2006, *supra* note 101, at p. 17.
[133] CHEN, W., DOLLAR, D. and TANG, H. 2015.*Why is China investing in Africa? Evidence from the firm-level*. Brookings Institution, August 2015, at pp. 5–8. Retrieved from <https://www.brookings.edu/wp-content/uploads/2016/06/Why-is-China-investing-in-Africa.pdf> .

Figure 3.3: Global FDI and Rule of Law in African Countries, 2011



Source: Chen, Dollar and Tang, 2015, in Dollar, 2016.

Figure 3.4: Chinese FDI and Rule of Law in African Countries, 2014

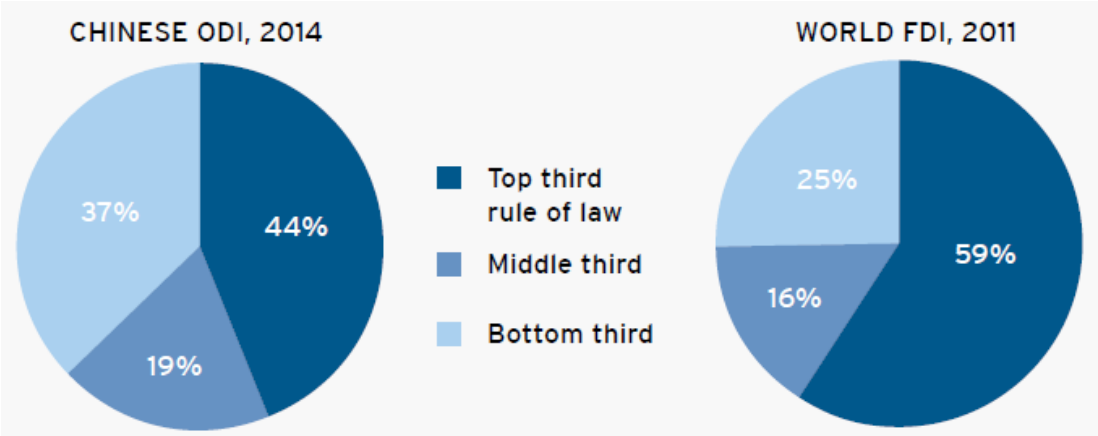


Source: MOFCOM and WDI, in Dollar, 2016.

China's interest in a stable political environment may be explained referring to the fact that a great amount of Chinese investments in SSA are framed

into state-to-state agreements, thus, a foreign government that is not threatened by an alleged possible overthrow or acts of violence gives a minimum degree of certainty to the investments, which will not have to be renegotiated with a new government. The fact that Chinese FDI is unresponsive to the conditions of rule of law in a foreign country means that there is a similar amount of Chinese investments in both good governance countries and poor governance countries. Chen, Dollar and Tang demonstrated this trend by dividing African countries into three categories, according to their level of rule of law estimated by the Rule of Law Index for the year 2014 (Figure 3.5).

Figure 3.5: Comparison Chinese FDI and Global FDI to African Countries according to their Rule of Law situation



Source: MOFCOM and WGI, in Dollar, 2016.

What emerges is that Western investments tend to avoid poor governance countries, definitely preferring countries where governance environment gives some degree of certainty, whereas Chinese choice of engaging in FDI seems to be indifferent to the weak level of rule of law and equally distributed regardless governance situation, implying a greater appetite for risk. In another article for the Brookings Institution, Chen, Dollar and Tang specified that this does not mean that Chinese investment is more directed to and concentrated in poor rule of law countries, but China's involvement is simply

much more evident in countries with a domestic poor governance environment, because it has actually invested where Western investors have not.[134] However, Dollar underlines that Chinese investors have steered towards a more cautious assessment of the foreign countries' environment in which they are inclined to invest.[135] This is due to the fact that a series of Chinese investments in resource deals in SSA's poor governance countries can be now assessed in the light of their failure, since they have not panned out or they totally failed. For example, in 2007 a mineral-for-infrastructure agreement of US$ 6 billion was reached between China and the Democratic Republic of Congo. Sinohydro Corporation and China Railway Group Limited, two Chinese firms, had to assemble infrastructures in the country for a total value of US$ 3 billion, which were provided by the Chinese Export-Import Bank, and in return they obtained a 68 per cent stake in one of the main copper and cobalt mines in Africa, Sicomines. Moreover, the Export-Import Bank of China also gave a sum of US$ 3 billion more to improve Sicomines, which had to be repaid through profits from mines. In the following eight years, a lot of difficulties came up, from complex red tape and corruption to power shortages, with the result of frequent interruptions of production. Another example is what happened in Angola to the state-run China Petroleum & Chemical Corporation (Sinopec) and the Angolan state oil group Sonangol. Sinopec made an investment amounting to US$ 10 billion in six oilfields together with Sonangol over the years 2008-2013. However, poor production, oil reserves that turned out to be overestimated and the collapse of international commodity prices revealed the failure of the investment.[136] There is also another case that brought China to show less bravado in its behaviour as investor and to rethink its high-risk investing strategy, i.e., the civil war in South Sudan in 2013. As a matter of fact, some of the major oilfields where China was working passed under the control of the rebel forces, with the result that three hundred Chinese workers had to be evacuated and that the oil production fell by 20 per cent. China felt the risk

[134] CHEN, W., DOLLAR, D. and TANG, H. *China's direct investment in Africa: Reality versus myth.* Brookings Institution, September 2015. Retrieved from <https://www.brookings.edu/blog/africa-in-focus/2015/09/03/chinas-direct-investment-in-africa-reality-versus-myth/>.
[135] DOLLAR, D. 2016, *supra* note 53, at pp. 39-40.
[136] *Ibidem.*

that an investment of US$ 20 billion could go up in smoke.[137] These are only some of the examples that could be taken. Chinese investors may be led to adopt a more selective and wary investment approach in the light of their experiences, becoming much more similar to Western investors. As Ian Taylor stated, China's presence in SSA is going to remain and increase, but Beijing is realising that it needs stability and security in order to make its investment flourish and its relations with the region to be coherent. Thus, Beijing will probably call into question some hazardous and unsustainable relations for the sake of Chinese workers operating in SSA and the investments themselves. [138]

Beyond any possible future development of China's approach to Africa, the importance of Chinese commitment to invest in countries with a righteous governance system, such as Mauritius, South Africa, and Botswana, as well as in countries characterized by poor governance, such as Angola, Equatorial Guinea, and the Democratic Republic of Congo, must not be underestimated in terms of the benefits that these countries could take advantage of. Maybe it is precisely in the fact that Chinese engagement with Africa has developed without any request of conditions on governance, which is particularly appreciated by African leaders, that lays Western concerns and accusations. In particular, the West worries about the fact that Chinese investments without any political conditionality may undermine any effort to improve governance environment in African countries as well as an attempt to reduce corruption. Interviewed by the Financial Times in 2007, the Prime Minister of Ethiopia Meles Zenawi talked about China as an actor that is acquiring day by day a significant position in Africa thanks to its availability and willingness to provide credit to SSA's countries, in particular to implement infrastructural system – roads, dams, electricity – which is the real need of the region. When he was goaded to open up about the Western concern about Chinese custom to invest without conditions attached, he answered:

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[137] WU, Y. *China's oil fears over South Sudan fighting*. BBC News, January 8, 2014. Retrieved from <http://www.bbc.co.uk/news/world-africa-25654155>.

[138] TAYLOR, I. 2007. *China's Growth into Sub-Saharan Africa* in CASTELLANI, L., PANG, Z. and TAYLOR, I. (ed.). 2007. *China outside China: China in Africa*. Torino: Centro di Alti Studi sulla Cina Contemporanea, at p. 20.

> "I think it would be wrong for people in the west to assume that they can buy good governance in Africa. Good governance can only come from inside. It cannot be imposed from outside. People can have illusions of doing so but the reality is that it never works. What the Chinese have done is explode that illusion. That doesn't in any way weaken the need for democracy and good governance in Africa. It does not in any way endanger the reforms of good governance and democracy in Africa. Because only those that were home grown ever had a chance of success. And the Chinese support does not threaten this home grown effort at reform. They are not forcing anybody to be undemocratic."[139]

In the same year, in an interview to National Public Radio, Serge Mombouli, the current ambassador of the Republic of Congo to the United States and adviser of Congolese President Denis Sassou N'Guesso for long time, explained the reason why African leaders are particularly well-disposed towards the Chinese practice of engaging with African countries, i.e., if the West insists in advocating intangible values, such as good governance, as conditions for its commitment in the region, the Chinese provide Africa with concrete and essential things that common people badly need:

> "Tangible development means you can see, you can touch. We need both. We cannot be talking just about democracy, transparency, good governance. At the end of the day the population does not have anything to eat, does not have water to drink, no electricity at night, industry to provide work, so we need both. People do not eat democracy."[140]

From her field researches, Deborah Brautigam, one of the world's leading experts on China-Africa relations and initiator of the China Africa Research Initiative (CARI) at the Johns Hopkins University, reached the conclusion that there is no evidence that Chinese presence in Africa along with their

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[139] WALLIS, W. *FT interview: Meles Zenawi, Ethiopian Prime Minister.* The Financial Times, February 6, 2007. Retrieved from <https://www.ft.com/content/dc04c378-5f62-11de-93d1-00144feabdc0?mhq5j=e1>.

[140] Quoted from GJELTEN, T. 2007. *Congo and China Forge Economic Partnership*. National Public Radio. The same quote is present in MICHEL, S. and BEURET, M. 2009. *Cinafrica. Pechino alla conquista del continente nero*. Milano: Il Saggiatore S.P.A., translated by Cristina Maiocchi, at p 9.

business practices have worsened and will worsen the already critical situation of governance in some African countries. Rather, Brautigam observed that the matter lies in the hands of each African country that makes deals with China. The developmental impact of China's operations in SSA depends on and differs from country to country, because the determining aspect will be each African country's government. African governments should be aware of the fact that some factors, which also depended on their way to run the country, have prevented a consistent amount of important capital flows from entering into SSA. Net gains from Chinese investments can be fully enjoyed in relatively stable countries with a good level of governance, where governments are not only interested in keeping the power, but also devoted to choose the best options within the offers advanced by Beijing, and where civil society has the possibility to lead forms of supervision on its government's conduct. On the contrary, in extremely unstable countries, where corruption is a commonplace and where governments are not used to be transparent, and therefore, not accountable, Chinese investments, as well as other countries', are not expected to bring broad and widespread improvements.[141]

Thus, it is not only a matter of who has invested in SSA and who has not, whether who has taken the chance until now is ready to go on running the risk in the future and whether a certain behaviour of the investors' have brought negative consequences in the host country. This is also a matter that does not set aside SSA's governments as real actors that are able to shape the best conditions for foreign investors to come to their countries and to negotiate the best conditions of engagement with them.

After having investigated FDI trends into SSA, the reasons for SSA's relative unsuccessful performance in attracting global FDI flows and the different approach of Chinese FDI flows in comparison to other FDI sources, in the next chapter we will delve deeper into the characteristics of Chinese FDI into

[141] BRAUTIGAM, D. 2009. *The Dragon's Gift. The Real Story of China in Africa.* New York: Oxford University Press Inc., at p. 21.

Sub-Saharan Africa. In particular, we will investigate their quantitative and qualitative aspects, through an analysis of the main drivers of Chinese ventures in the African continent and taking into consideration the historical background of China and SSA relations.

Chapter Four

CHINESE FDI IN SUB-SAHARAN AFRICA

4.1 China from FDI recipient country to investor overseas

Among developing countries, China for many years has been the world's leading recipient of inward FDI, which came to be catalysts for its striking economic growth characterized by outstanding and meteoric annual GDP growth rates. More recently, China has stood out as a large overseas investor, following the trend which has consisted of a more prominent role of developing and transition economies as increasing source of FDI.[142] In 2015, it was the world's third largest investor after the United States and Japan, while it ranked only twentieth a decade ago, and it has been identified as the most promising investor in the world for the period 2016-2018. FDI outflows from China reached a record high of US$ 116 billion, growing by 15 per cent and increasing at a faster pace than FDI inflows into the country.[143] Even more interesting is that three quarters of African investment promotion agencies admitted to trust in China as investor, in spite of the slowdown of its economy and the decrease in its demand for natural resources.[144]

4.1.1 The Going Out strategy

The real engine of China's internalization process was the so-called "Going Out" or "Going Global" strategy, known in Mandarin as 走出去 *zǒuchūqù*, a top-down directive decided by Beijing government at the end of the 1990s and officialised in 2001 within the tenth Five-Year Plan (2001-2005), aiming at pushing Chinese companies to increase their outward investment in a strong and sustained way. Within this framework and in order

[142] SANFILIPPO, M. 2010. *Chinese FDI to Africa: What Is the Nexus with Foreign Economic Cooperation?* African Development Review, 22(S1), at p.599.
[143] UNCTAD. 2015b, *supra* note 107, at p. 41.
[144] UNCTAD. 2016, *supra* note 77, at pp. 6 and 27.

to promote the national corporate champions, roughly 180 among the country's state-owned enterprises (SOEs) with the best performances were selected and encouraged to invest abroad as flagship enterprises thanks to tax rebates, credit and loans to enterprises, information services and assistance, fiscal and financial incentives, investment insurance and the political support of the Communist Party.[145] Goals of the *zǒuchūqù* strategy, which literally means "walk out", were to put China's competitive advantage into play, to make Chinese firms more competitive in the world economy through global competition, given the fact that domestic competitive pressure had been heightened by the opening of industries and markets which had once been protected from foreign and domestic competitors, to open new markets for Chinese exported products and Chinese need for imported resources [146], and to establish brand names globally recognized, such as the well-known Lenovo for computers, Huawei for telecommunications and Haier for home electrical appliances.[147]

The Going Global strategy, whose importance for the Chinese economy was stressed again in the eleventh Five-Year Plan (2006-2010), represented a huge step forward for China, which came from almost twenty years of "bringing in" (引进来 *yǐnjìnlái*) foreign investment, technology, and skills from abroad. Indeed, despite the opening up of the Chinese economy and the reforms promoted and advanced by Deng Xiaoping since 1978 through the "open-door" policy, which acknowledged Chinese outward direct investment (ODI) as effective means to open and integrate China into the world economy, Beijing government went on pushing for acquiring skills, capital and technology from abroad and interfering in the management of Chinese multinational enterprises.[148] Between 1979 and 1985, Chinese SOEs began to establish their first international operations; as a matter of fact, through the introduction of a specific act in August 1979, China's State Council permitted specialised Chinese companies to run their operations overseas. However, only state-owned trading companies and the economic

[145] CORKIN, L. 2006. *Chinese Multinational Corporations in* Africa. Inside Asia, number 3 and 4, at pp. 10-11.
[146] BUCKLEY, P. J. 2010. *Foreign Direct Investment, China and the World Economy*. Basingstoke: Palgrave MacMillan UK, at pp. 89 - 90.
[147] BRAUTIGAM, D. 2009, *supra* note 141, at p. 74.
[148] BUCKLEY, P. J. 2010, *supra* note 146.

and technological cooperation enterprises registered under the previous Ministry of Commerce – nowadays knowns as MOFCOM and MOFERT (Ministry of Foreign Economic Relations and Trade) at the time – and under the auspices of the Commission of Foreign Economic Relations and Trade were allowed to legally invest abroad. It is important to underline that prior to this point, Chinese enterprises operating abroad were mainly involved in conducting projects of economic and technical aid financed by the Chinese government.[149] Only at a later stage, the government boosted Chinese firms to make their tentative steps overseas, in particular to bid on contracts and to establish joint-ventures. In 1981 a small-scale surge of Chinese joint ventures occurred in Africa, exactly when two Chinese companies made an investment of US$ 660,000 in joint ventures of about US$ 3 million. In 1985, China counted twenty-seven small and medium scale investment arrangements signed off on the African continent with a total amount of US$ 24 million and it held more than half of the equity.[150] In the second half of 1980s, Chinese central government encouraged a higher number of enterprises to set up their affiliates abroad by providing them with the necessary capital, technical and operational know-how and proper joint venture partners, with the result of quintupling the number of approved projects.[151] During the 1990s, sub-national level authorities, such as Fujian's and Guangdong's provincial policymakers, actively encouraged the international business activities of enterprises, determining a huge number of Chinese actors operating abroad.[152] The push operated by Chinese provincial and local governments towards provincial companies has been often underestimated, although it has been an essential part of the "Going Global" strategy, which is usually portrayed as just entailing central government's action. Workers' teams coming from different Chinese provinces have been "twinned" with specific African countries and have served them for the last thirty years, having also political and economic influence on the country. The logic of "twinning" was specifically applied to foreign aid programs, such as medical or agricultural ones, but this kind of

[149] CORKIN, L. 2006, *supra* note 145.
[150] BRAUTIGAM, D. 2009, *supra* note 141, at pp. 60 - 62.
[151] BUCKLEY, P. J. 2010, *supra* note 146.
[152] BRAUTIGAM, D. 2009, *supra* note 141, at p. 74.

engagement has been driven by a strategy of “twinned aid first, business later”. As a matter of fact, “twinning” allowed Chinese workers’ teams from a given province to gain experience in a certain African country with the result of laying the foundation for overseas business “clustering”, i.e., the introduction of other actors coming from the same province, which tend to locate fairly close to each other in the same African country, determining the phenomenon of “going out in group”.[153]

4.1.2 Savings and investments

Until 2011, China’s growth model was highly based on internal investments made possible by four main factors: first, the entry of China into the World Trade Organization (WTO) in 2001, which made exports conspicuously increase so that investments in manufacturing plants and equipment grew greatly; second, the privatization of the housing stock operated by the then Premier Zhu Rongji, which triggered the boom in real estate construction; third, the existence of a heavy curbed demand for infrastructural development, which was possible to satisfy at that moment, thanks to the available resources; and finally, the huge fiscal stimulus package advanced by the Chinese government almost exclusively intended to start up again infrastructural investment, after the 2008 global financial crisis which undermined the country’s exports and the internal demand for investment in manufacturing and real estate fields. The investment-based growth model coupled with the needs of an extremely rapid growth of the economy resulted into a massive demand for natural resources and energy, which in turn was sustained by larger imports of oil and metals of different kinds.[154]

Despite the fact that China’s economic growth was heavily reliant on investment, Chinese saving rate has usually been higher than the investment rate, mirroring a phenomenon usually observable in East Asia; however,

[153] SHI, X. 2016. *Provincial Chinese Actors in Africa: The Case of Sichuan in Uganda.* China-Africa Research Initiative, Policy Brief No. 15, July 2016. Washington: John Hopkins University School.
[154] DOLLAR, D. 2016, *supra* note 53, at pp. 13 – 16.

China's high saving rate mainly originated from high level of savings on the part of enterprises and the government, and only at a later stage from households' savings. As regards corporate savings, SOEs have a high saving rate, because they do not pay noteworthy dividends to anyone. Moreover, private firms have high savings too, because their relatively scarce access to the formal financial system and their self-financing from profits. The difference between China's domestic saving and its domestic investment, with the former that exceeded the latter, led China to have a current account surplus, which in turn brought China to lend the difference abroad, generating an outflow of investment abroad. This same situation can also be seen as a condition of trade surplus[155], in which China exported more goods and services in value terms then what it imported; for these reasons it acquired foreign assets abroad, breeding the outflow of foreign investment.[156] Thus, China has turned out to be one of the world's largest net creditors. Its opening to the outside world was one of the crucial pillars of its economic growth and its aggregate savings allowed it to support not only domestic investment, but also foreign investment.

4.2 China – Sub-Saharan Africa relations: a long-standing cooperation

Although Chinese FDI have flowed into SSA thanks to the Going Out strategy of the 2000s and thanks to China's high saving over investment, as explained in the two previous paragraphs, history reminds a cooperation between China and Sub-Saharan Africa which began several decades before the end of the twentieth century, and which resorted to FDI only at a later stage of the engagement.

The political and ideological foundations of the relations which exist nowadays between Beijing and the SSA's region are rooted back into the

[155] Trade balance surplus reflects the situation of high investment rate previously analysed. Indeed, the difference between aggregate savings (household savings and government savings) and investments equals trade balance.
[156] DOLLAR, D. 2016, *supra* note 53, at pp. 29 – 30.

period that goes from the 1950s and the early 1970s, in what can be considered as the Maoist period (1949-1976). China, with its anti-imperialist sentiment and its background of attempts to avoid Western imperialism – just consider the Opium Wars and the Boxer Rebellion – was always sympathetic to African countries' anticolonial movements of liberation and independence. This Sino-African partnership was characterized by the emphasis put by Beijing government on the existence and the necessity to secure a tight south-south cooperation, in other words, of a close relationship based on the sense and the awareness of numerous similarities between China and African countries.[157] At the 1955 Bandung Conference of Non-Aligned Nations, the Sub-Saharan African countries that took part to what is also known as the Asian-African Conference were Sudan, Ethiopia, today's Ghana, which was known under the name of Gold Coast before its independence in 1957, and Liberia. Although they were limited in number, i.e., four out of twenty-nine participant countries, and they had been invited for the mere reason to have a bigger turnout and a larger consensus to the causes of the Conference[158], the following China-Africa relations for the next four decades have been informed by the idea of "third world solidarity" emerged in the meeting. Even though the historical phase of Chinese interest in SSA which followed the Bandung Conference was hinged on ideological and political reasons and on a logic of common and shared destinies, it inspired the first concrete Chinese commitments towards SSA's countries, as it was underlined by Kaplinsky and Morris in their attempt to give a broad periodization of the dynamics of Chinese FDI flows in SSA in modern era.[159] Despite the fact that China was not endowed with an amount of resources comparable to those of the two superpowers, Beijing offered African countries on the way of decolonization moral and political support, sometimes along with limited aid and military backing, in particular to countries which seemed to be headed on a socialist or revolutionary pathway, in other words, siding with and assisting ideologically similar forces. One

[157] GARDELLI, S. 2009. *L'Africa cinese. Gli interessi asiatici nel Continente Nero.* Milano: Università Bocconi Editore, at pp. ix – xxiv.
[158] DI NOLFO, E. 2008. *Storia delle relazioni internazionali*. *Dal 1918 ai giorni nostri.* Roma: Editori Laterza, at pp. 964 - 968.
[159] KAPLINSKY, R. and MORRIS, M. 2009, *supra* note 99, at p. 552.

example *par excellence* was Angola, where China supported two out of the three factions fighting one against each other to take the lead of the newly independent state.[160] According to Dr. Jing Gu, Director of the Center for Rising Powers and Global Development at Institute of Development Studies of Sussex University, in the period between 1949 and the 1980s the number of Chinese companies present in Africa was limited and most of them were implementing Beijing government's aid projects.[161] Driven by ideological interests, Beijing first committed to offer aid totally amounted to nearly $120 million to Sékou Touré in Guinea, Kwane Nkrumah in Ghana, Modibo Keita in Mali, and to Congo-Brazzaville, Tanzania and the much more conservative Kenya and Nigeria. China's aid commitments into Sub-Saharan African countries sometimes supplanted those of the United States and the Soviet Union, as in the case of the offer of a $25 million interest-free loan made to Guinea, with the attached promise that Chinese advisers sent to the country would have lived at the same living standards of the Guinean staff of the same rank. In front of African people's need for daily essential supplies of food, clothes and other necessities, China offered a mix of aid to cope with pressing and long-term needs as well as technical trainings and small-scale "turn-key" projects in industrial and agricultural fields, which were suitable to be rapidly set up by Chinese experts and delivered to recipient countries in order to start production in a very short period of time. The idea of development that China carried on in Sub-Saharan Africa somehow echoed the one it had followed in its homeland, i.e., the idea that centrally planned interventions had to be focused on boosting production, on improving health and on tackling infrastructural gaps. In the light of this logic, Beijing devoted itself to fund state-owned factories in Africa, to send Chinese skilled technicians to African textile mills and medical staff of doctors and

[160] The Chinese government offered its support to the National Liberation Front of Angola (FNLA) just for a short period of time, while the backing provided to the National Union for the Total Independence of Angola (UNITA) was more considerable and sustained to the point that the leader of the movement, Jonas Savimbi, and other members of the UNITA, who were later named after "the Eleven Chinese", were invited to China for five months from July to November 1965 to have a specific training on guerrilla warfare. This close encounter with Chinese culture brought Savimbi to absorb some characteristics of Maoism – the dictatorship of the proletariat and the cult of personality – in its movement. See EASTERLY, W. 2007. *I disastri dell'uomo bianco. Perché gli aiuti dell'Occidente al resto del mondo hanno fatto più male che bene.* Milano: Bruno Mondadori, at pp. 362 – 370.

[161] GU, J. 2009. *China's Private Enterprises in Africa and the Implications for African Development.* European Journal of Development Research, 21(4), at p. 572.

paramedics, and to build infrastructures such as roads, bridges, railways, power plants, and ports. These efforts have always been accompanied by the construction of a prestigious project – a stadium, a government building or a conference hall – as symbolic seal of a long-lasting and devoted friendship between China and the chosen African country.[162] Sino-African relations over this period were mainly morally and politically based, rather than built on economic and geo-political interests; in this phase, SSA revealed its political relevance for China, which was in search for diplomatic recognition along with the disestablishment of the rival Taipei government. For this purpose, newly independent African countries had great importance for China within international fora; in particular, they actively contributed to China's attainment of a lawful seat in the United Nation in 1971.[163] Under the great diplomatic action of Zhou Enlai, then Chinese Premier who paid a three-month visit to ten independent African countries between December 1963 and February 1964, the relations between China and SSA grew stronger in the spirit of the Five Principles of Peaceful Co-Existence, namely, mutual respect of territorial integrity and sovereignty, mutual non-aggression, mutual non-interference in each other's internal affairs, equality and cooperation and peaceful coexistence.[164] In the name of the Sino-African relations and in order to boost the narrative of "glorious achievement" outside China, in 1969 Mao financed the construction of the Tan-Zam or TAZARA Railway, which had been previously declared infeasible by the World Bank and Western countries and which was even completed ahead of schedule in 1976. The railroad links the copper mines of Kapiri Mposhi situated in the northern part of the Zambian capital, Lusaka, to the port capital of Tanzania, Dar es Salaam. The project turned out to be the symbol of the Chinese significant support and commitment to SSA countries; indeed, with its 1,860 kilometres, 10 kilometres of tunnels and 300 bridges, it gave access to the sea to the landlocked Zambia, contributing to eliminate its economic

[162] BRAUTIGAM, D. 2009, *supra* note 141, at p. 31 – 35.
[163] GARDELLI, S. 2009, *supra* note 157.
[164] PRC's Ministry of the Foreign Affairs of the People's Republic of China. *Premier Zhou Enlai's Three Tours of Asian and African countries.* Retrieved from *<http://www.fmprc.gov.cn/mfa_eng/ziliao_665539/3602_665543/3604_665547/t18001.shtml>* .

dependence on Zimbabwe (Rhodesia at the time) and South Africa, which were both ruled by white-minority governments.[165]

With the end of the Maoist era and the beginning of Deng Xiaoping's reformatory action, there was a radical change in China-Africa relations; indeed, as we saw in the previous paragraph, in the 1980s China was focused on its socialist modernization by bringing in foreign investments from Western countries as well as technology transfer massively. Given Africa's marginal role in the international economy and given the relaxation of the old tensions between Beijing and the two superpowers, Africa became less and less strategically important in China's vision over the 1980s, with the result that the relationship with Africa plummeted. Moreover, this same period was the so-called *Africa's lost decade*, when Africa was subjected to a heavy marginalization operated also by the Chinese economic system based on manufacturing export, which turned almost exclusively to Japan and the United States.[166] Thus, while Africa perfectly complied within Mao's political strategy, it was not compatible with Deng's pragmatism and focus on domestic economy development. Nevertheless, Africa was never completely forgotten and left by China and the prove of this was the four-week visit to eleven African countries paid by the then Chinese Premier Zhao Ziyang at the end of December 1982. During the trip, Zhao stated that different forms of cooperation between China and Africa, such as joint ventures, cooperative production and construction projects, would have been beneficial to build capacity and foster growth in China as well as in Africa, in the name of a *win-win cooperation.* The message that Zhao's trip conveyed was that China wanted to keep on engaging with Africa, although in the 1980s its economic engagement was more directed towards Europe, the United States and Japan. Nevertheless, Chinese commitment in Africa between 1985 and 1995 was mainly focus on directing foreign aid, and precisely almost 57 per cent of its foreign aid, to rehabilitate Chinese former aid projects in Africa. Undoubtedly, this allowed China to prepare a solid ground of credibility that revealed to be useful to its presence on the continent in the following

[165] BRAUTIGAM, D. 2009, *supra* note 141, at p. 40 – 41.
[166] GARDELLI, S. 2009, *supra* note 157, at pp. xiv – xv.

years.[167] During this period, Chinese companies engaged in Africa were large national and provincial state-owned trading ones, whose deployment was in line with Beijing's diplomatic agenda.[168]

The situation changed with the Tiananmen Square events in June 1989, which resulted into a strong Western criticism of China's human rights abuses in the violent repression of the protests. The West had always been quite unresponsive to this issue that suddenly became its main concern related to the PRC's formulation of internal and foreign policy. The happy marriage between China and the West came to a halt, with the consequent change in the Chinese attitude towards the developing world; indeed, while this approach had been one of nonthreatening lack of attention in the 1980s, it became one of renovated consideration. China restarted to think about African countries as all-weather friends and it dusted off the old relationship based on the Five Principles of Peaceful Co-Existence in the light of African countries' response to 1989 events and the common bitterness about a perceived neo-imperialist interference of the West in the developing countries' internal affairs. In this historical phase, Chinese and African interests and logics lined up. Firstly, African leaders, who were mostly holding the power with an iron hand, could not allow themselves to side with a mass mobilization such as that in Tiananmen Square and condemn the way in which Chinese authorities had managed the protests, otherwise it could have been a precedent from which Africans could have drawn to mobilize against entrenched elites in their countries to bring forth democratisation projects. Secondly, some African leaders shared with Beijing the suspect that the sudden concern of Western countries about China's record on human rights was nothing but an attempt to put a spanner in the works of the rapid Chinese modernization. Lastly, African countries were fully aware that an overt criticism of Beijing's stance would have implied the end of Chinese development assistance, which was an important source for them, although it had been stagnant throughout the 1980s.[169] From its part, after the collapse of the Soviet Union, China began to feel threatened by the United States,

[167] BRAUTIGAM, D. 2009, *supra* note 141, at p. 53 – 55.
[168] GU, J. 2009, *supra* note 161.
[169] TAYLOR, I. 2007, *supra* note 138, at pp. 7 – 9.

which had remained the unique superpower without any counterbalance, and therefore free to project over the whole world its soft power and its military and economic hegemony. Furthermore, Beijing government needed to go on sustaining the formidable economic growth in order to prevent a slowdown which would have called into question the CPC's conduct. Within this new scenario, China realized that African countries with their immense reserves of raw materials and energy resources and their unexplored markets could serve as both fuel and an end for the Chinese commercial machine.[170] The 1990s witnessed the re-emergence of China in Africa and the broadening of its array of engagement ways in the continent, encompassing trade, investments, development assistance, debt relief, technology transfer and trainings. Both state-owned enterprises and an increasing number of private companies showed their interest to invest in SSA.[171] This new phase of economic collaboration was officialised by the launch of the Forum on China-Africa Cooperation (FOCAC), a supranational organization created by China which gathered for the first time in Beijing in October 2000. Every three years since 2000 it has brought together the most influential political leaders from both sides, becoming to constitute the official forum for the relations between China and African governments where a new-type, stable and long-term economic cooperation is shaped. It was on the occasion of the third FOCAC Summit held in Beijing in 2006 that two fundamental initiatives were announced, namely, the China-Africa Development Fund (CADF) and the pledge to create from three to five Special Economic Zones (SEZs) in Africa, along with other measures related to trade, technical development assistance, debt relief, deliver of volunteers and provision of scholarships and trainings.[172] The CADF was expected to be an equity fund providing up to US$ 5 billion to Chinese state-owned or private firms willing to implement joint projects with African companies. The idea was to finance investment projects worth between US$ 5 and US$ 50 million in many different areas of interest, such as agriculture, resource exploration, manufacturing,

[170] GARDELLI, S. 2009, *supra* note 157, at pp. xv – xvi.
[171] AYODELE, T. and SOTOLA, O. 2014. *China in Africa: An Evaluation of Chinese Investment.* Lagos: Initiative for Public Policy Analysis. Retrieved from <http://www.ippanigeria.org/articles/China%20-Africa%20relation_Workingpaper_final.pdf>.
[172] GARDELLI, S. 2009, *supra* note 157, at pp. xxii – xxiii.

telecommunications, transportation, infrastructures and so on.[173] These two measures, namely, the China-Africa Development Fund and the Special Economic Zones, were part of the implementation of the eleventh Five-Year Plan and its ambitious proposal of going on with the development of policies and initiatives supporting overseas investments and trade within the framework of the "Going Out" strategy.[174] If in the first years of the 2000s the presence of SOEs and private companies expanded in Africa and it witnessed substantial spillovers from the previous large-scale Chinese investments, since the mid-2000s a surge in small- and medium-size Chinese private firms occurred in SSA.[175] It emerged a composite picture comprising a mix of enterprises, some of them based in China extending their activities to SSA and others started from scratch in Africa.[176]

The table 4.1 summarizes the five phases of China's engagement in Africa in terms of Chinese companies' presence on the continent as elaborated by Dr. Jing Gu.

Table 4.1: Growth stages of Chinese companies' presence in Africa

Stages	*Main features*
Stage One: 1949–1980s	Limited number of Chinese companies, mainly implementing Chinese Governments development Aid Projects
Stage Two: 1980s – mid-1990s	Large national and provincial level state-owned trading companies, closely associated with diplomatic agenda; few private companies.
Stage Three: Mid-1990s–2000	Emergence of large state-owned enterprises (SOEs) mainly resource-seeking, strategic asset-seeking, and infrastructure investments; Increasing number of private companies start exploring African market.
Stage Four: 2000–2005	Expansion of large SOEs and private companies; emergence of clustering development strategy, e.g. Trade zones; industry parks.
Stage Five: 2005 – Present	Acceleration of private companies in various sectors and continued expansion of SOEs; the development of clustering industry strategy.

Source: GU, J. 2009, at p. 572.

[173] BRAUTIGAM, D. 2009, *supra* note 141, at pp. 93 – 95.
[174] BRAUTIGAM, D. and TANG, X. 2011. *African Shenzhen: China's Special Economic Zones in Africa.* Cambridge University Press: Journal of Modern African Studies, 49(1), pp. 27-54. DOI: 10.1017/S0022278X10000649.
[175] GU, J. 2009, *supra* note 161, at p. 572.
[176] KAPLINSKY, R. and MORRIS, M. 2009, *supra* note 99, at p. 552.

The most salient historical phase in terms of Chinese FDI flow in SSA started after 2005. It was also the period in which China's clustering development strategy – encompassing trade zones and industrial parks – began to be implemented on the African continent. It was observed a "three-jump" trend followed by most Chinese enterprises entering African market. It is a three-stage pattern involving a first "jump" represented by the establishment of trade relationship between Chinese firms and the African country, which serve as a preliminary inspection for the possibility to directly invest in the country by setting up a local factory as second step. As local supply infrastructures in Africa usually prove to be very weak, a continuous trading and investing relationship is established. This happens because some parts and equipment still need to be imported from China in order to carry through with the whole production process, until the full development of a solid local supply chain is realized. Due to the ongoing poor conditions of the African supply base and the spillovers coming from the continuous setting up of Chinese firms close to each other, the investment develops into the establishment of industrial parks, which represents the third and last "jump" of the new trend in the way of tapping into local markets. Thanks to this approach, not only can Chinese firms locating in the industry parks enjoy mutual support and the possibility to coordinate their production, but there are also the conditions for the creation of an industry clusters with their favourable investment environment and their allure on Chinese, African and international firms to locate in parks.[177]

In more recent time, according to the MOFCOM's official press releases, China's willingness to invest in Africa has not been discouraged and rapid and concrete steps in advancing investments in the continent have not been impeded by the lowest growth rate in almost twenty years that Africa experienced in 2016. Undoubtedly, this behaviour shows Chinese enterprises' strong confidence in African market as well as their great risk-handling aptitude and resilience in the venture of investment cooperation with African countries. As far as the latest development of China-Africa relations are concerned, the new initiative of "China-Africa Ten Cooperation Plans"

[177] GU, J. 2009, *supra* note 161, at pp. 575-576.

presented by the Chinese President Xi Jinping at the 2015 Johannesburg Summit of China Africa Cooperation Forum shall not be left unmentioned.[178] Under the framework of this new plan, a wide range of strategic areas enabling win-win cooperation and mutual development will be tackled in the next three years. The ambitious package will face the need to speed up the industrialisation process and the modernization in agriculture as well as the necessity to renovate backward infrastructure and enlarge the infrastructural network. As regards agricultural modernization, China will implement agricultural development projects in one hundred villages in Africa by sending teams of agricultural experts. China will also deal with the issue of lack of a talented and skilled workforce by organizing vocational education opportunities and capacity-building trainings in Africa. Moreover, it will continue on providing scholarships for African students to study in China and for African scholars to visit China coupled with trainings for media professionals. It also wants to realize two hundred poverty reduction and public welfare programmes aiming at improving women and children's living conditions. Furthermore, China will also focus on security cooperation and capacity building in peace and security areas. Alongside this multifaceted commitment, China will also work hard to ensure trade and investment facilitation.[179]

4.3 Definition of Foreign Direct Investment in the Chinese context

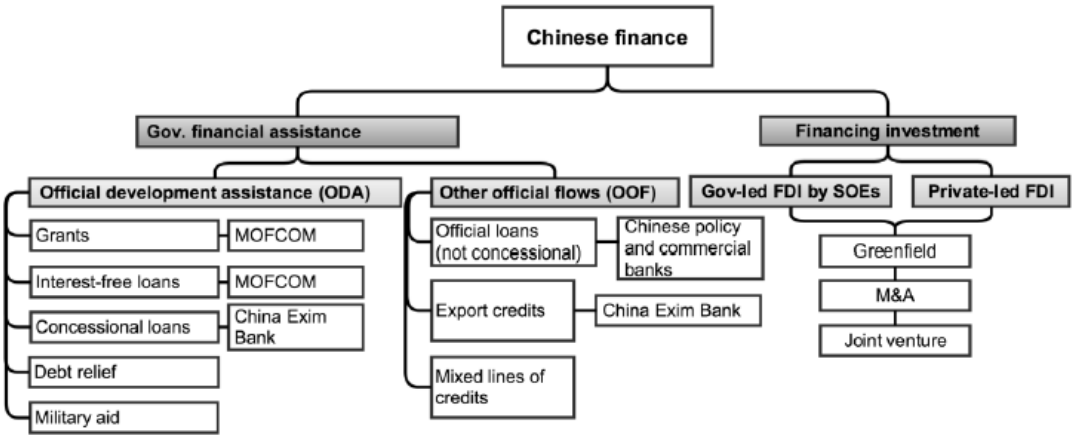
There has been a lot of speculation about China's overseas financial flows into Africa, which have largely been in the form of loans and aid, and therefore being classified as development assistance. Chinese financial flows to Sub-Saharan Africa cover other different categories besides foreign direct

[178] From MOFCOM website. 2016/12/19. *Regular Press Conference of the Ministry of Commerce (December 15, 2016)*. Retrieved from <http://english.mofcom.gov.cn/article/newsrelease/press/201612/20161202281584.shtml>.

[179] From the Forum on China-Africa Cooperation (FOCAC) website. 2015/12/08. *Xi announces 10 major China-Africa cooperation plans for coming 3 years.* Retrieved from <http://www.focac.org/eng/zfgx/dfzc/t1322068.htm>.

investments, namely, official development assistance (ODA) and other official flows (OOF). As it can be visualized in Figure 4.1, among other instruments ODA encompasses MOFCOM's grants and zero-interest loans, i.e., China's traditional aid instruments for external assistance, and China Exim Bank's concessional loans with a fixed interest rate at 2 or 3 percent and a five-year grace period. OOF covers in particular China Exim Bank's export sellers or buyers credits along with commodity-backed loans and other lines of credits. OOF category is larger than China's ODA to Africa, and ODA itself is larger than Chinese FDI in SSA. Thus, FDI is a relatively small part of the whole picture of Chinese finance towards SSA.[180]

Figure 4.1: China's Financial Flows to SSA



Source: Pigato, M. and Tang, W. 2015, at p. 24, adapted from Strange et al. 2013.

As it can be grasped from the outline of the main historical phases of China-SSA cooperation in Chapter 4.2, FDI and joint ventures can originate from both state-owned enterprises and private firms. While FDI is usually referred to as private investment by the OECD (Organization for Economic Co-operation and Development), thus without the involvement of the government, in the Chinese case, FDI also includes government-backed

[180] PIGATO, M. and TANG, W. 2015. *China in Africa: Expanding Economic Ties in an Evolving Global Context.* Investing in Africa Forum. Washington DC: World Bank Group. Retrieved from <http://documents.worldbank.org/curated/en/241321468024314010/pdf/95161-REPLACEMENT-FILE-PUBLIC-China-FDI-Africa-conference-Final-1-May-2015-Final.pdf>, at p. 24.

investment embodied in SOEs' investing activities.[181] Moreover, this particularity of FDI originating from SOEs moves away from Western- and Japanese-sourced FDI, which typically come from private firms operating according to a shorter period of time in order to maximize profits.

Even though since 2002 China's MOFCOM has formally adopted the standard OECD, IMF and UNCTAD definitions of FDI in order to track foreign investment[182], data on Chinese FDI reported by MOFCOM do not entirely reflect the traditional definition, as it also takes account of state-owned firms' investments. Nevertheless, considering the weight of SOEs in China along with government's significant incentives, taking into account private investments only would be highly reducing with respect to the total value of Chinese investments.

4.3.1 Different actors, different characteristics and different motives

In the context of Chinese FDI to Sub-Saharan Africa, many players are involved. Early studies stressed the importance of Chinese government's centrally planned push and the presence of large state-owned enterprises, whereas more recent accounts revealed that the investors' configuration is in fact diverse: there is a sizeable coexistence of SOEs and private firms which operate on different scales in SSA.

Kaplinsky and Morris identified four overlapping Chinese investors in the region, as it is summarized in Table 4.2.

Before going more in depth in the analysis of the different investing players, it is appropriate to underline that in the recent China's growth trajectory it is not possible to draw a clear-cut line defining the ownership and the property rights in companies, with the result of having a fuzzy distinction between concepts such as "state-owned" and "private". Indeed, state-owned enterprises' profits can be also seized by key individuals who do not formally own the firms. Analogously, investment decisions and returns in private

[181] *Ibid.,* at pp. 26.
[182] BRAUTIGAM, D. 2013. *Chinese Investment in Africa.* NYU Center on US – China Relations. Retrieved from <http://uschinacenter.as.nyu.edu/docs/IO/27891/Brautigam_NYU_Chinese.pdf>.

companies can be the result of national or provincial government's directives; in fact, the Chinese concept of "private" implies that the state holds less than 50 per cent of the equity and state officials can also own their own part of enterprises.

According to Kaplinsky and Morris' analysis, large state-owned enterprises investing in SSA can be divided into those usually reporting to the central government and accountable to the State Council, and those which refer to provincial institutional bodies. While SOEs linked to the central governments are driven to invest under official state-to-state agreements, provincially-linked firms follow arrangements which Chinese decentralised state administrations and SSA governments agreed upon.

As regards the private sector, it includes a mixture of different-sized firms, some of them incorporated in China and extending their activities in SSA, and some of them based only in SSA region. In the case of private sector, family or community links with previous Chinese regional diasporas are particularly important in the decision to go and invest in SSA.

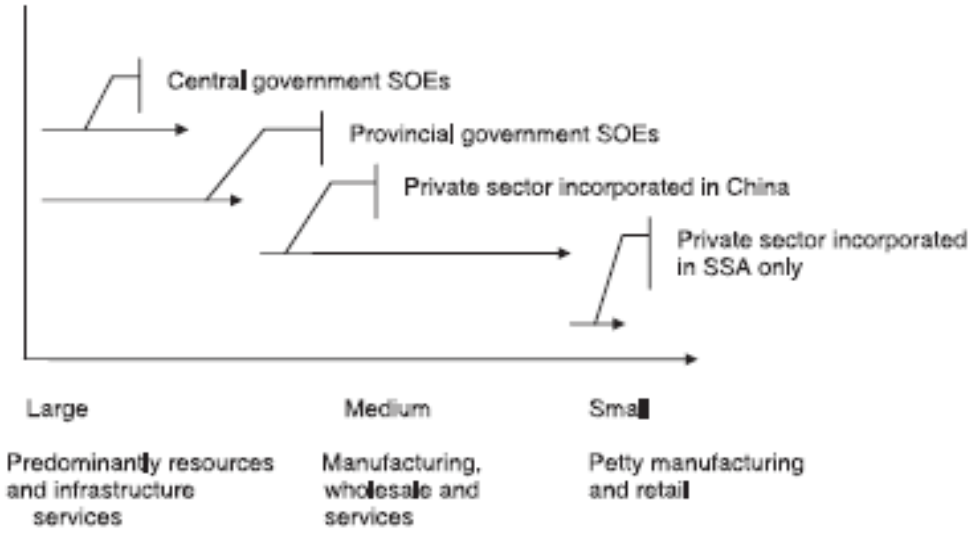
Table 4.2: Four types of Chinese investors in SSA

Central state	*Provincial state*
Predominantly state-owned	
Normally accountable to State Council	Often loyal to Provincial rather than Central Government objectives
Tender for Central Government funded EXIM Bank financing	Tender for Central Government funded EXIM Bank financing
Predominantly in resource sector, infrastructure projects and construction	Predominantly in resource sector infrastructure projects and construction
Involves formal State to State (that is, China host government) agreements	Generally some from of twinning between China provinces and SSA governments
Generally well-documented, but not always transparent agreements	Generally well-documented, but not always transparent agreements
Incorporated in China and SSA	*Incorporated in SSA only*
Predominantly private-owned	
Predominantly in manufacturing and services	Predominantly in petty manufacturing and services
Largely self-financed	Self-financed
Act independently of Chinese central government	Act independently of Chinese central and provincial governments
May be supported by Chinese provincial government	May not be legally incorporated
	Familial contacts important

Source: KAPLINSKY, R. and MORRIS, M. 2009, at p. 553.

As it is exemplified in Figure 4.2, large state-owned enterprises and related government- or province-led FDI are focused on the extraction of natural resources and on infrastructure construction. If politically-backed incentives have usually been skewed towards SOEs, with the result that studies have always underlined the role of the latter in shaping China-SSA economic relations, it must highlight the increasing importance of the Chinese private sector and its investment flows, which are often likely to be underreported. It shows a wider spectrum of representatives, ranging from medium and small-size private firms based in China and generally investing in SSA to small enterprises established in SSA only. While the first ones are usually engaged in manufacturing, wholesale trade and communication services, the latter ones are active in petty manufacturing and small-scale retail activities.[183]

Figure 4.2: Ownership, size, sectors of Chinese investors in SSA.



Source: KAPLINSKY, R. and MORRIS, M. 2009, at p. 553.

Different ownership of the enterprises is generally associated with different philosophies guiding them in their decision to "go out" to SSA. State's interest is usually conceived as the main force pushing state-owned enterprises to invest abroad and, more specifically, in the extractive sector, while market forces, the logic of making profits and the purpose of creating continuing economic opportunities for the host country are instead the three main

[183] KAPLINSKY, R. and MORRIS, M. 2009, *supra* note 99, at pp. 552 – 554.

factors driving Chinese private companies to invest outside China and beyond the extractive sector.[184] Recent researches have provided a picture that is less defined and much more complex and variegated. In fact, Chinese SOEs themselves can operate according to a pure commercial logic, in a semi-independent way from the governmental directives. This means that, both Chinese SOEs and private enterprises investing in Africa configure business activities as the engine boosting economic development in a context where hybrid relations between state and business have taken over.

4.4 FDI data issue and sectoral allocation

Chinese investment in Africa has recently attracted a huge degree of attention from the Western world; nevertheless, at first glance, available data and statistics alone do not fully justify this great consideration.

In fact, official data from China's Ministry of Commerce of Commerce (MOFCOM) says that Chinese FDI flows to SSA amounted to US$ 3.1 billion in 2013, representing the 7 per cent of the world's investments in the region [185] and, according to UNCTAD's *World Investment Report 2015,* in 2013 and 2014 China's share of the total inward direct investment flows to Africa accounted for a mere 4.4 per cent of the total.[186] If the Chinese investment activity in SSA appears limited from data observation, it seems even more trivial when it is considered in terms of FDI stocks. MOFCOM reported that at end-2014 the stock of China's direct investment in Africa amounted to US$ 32 billion, i.e., less than 5 per cent of the total FDI stock present on the African continent.[187] These data help to cast some light on the misconception about China's huge involvement with Africa in terms of provided FDI. The paradox of Chinese FDI in SSA has been well expressed by Chen, Dollar and Tang in the following statement: *"China's investment in Africa is both big and small"*. On one hand, it is small relatively to the fact that China was a latecomer to the African continent and it is now responsible for

[184] AYODELE, T. and SOTOLA, O. 2014, *supra* note 171, at p. 7.
[185] PIGATO, M. and TANG, W. 2015, *supra* note 180, at pp. 10 e 22.
[186] DOLLAR, D. 2016, *supra* note 53, at p. x.
[187] *Ibidem.*

only a limited share of the total FDI stock in Africa. Although Chinese investment in Africa has been expanding quickly as well as its share of the total, the low base of starting should be taken into consideration. [188] On the other hand, it is also big in relative terms, i.e., with reference to China's investments in other parts of the world. While the US had US$ 38 billion of Outward Direct Investment (ODI) in Africa at the end of 2014, China's ODI amounted to a sum of US$ 32 billion, as already mentioned above in this paragraph, showing a large Chinese relative focus on and interest in Africa, although it is still a modest contributor in general terms. [189] Ultimately, Chinese investment effort in Africa turns out to be less prominent than it is commonly and widely thought.

Two considerations can be put forward to explain the huge attention – and the concern – of the West about China's investment in Africa. The first one it the incredible speed at which Chinese FDI has been rising in the continent, thinking that fifteen years ago, China's engagement with Africa in terms of capital flows was mainly linked to governmental aid and in 1996 Chinese direct investment in the continent amounted to a quite negligible total of US$ 56 million only.[190] Moreover, what is most notable is that when the global FDI flows plummeted by 15 per cent as a consequence of the 2008 financial crisis, China's outbound FDI more than doubled in that same year and grew by 1 per cent in 2009. In fact, not only did the crisis give a boost to the liberalization of outbound FDI that China had started at the beginning of the 2000s, but it was also seen by many Chinese firms as the opportunity to expand their presence in global markets. The fact that there was a consistent increase of Chinese merges and acquisitions throughout the 2000s with a peak in 2009 confirms this objective.[191]

Ernest and Young's *Africa Attractiveness Program 2017* highlights the dramatic increase in China-sourced FDI in 2016 indicating that China

[188] CHEN, W., DOLLAR, D. and TANG, H. 2015, *supra* note 133.
[189] DOLLAR, D. 2016, *supra* note 53, at p. 34.
[190] SHEN, X. 2013. *Private Chinese Investment in Africa. Myths and Realities.* World Bank's Policy Research Working Paper 6311, January 2012. DOI: http://dx.doi.org/10.1596/1813-9450-6311 , at pp. 3 – 4.
[191] PIGATO, M. and TANG, W. 2015, *supra* note 180, at p. 15.

became the third major investor being particularly active in business services and in technology, media and telecommunication and automobile sectors.[192]

The second reason explaining such great attention deals with the perception of the way in which China is investing on the African continent. In fact, China has strongly been criticized for conducting a supposed new form of colonialism to meet its growing demand for natural resources to fuel the astonishing growth of its domestic economy. Furthermore, Chinese investments in Africa have also been labelled as a case of state investment led by state-owned enterprises, which have allegedly gathered in some smoke-filled room in Beijing in order to share out projects to implement on the African continent. These are the two strongest critiques to Chinese investments, without mentioning criticism to its lack of transparency and its non-compliance with labour and environmental security standards.[193]

Recent studies have contributed to contradict and get this stereotypical criticism into the right perspective.

Even though, the major deals are arranged under government-to-government agreements and consist of projects related to infrastructural construction and natural resources extraction, these are just the deals that simply stand out, with a consequent distorted and misleading perception of China's activities in Africa.

Dollar underlined the fact that even though Chinese ODI is closely correlated with one country's wealth in natural resources, confirming that it is focused on resource extraction, this pattern of investment is not that dissimilar to that followed by traditional Western FDI.[194]

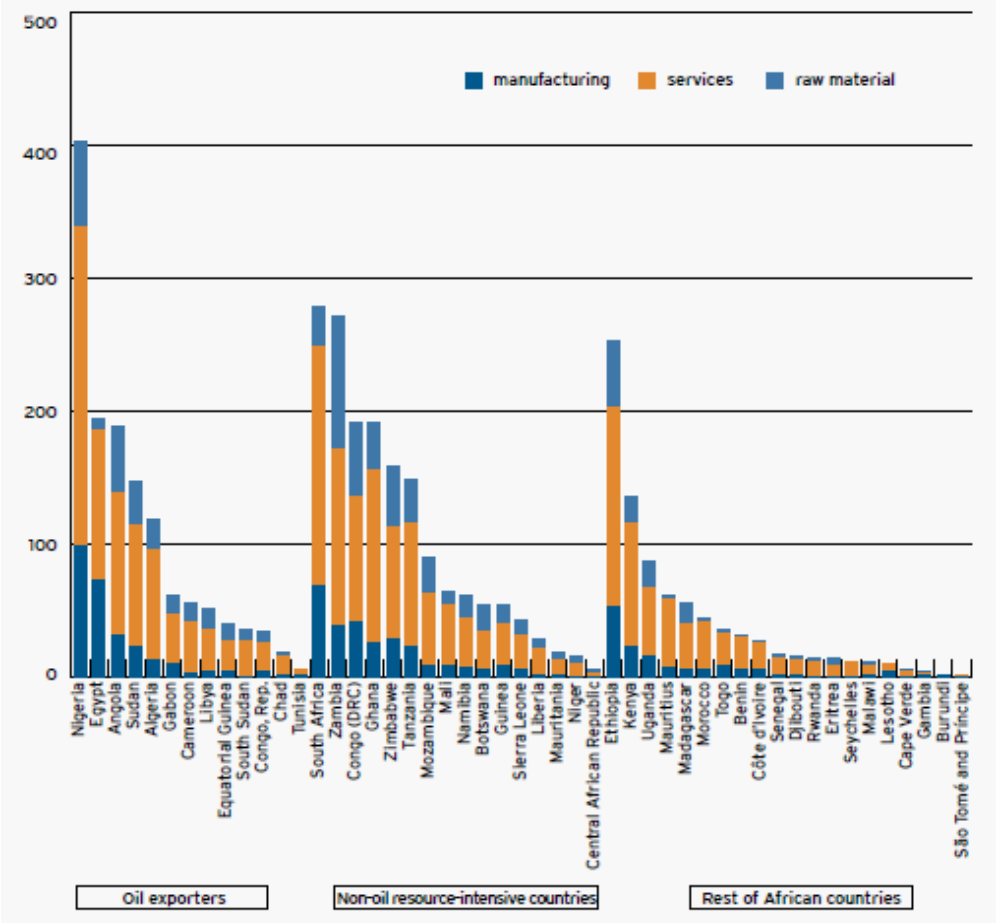
As it was highlighted in Chapter 4.3.1, Chinese investment in Africa is a matter of different actors ranging from individual private entrepreneurs to large state-owned enterprises, which are involved in activities that often have nothing to do with commodities. As a matter of fact, the top twenty African

[192] EYGM. 2017. *Connectivity Redefined.* Attractiveness Program Africa, May 2017. Retrieved from <http://www.ey.com/Publication/vwLUAssets/ey-attractiveness-program-africa-2017-connectivity-redefined/$FILE/ey-attractiveness-program-africa-2017-connectivity-redefined.pdf>.
[193] SHEN, X. 2013, *supra* note 190.
[194] DOLLAR, D. 2016, *supra* note 53, at p. 36.

countries in which China invests more considerably consist not only of countries rich in commodities, such as South Africa and Nigeria, but also of countries that are not well endowed with commodities, such as Ethiopia, Uganda and Kenya.

Even though African countries' natural resources abundance has been one of the pull factors attracting Chinese FDI into SSA, nowadays Chinese FDI in Africa are not inextricably linked to one country's endowment of raw materials. This can be better grasped by dividing African countries on the basis of their exports' resource intensity in accordance with the IMF's classification and seeing China's pattern of investment in the three identified groups of countries, namely, oil exporters, non-oil but other resource-intensive countries, and other African economies. Remarkably, the three patterns of investment across the three categories of economies are similar, as it can be seen in Figure 4.3.

Figure 4.3: Distribution of Chinese FDI Projects



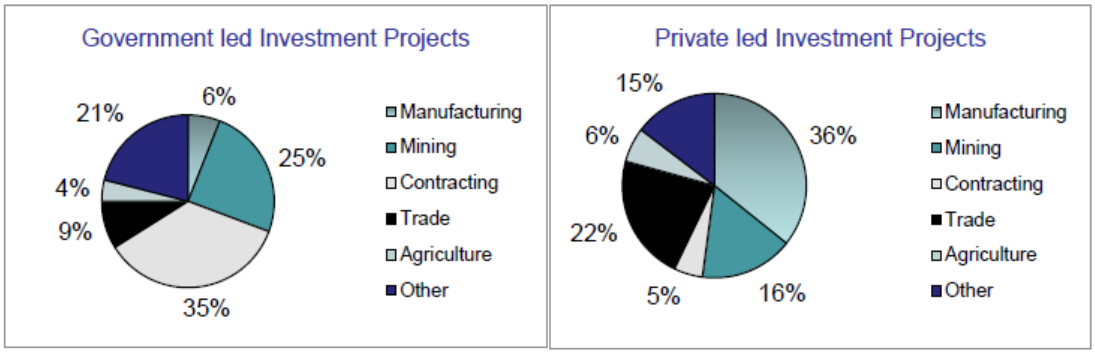
Source: Chen, Dollar and Tang, 2015, in Dollar, 2016, at p. 43.

Some considerations can be drawn. Firstly, China is also investing in resource-poor countries. Secondly, about two-thirds of Chinese FDI projects are in service sector in oil-rich countries as well as in resource-abundant economies and in countries poor in resources. Thirdly, Chinese investments in manufacturing sector are fewer in relative terms and are concentrated in larger economies such as Nigeria, South Africa, Zambia and Ethiopia.[195]

In addition, the remarkable increase in Chinese private sector's investment in Africa made headlines and, in particular, the fact that about 45 per cent of the total Chinese FDI in SSA is ascribable to China's private players.[196] What is most noteworthy is that the rise of private sector involvement has contributed to diversify the nature of China's investment by making it more dynamic and enlarging its scope.

Indeed, an important difference in sectoral FDI allocation can be observed between government-led and private-led investments. While the former are overwhelmingly focused on mining and construction projects, the latter are significantly concentrated in manufacturing and service sectors.

Figure 4.4: Sector distribution of Chinese FDI in Africa, putting government-led and private-led projects in comparison



Source: Shen, 2013.

Figure 4.4 above illustrates the corresponding sector distribution of government-led and private-led projects. While projects backed by government FDI are skewed towards construction (35 per cent) and mining

[195] DOLLAR, D. 2016, *supra* note 53, at pp. 42 – 44.
[196] PIGATO, M. and TANG, W. 2015, *supra* note 180, at p. 17.

sector (25 per cent), projects financed thanks to private FDI are mainly related to manufacture (36 per cent) and services (22 per cent). Moreover, it is also noteworthy the little percentage at which SOEs engage in sectors where private subjects are largely involved in and vice versa.[197] The same trend is ascertained by Gu, who underlines the fact that Chinese private enterprises do not just operate in the sectors of oil and extractive industries conventionally connected to Chinese SOEs' activity in Africa, but they are engaged in a wide range of industries.[198] At the same time, Chen, Dollar and Tang observed that MOFCOM' database on Chinese firms which invested in Africa between 1998 and 2012 suggests that few investments made by SMEs are in natural resource sectors. Indeed, their investments mostly aim at manufacturing and, in particular, at service sector.[199] According to the IMF, a sectoral shift in Chinese FDI flows happened between 2003 and 2009, when they progressively moved to services like wholesale and retail, real estate, leasing and hospitality industry.[200]

A plausible explanation of the different patterns of investment followed by SOEs and by Chinese private firms is that the latter, which are more prompted to invest in service and manufacturing industries, meet spillover demand originated by large state-owned firms involved in resource deals. As a matter of fact, huge resource deals bring about demand for services of import and export as well as demand for other business services and hospitality services, such as hotels, restaurants, and for particular types of manufacturing, such as furniture. Private sector's investments are therefore providing these needs with concrete and creative solutions[201], which proves the strong entrepreneurial spirit characterising Chinese SMEs.[202]

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[197] SHEN, X. 2013, *supra* note 190, at pp. 5 – 7.
[198] GU, J. 2009, *supra* note 161, at p. 573.
[199] CHEN, W., DOLLAR, D. and TANG, H. 2015, *supra* note 133, at p. 16.
[200] MLACHILA, M. and TAKEBE, M. 2011. *FDI from BRICS to LICS: Emerging Growth Drivers?* IMF Working Paper No. 11/178. Retrieved from <https://www.imf.org/external/pubs/cat/longres.aspx?sk=25100.0>.
[201] DOLLAR, D. 2016, *supra* note 53, at p. 44.
[202] GU, J. 2009, *supra* note 161, at p. 574.

4.5 Motives of Chinese FDI in SSA: a mix of push and pull factors

Despite the recent diversification in Chinese FDI targets thanks to the greater involvement of the private sector, it must be underlined that SOE-type of Chinese FDI in SSA have been clustered in large-scale resource-oriented activities since the initial increase of the Chinese ODI around 2003 as a consequence of the official enforcement of the "Going Out" policy as national strategy by the Politburo.

The key event which led China to look for natural resources abroad took place in 1993, when China from being an oil exporting country turned into a net oil importer, due to its rampant economic growth at an average pace of 9.9 per cent a year based on a resource-intensive growth model, which needed to be backed by sufficient resources. [203]

Dollar underlines the complementarity of China's and Africa's situations and needs after 2000, which brought to an incredible acceleration of the economic relationship between them. As a matter of fact, while China was relatively poor in natural resources, whose supplies were dwindling, and was endowed with a fast-growing labour force, thus having a comparative advantage in manufactures, Africa owned an extensive natural resource base and a smaller workforce.[204] Therefore, China's imports from African countries focused on energy and natural resources. In 2011, China's imports from Africa amounted to a total value of US$ 93.2 billion of which more than 80 per cent was represented by crude oil, raw materials and resources. [205]

Not only is China the most densely populated country in the world with its 1,387 billion people [206], but it is also the largest consumer and importer of coal, although it owns 12.8 per cent of the world's coal reserves. Even though China is the fifth largest oil producer in the world, its oil reserves do not cover the internal demand with the result that Beijing has to import a

[203] GARDELLI, S. 2009, *supra* note 157, at p. 2.
[204] DOLLAR, D. 2016, *supra* note 53, at p. xiii.
[205] SUN, Y. 2014. *Africa's in China Foreign Policy.* Washington DC: Brookings Institution. Retrieved from <https://www.brookings.edu/wp-content/uploads/2016/06/Africa-in-China-web_CMG7.pdf>, at p. 7.
[206] See updates on China's population according to the United Nations estimates at <http://www.worldometers.info/world-population/china-population/> [last accessed 24/05/2017].

huge quantity of crude oil from abroad. In 2014, China was the second biggest oil importer in the world after the US and in April 2015 its oil imports hit the record high of 7.4 million barrels a day, surpassing those of the US. By 2020, China is expected to import at least 60 per cent of its oil and 30 per cent of its natural gas.

In this context of huge demand on the part of China, Africa with its 30 million square kilometres and its wealth in natural resources became the clear target area of Chinese interests. As a matter of fact, Africa is a living natural resource producer with its high shares of global production of cobalt, chromite, diamonds, manganese, iron, oil, gold uranium, copper, nickel, bauxite, gas, coal, and so on.

Africa has turned into the second biggest crude oil supplier for China ranking just after the Middle East, and with Angola, Congo, South Sudan and Nigeria as the top African suppliers.[207] While the Middle East supplied China with 3.2 million barrel per day corresponding to 52 per cent of China's oil imports, Africa's accounted for 22 per cent, followed by Russia and the former Soviet Union countries (13 per cent), the Americas (11 per cent) and the Asia-Pacific area (2 per cent).[208]

African continent has perfectly fitted into China's energy supply security policy, i.e., the diversification of supply sources of crude oil in several regions through overseas investments in upstream projects linked to long-term contracts. In this way, Africa have represented a valid alternative to imports from the Middle East, which is an extremely unstable region, even though Saudi Arabia remains the main oil exporters to China, and from the neighbouring Russia, which had problems with inadequate infrastructures and pipelines in the past.

China has also had a huge demand and consumption of iron and steel to maintain its massive construction of infrastructures, its manufacturing of sophisticated equipment and its production of automobiles. China imported 6.5 per cent of its iron ores and concentrates from Africa in 2011, in particular

[207] SUN, Y. 2014, *supra* note 205.

[208] ENERGY INFORMATION ADMINISTRATION. 2015. *China. International Energy Data and Analysis*. May 14, 2015. Retrieved from <https://www.eia.gov/beta/international/analysis_includes/countries_long/China/china.pdf>.

from South Africa, which represented nearly nine tenths of Chinese iron ore and concentrate imports from the African continent.

Furthermore, China's building construction, development of infrastructures and manufacturing of electronic products have required an enormous quantity of copper, being this commodity one of the major inputs for generation and transmission of power, telecommunication wiring, etc. In 2011, Africa provided China with 4.6 per cent of copper ores and concentrates and with 8.3 per cent of copper articles. Zambia and the Democratic Republic of Congo were the main suppliers, representing 56 per cent and 34 per cent of China's imports of iron ores and concentrate respectively.[209]

Besides importing crude oil from Angola, Nigeria, Sudan, Chad, Niger, Mauritania and Equatorial Guinea, copper from Zambia and the Democratic Republic of Congo, iron ores from South Africa and other countries, China has also imported cotton from Benin, Burkina Faso, Cameron, Mali and Togo, timber from Gabon and Equatorial Guinea, cobalt from the Democratic Republic of Congo, platinum, gold and diamonds from Zimbabwe and South Africa and other raw materials from the whole African continent.

For these reasons, there have been countless articles and reports spreading the narrative of a Chinese engagement in Africa which has been nothing but the attempt to establish a firm control over African oil, minerals and natural resources with the ultimate aim of securing a sustainable flow of resources from SSA to be exported to China. Media, journalists, researchers, policymakers and politicians have labelled this phenomenon as a new form of unscrupulous neo-colonialism. Such concern can be easily grasped in a 2007 report drafted by the Committee of Development of the European Parliament: *"Chinese interest seems confined to resource-rich (or "resource-cursed") countries, bypassing a large number of other African nations".* [210]

Although the fact that China has been particularly interested and active in areas rich in resources in order to expand its domestic industrial base is

[209] GAMACHE, L., HAMMER, A. and JONES, L. 2013. *China's Trade and Investment Relationship with Africa.* USITC (United States International Trade Commission) Executive Briefings on Trade. Retrieved from <https://www.usitc.gov/publications/332/2013-04_China-Africa%28GamacheHammerJones%29.pdf>.

[210] GOMES, A. M. *Report on China's Policy and its Effects on Africa.* Report of the European Parliament, A6-0080/2008 (2007/2255(INI)), Brussels, April 2008, at p. 11. Retrieved from <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-396.570+02+DOC+PDF+V0//EN&language=EN>.

undeniable, it has been already said that China is not investing in resource – rich countries only. China is present in the whole African continent with about 2,000 Chinese firms registered with MOFCOM and involved in 49 African countries between 1998 and 2012, in particular in service and retail sectors.[211]

One example which stands out is Rwanda, a small country in Central-Eastern Africa, landlocked with few natural resources. Here China not only erected one of its typical symbolic building, the Kigali City Tower as the tallest building in the whole country, but it also built schools, hotels, hospitals, the four-fifths of the country's roads and the free-trade area Kigali Special Economic Zone. Along with this government-led investments, which contrary to the common narrative are not justified with contracts for oil or mining rights, private Chinese companies and entrepreneurs have invested in manufacturing, telecommunications and small-scale businesses in hospitality and tourist industry. For its part, Rwandan government committed to guarantee transparency and a business-friendly environment along with providing tax incentives in order to attract FDI, for example, corporate income tax exemption for foreign companies located in Rwanda and investing at least US$ 10 million. Governmental efforts and Chinese willingness to invest is making Rwanda a logistics and service hub for China-Africa business.[212]

In addition, the increasingly diversifying nature of Chinese investments away from the extractive sector proves that the focus of interest is changing, or, at least, that China is not exclusively focused on resources.

In addition, Chinese astonishing speed and level of growth has been based on an investment-heavy growth model which has needed to be fed by huge imports of energy and other natural resources, as it was explained in Chapter 4.1.2. However, China is now moving toward a growth model more reliant on innovation and productivity growth and progressively less dependent on investments. This new pattern of growth entailing a reduction of raw material

[211] CHEN, W., DOLLAR, D. and TANG, H. 2015, *supra* note 133, at p. 3.

[212] KUO, L. *Rwanda is a landlocked country with few natural resources. So why is China investing so heavily in it?* Quartz Africa, November 22, 2016. Retrieved from <https://qz.com/827935/rwanda-is-a-landlocked-country-with-few-natural-resources-so-why-is-china-investing-so-heavily-in-it/> [last accessed 05/04/2017].

and commodity imports has already had some consequences in the decrease of commodity trade volumes and of commodity prices, with impacts on SSA, which is one of the biggest exporters of commodities. In the light of this downshift in investments, future prospects for SSA countries' economies would not appear so positively, giving reason to those who have talked about a resource-cursed Africa. As things stand, China's more recent interest in investing across the whole African continent and across a wider array of sectors in SSA countries' economies thanks to the greater engagement of the Chinese private sector can provide Africa with the revenue diversification it needs for.

After acknowledging the fact that Chinese FDI has been tilted towards countries well-endowed with raw materials, the economist Dambisa Moyo underlines that it has experienced a progressive diversification over time. In particular, China's FDI has been addressed to textile industry, agro-food industry, infrastructural construction, energy production, tourist industry, telecommunications, financial services and banking sector, testifying a bigger, more advanced and more efficient role in comparison with any other country investing in SSA in any given historical time. China has expanded its horizons which were once limited to resource sector, which has brought revenues and benefits to a narrow part of African population. Nevertheless, some positive spillovers from these investments can be seen now, such as employment opportunities, housing and better living conditions. According to Moyo, saying that the average African cannot benefit from investment linked to the extractive industry has no rational basis.[213]

Dr. Brautigam arrived to the conclusion that undoubtedly resources matter for China, but acquiring them is just a part of China's repeatedly stated "mutual benefit" approach and "win-win cooperation" in activities involving African countries in order to create mutual business opportunities. Actually, there is much more at stake in the China-SSA relations. For example, in 2008 China exported equipment, machinery and consumer goods to Africa for a total value of more than US$ 50 billion. In the same year, China's Industrial and Commercial Bank (ICBC) purchased 20 per cent of South Africa Standard

[213] MOYO, D. 2010, *supra* note 3, at pp. 164 – 172.

Bank paying US$ 5.6 billion, not to mention the huge contracts for infrastructure construction China signed in Africa. [214]

Another driver of China's engagement in SSA has been the perception of Africa's population and, in particular of Africa's expanding middle class, as a huge potential market for China's products and for the Chinese availability to massively invest in different sectors in order to meet the needs of domestic consumers in local markets. This kind of incentive is linked to the *location*-specific sector of the Dunning framework illustrated in Chapter 3.
This awareness about the opportunities represented by African population and market was coupled with the great importance of the manufacturing sector which has been the foundation of China's amazing growth, which needed a new reliable consumer market full of opportunities in order to shore up China's steep trajectory of development.[215] As a matter of fact, China's began to restructure its economy at the end of the 1990s considering its necessity to upgrade its manufacturing capacity and increasing its competitiveness on the international stage. However, a lot of new entrants in the Chinese markets and the insufficient domestic consumption led to an excess of production capacity which was difficult to be disposed of. Thus, in a situation of industrial overproduction and market saturation regarding various sectors such as textiles, footwear and electronics, a lot of Chinese firms decided to establish their operations abroad in markets which had not been saturated yet, but, on the contrary, which are offering opportunities still nowadays. [216]

To all these conditions, the privatization of some Chinese publicly owned enterprises should be added. In order to realize a full transition from state-owned enterprises to private ones, these enterprises needed to look for opportunities of investment outside China stepping into new markets.[217]
For their part, several SSA countries have introduced business facilitating measures and have revised or reformed legal frameworks related to FDI

[214] BRAUTIGAM, D. 2009, *supra* note 141, at pp. 277 – 279.
[215] MLACHILA, M. and TAKEBE, M. 2011, *supra* note 200, at pp. 21 – 22.
[216] GU, J. 2009, *supra* note 161, at p. 577.
[217] AYODELE, T. and SOTOLA, O. 2014, *supra* note 171, at p. 7.

inflows. Two examples are Zambia and Ghana, where the introduction of these new measures created an improved and more favourable business climate and environment attracting more investments, not necessarily in sectors linked to natural resources. Other countries, such as Ethiopia, have implemented measures of economic liberalization and deregulation, providing foreign firms with easy and better access to their markets.[218] The OECD lists the main kinds on policies and measures adopted, which ranged from government-led trade liberalization, privatization programmes and modernization of investment codes to stipulation of international FDI agreements and engagement in high-profile, and therefore, high visible projects with a broader impact with the aim of attracting investors' attention to the country's improvements.[219]

Therefore, the array of factors which spurred Chinese FDI to SSA was a mixture of "push" factors, i.e., conditions encouraging Chinese outward FDI and "pull" factors, i.e., aspects and conditions present in SSA countries attracting inward FDI. To sum up, push factors can be identified in China's national strategy of "Going out" backed by government incentives, in the need to look for new natural resources supplies to support an unparalleled economic growth and in the need to scout for new markets as a solution for domestic market saturation. Whereas, pull factors can be traced down into Africa's abundance in natural resources, in its possibility to offer unsaturated markets as well as a rapid expanding middle class, and in some countries' improvement of their investment and business climate coupled with other countries' greater economic liberalization and deregulation.

The next chapter will be devoted to analyse actual impacts of Chinese FDI in SSA in the attempt to identify the reasons why China can represent a valid opportunity for SSA.

[218] MLACHILA, M. and TAKEBE, M. 2011, *supra* note 200, at pp. 21 – 22.
[219] OECD. 2002, *supra* note 63, at p. 8.

Chapter Five

EVALUATING IMPACTS: ADVANTAGES AND CHALLENGES ORIGINATED BY CHINESE FDI IN SSA

There is a widespread acknowledgement that China has been the foreign investor that has created the largest and most sizeable impacts on African political, economic and social patterns since the beginning of the millennium. Certainly, China's engagement with Africa has not passed unnoticed, and it has drawn lot of attention, which often turned into real concerns, in particular in the West, where China has been seen as a great strategist in using Africa for its own gains.

In more recent times more and more scholars have devoted themselves and their researches to analyse the question in depth and to clarify it in order to put it into the right perspective. From these attempts, a large number of works has emerged looking at the particular patterns of Chinese presence in Africa, not only with reference to FDI, as it was underlined in previous chapters, but also concerning other ways of interacting.

From the analysis presented in Chapter 3 and Chapter 4, three major trends have emerged as specifically characterizing Chinese engagement with SSA based on FDI flows.

Firstly, heavy investment in energy, resource and mining sectors, in particular by state-owned enterprises, cannot be overlooked, which is taken as pretext for strong criticism against a supposed neo-colonialist yoke of China's investment interests.

Secondly, another sector which has been registering a massive participation of Chinese firms is the infrastructural construction sector. China has always been active in infrastructural projects since the beginning of its presence in SSA as an endeavour to express long-lasting friendship and long-term engagement with different African governments. Its commitment towards the construction of roads, railways, harbours, dams, bridges, airports, power

plants, pipelines, telecom networks and hubs and industrial parks is nowadays more vigorous than ever, boosted and incentivized by the new "One Belt, One Road" (OBOR) initiative, as we will see further.

Thirdly, evidences of a progressive diversification of investors' spectrum as well as of the investments' focus are Chinese private investment spreading across different kinds of industries other than oil and extracting ones – food processing, agriculture, fishing, furniture manufacturing, footwear and apparel, textiles in general, pharmaceutical products and services – and the proliferation of small-scale entrepreneurial activities. The latter are scattered over the whole African continent, outside the official government-sponsored Special Economic Zones and integrated into the local realities. They have been mostly set up as small business activities such as restaurants and hotels or in sectors such as petty manufacturing and small-scale retail commerce.

Nevertheless, the quantitative and qualitative analysis of Chinese FDI flows in SSA cannot disregard considerations on their actual impacts on SSA's host economies. For this reason, in the light of the challenges SSA is going to face in the next future, which were identified, contextualized and described in Chapter 1.4, possible advantages as well as difficulties for SSA coming from Chinese FDI flows will be illustrated.

5.1 The importance of FDI inflows for host countries' economies

Many researchers have underlined the noteworthy positive effects exerted by FDI on host countries' economies, portraying FDI as a driving force for economic growth.

As a matter of fact, host countries can find in FDI inflows a critical additional source of finance, which is usually perceived as quite stable and not volatile, given the fact that it should imply a long-term commitment in relation to the chosen host economies.

The Organization for Economic Cooperation and Development (OECD) stated that:

> "The overall benefits of FDI for developing country economies are well documented. […] FDI triggers technology spillovers, assist human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprises development. All of these contribute to higher economic growth, which is the most potent tool for alleviating poverty growth". [220]

Not only are FDI positively perceived due to the direct capital financing it, but it is also seen as a channel to transfer more advanced technologies to countries at a lower stage of development and thanks to technology spillovers to enable a quantity and quality improvement of production and a consequent enhancement of export capabilities. [221]

The possibility of technology diffusion is greater in presence of vertical linkages, and in particular of backward ones, i.e., the extent to which developing countries' domestic suppliers are involved into global production networks. Indeed, in these cases foreign investors tend to be more prone to provide training and technical assistance to improve qualitatively the products of the suppliers. [222]

It follows that along with technological transfer and upgrading, FDI can also bring knowledge and new know-how in the form of trainings and on-the-job learning possibilities for the host countries' workers. In this way, FDI inflows can directly contribute to human capital enhancement, while the latter can be also improved indirectly thanks to governments' efforts to guarantee a more attractive environment for FDI through policies and programmes enhancing human capital in their countries.

Another aspect to point out is that workers' education can have benefits on the economy of the host country in general. If it must underline that FDI benefits can only serve as a supplement for, and not as a replacement for,

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[220] OECD. 2002, *supra* note 63, at p. 5.
[221] UNCTAD. 2015a. *Financing for Development.* Global Investment Trend Monitor, No. 20, 5 June 2015. Retrieved from < http://unctad.org/en/PublicationsLibrary/webdiaeia2015d3_en.pdf>, at p. 3.
[222] OECD. 2002, *supra* note 63, at p. 13.

internal public educational efforts to increase workers' skill level. Human capital enhancement taking place at multinational enterprises' subsidiaries can also have positive effects on linked enterprises or on other firms where workers will be later employed, given the fact that labour is a moving factor. What should be not underestimated is that the more workers are trained the more they tend to identify possible needs and gaps in their own country business environment. This enhanced perception can boost entrepreneurial spirit with the consequent fostering of local business. [223]

In relation to the education and training dimension, elements of a certain business culture and practices can be introduced into host countries through FDI. These might consist of organizational or managerial practices or particular ways of doing business.

When FDI flows into countries, and in particular into sectors, where unemployment is an issue, it can bring new job opportunities as direct benefits. Moreover, indirect effects affecting employment positively can occur when local firms provide foreign multinational enterprises with intermediate products. Furthermore, foreign enterprises sometimes pay higher wages than those offered by domestic firms. [224]

Employment opportunities can also come from the mutually reinforcing relationship existing between FDI and trade. While the link FDI-trade cannot be seen as if investment has direct impacts on one country's pattern of imports and exports, FDI is considered as capable of contributing to a deeper integration of the host economy into the world economy, with a consequent increase in imports and exports. In other words, FDI is linked to a larger international trade integration.[225] In this context, new jobs related to trade activities can arise. In addition, OECD highlights that a great number of empirical studies demonstrate that FDI has an additional impact triggering factor productivity and income growth, exceeding the effect that domestic investment usually has.[226]

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[223] OECD. 2002, *supra* note 63, at pp. 14–15.
[224] REINERT, K.A. 2012, *supra* note 5, at p. 394.
[225] OECD. 2002, *supra* note 63, at pp. 10-11.
[226] *Ibidem.*

5.2 Job creation

As it was explained in Chapter 1.4, Sub-Saharan Africa finds itself into a delicate phase of demographic transition characterized by a high speed of population growth, which has moderately slowed down, and a greater possibility for children to survive after birth, with the consequent increase of young population who is going to enter the workforce in the next two decades. Therefore, conditions for an explosion in labour force are set in SSA.
In order to realize what is defined as "demographic dividend", i.e., the opportunity to take advantage of the increase in workforce to boost productivity and economic growth, the key issue is the creation of job opportunities to employ the large working-age population ready to contribute to their countries' economic growth without leaving them unoccupied. Facing problems such as rapid urbanization and working-age people's tendency to migrate abroad in search for better economic and working opportunities, SSA needs to create job positions which empower working-age people to make blossom out their productive potential to improve their countries' situation.

According to the Financial Times' *The African Investment Report 2016*, China has emerged as one of the most productive job creators in Africa in 2015.[227] China's contribution to job creation in SSA is confirmed by Ernest and Young in its *Attractiveness Program Africa*. It estimated that since 2005 China has decided to invest in nearly three hundred FDI projects, managing to generate 130,750 job positions. Moreover, in 2016 not only did the US, the second biggest investor in SSA, produce just one third of jobs created by China, but Chinese FDI project-created jobs also hit a record high, more than doubling the 2015 number of jobs. [228]

With reference to its capacity of creating working positions for African local people, there are a lot of critiques condemning China's practice of

[227] FDI INTELLIGENCE. 2016. *The Africa Investment Report 2016. Foreign investment broadens its base.* This is Africa. A Global Perspective. London: The Financial Times Ltd, at p. 9. Retrieved from <https://www.camara.es/sites/default/files/publicaciones/the-africa-investment-report-2016.pdf> [last accessed 09/06/2017].
[228] EYGM. 2017, *supra* note 192, at pp. 4 and 18 – 19.

bringing in SSA its own labour, with the result of limiting the possible positive impacts that investments could bring into SSA countries' economies.

On this critique, a real myth has been developed, leading to talk about China's custom to send masses of workers to Africa. In reality, it cannot overlook the fact that China shaped specific policies to push Chinese labour to be exported abroad to gain foreign exchanges and that Chinese population in Africa is noteworthy – it can be considered that in 2007 there were about 114,000 Chinese workers in the whole Africa. Nevertheless, this mythology also originated due to the fact that there are many Asian people doing business in Africa (Japanese, Taiwanese, Koreans, Malaysians…), who turn out to be "Chinese" to the eye of the Africans, giving rise to equivocal perceptions. Going more in depth, it is possible to infer that the ratio of Chinese employees to local ones depends on a number of different factors, ranging from the level of integration of the Chinese companies in the foreign country, which depends in turn from the period of time they have been working there, to the level of facility in finding skilled local workers and in obtaining work permits from local governments.

There are a lot of positive examples which show a high percentage of employment of local workers. In countries and sectors where Chinese companies have been active for a long period of time, local workers are the vast majority, such as in oil industry sector in Sudan, where Sudanese workers employed in Chinese oil ventures cover 93 percent of the whole workforce. In Tanzania, Tanzanians working for Chinese companies are eight or nine per each Chinese worker. [229]

However, there are also cases which go to the opposite direction. As a matter of fact, Chinese workers become the first choice when there is the need for fast realization of reconstruction projects useful for local populations' daily life in particular in contexts just come out from civil conflicts – projects related to road building or water supply – or when a large amount of skilled technicians, engineers, managers and experts is needed, in particular for projects dealing with the installation of power plants or telecommunication networks. Therefore, the main reasons behind the preference of Chinese

[229] BRAUTIGAM, D. 2009, *supra* note 141, at pp. 154 – 156.

workers instead of African ones is a basic shortage of skills in local workforce and its consequent inability to complete a job in a short period of time. This is also due to the clean sweep in educational and industrial systems made by civil wars in some countries such as Angola. In the face of these issues, trainings of local employees focused on improving their skills and greater education and engagement of local managers have been two identified solutions to go towards a progressive replacement of Chinese workers with African ones in Angola.

Despite African governments' unwillingness to allow Chinese workers to enter low-technology sectors, such as agriculture, trading, catering services and so on – sectors which attend to a 70 or 80 per cent of local labour's participation – and the high costs of Chinese workers vis-à-vis local workers, the Chinese are sometimes preferred in terms of efficiency. Even though both their salary and their costs are higher, due to travel, accommodation, insurance and other costs, they in turn usually prove to be more productive, efficient and hard-working than their African counterpart. [230]

Thanks to his field-researches including surveys of more than one hundreds of Chinese and African companies, Professor Tang Xiaoyang underlined the two sides of Chinese companies' entrance in Africa. If on the one hand a huge inflow of Chinese investments has been able to create tens of thousands of new working opportunities for African people, on the other hand many Chinese workers came to the continent with low salaries competing with local labour and displacing a part of it. Their arrival is seen as the reason for many local businesses' closing down and for the increase of unemployment.[231]

What needs to be highlighted is that, as it will be underlined in an example illustrated further below, sometimes FDI deals have been accompanied by agreements on the minimum local content in order to ensure the employment of African workforce. In fact, African governments have in their own hands the ultimate decision about labour issues and employment conditions in their own countries, and they should ensure that FDI spillovers pour out on their

[230] XIAOYANG, T. 2010. *Bulldozer or Locomotive? The Impact of Chinese Enterprises on the Local Employment in Angola and the DRC.* Journal of Asian and African Studies, 45(3), pp. 350 – 368. DOI: 10.1177/0021909610364777.

[231] *Ibidem*, at p.351.

citizens. For instance, Dr. Brautigam reports that in Angola at least 70 percent of the employees in a firm must be Angolan people, while in the Democratic Republic of Congo, Congolese workers must represent at least 80 percent of the total workers employed in Chinese infrastructural projects and mining ventures.[232] These data are confirmed by Tang Xiaoyang researches, which add a new element, i.e., the private sector is usually much more attentive to employ locally, because private businesses are generally supervised by national agencies for private investments which establish strict threshold on local employment.[233]

According to Pigato and Tang, looking at a sample of Chinese greenfield investments in SSA, it is possible to observe a progressively growing job-creating impact of Chinese FDI across the African continent. But, if in many countries Chinese small private firms proved to be able to create new jobs as well as to enhance productivity as a spillover, they also entered in competition with local firms.[234]

China's and SSA's demographic situations are moving in opposite directions. Africa is going to live the same conditions China experienced after 1980, that is to say, the availability of what seemed to be an inexhaustible pool of labour supply ready to enter the market at very low wages, becoming one of the main contributor to world's labour force. This will represent both an opportunity and a challenge for SSA.

As far as China is concerned, it is approaching a period in which its population is aging and will look for profitable sites where to invest its savings to have future gains in old age. In the face of the aging of its population and the rising costs of its labour, which had remained low for a very long time, China will not need to create a large amount of new job opportunities at home and will export its excess of manufacturing capacity abroad.[235]

Dr. Dollar underlines that even though it seems quite improbable that manufacturing migrates from China to SSA, this phenomenon has already begun to take place. Moreover, given the fact that manufacturing activities

[232] BRAUTIGAM, D. 2009, *supra* note 141, at p. 157.
[233] XIAOYANG, T. 2010, *supra* note 230, at p. 353.
[234] PIGATO, M. and TANG, W. 2015, *supra* note 180, at pp. 3 – 4.
[235] DOLLAR, D. 2016, *supra* note 53, at pp. 72 – 74.

are labour-intensive and that Africa finds itself at a stage of under-industrialization – due to past unattractive investment climate, poor infrastructures and bad institutional situation, even a small portion of manufacturing capability transferred from China to SSA can produce substantial impacts on Africa's prospects of economic growth in terms of job creation. [236] The substantial importance of the relocation of Chinese manufacturing firms to SSA countries is also underlined in Pigato and Tang, looking at the database on Chinese greenfield projects in SSA elaborated by a division of *The Financial Times*. Manufacturing projects, which invested a smaller amount of capital in relation to other projects in other sectors, revealed to be those which created the highest numbers of jobs, more than half of the total number of created working positions and more than double the amount of jobs generated by the extractive industries.[237]

Therefore, the diversification of FDI which China is implementing as a result of the change in its growth trajectory as it was previously explained, will not only befit SSA countries' need to diversify their sources of revenues away from a total and dangerous dependency on commodities, but it will also comply with African countries' need to create a huge number of job positions and working opportunities. As a matter of fact, manufacturing industries are considered labour-intensive, thus able to employ much more people than the extractive sector – which is understood as capital-intensive – beyond its capacity to produce larger spillover effects on the whole economy.
Looking at the phenomenon of rising labour costs which has been occurring in China since 2012 with the consequent loss of comparative advantages by Chinese labour-intensive industries, SSA countries has the large pool of labour which China needs, setting itself as the ideal host for Chinese labour-intensive activities.

It has already been underlined the fact that ensuring local content in order to guarantee employment opportunities for their own nations should be governments' ultimate concern. Moreover, given the fact that the transfer of manufacturing activities from China to SSA represents a big opportunity for SSA countries, governments should be aware of this chance and establish

[236] *Ibidem*, at pp. 80 – 83.
[237] PIGATO, M. and TANG, W. 2015, *supra* note 180, at pp. 11-12.

an attractive as well as supportive investment climate. As a matter of fact, China will also look at nearer relocation spots to export its manufacturing capacities – Vietnam and Bangladesh just to cite the most probable ones. Therefore, SSA countries' governments should be ready to rout other possible competitors by leveraging the historically long, friendly and symbiotic relations with China, the proximity to the European market and the possibility to make use of AGOA agreements as well as attractive conditions for investors, ranging from a restored infrastructural network to an improved and more flexible regulatory environment for foreign businesses and passing through the commitment to invest in educational and vocational programmes to enhance workers' skills.

In this context, Ethiopia should not remain unmentioned as the best example in the whole African continent. Some African governments have already started to focus on improving their investment environment in order to attract labour-intensive manufacturing activities, and Ethiopia is the "straight-A student" in this concerted effort, becoming instructive for other SSA countries. As Dollar underlines, low wages will be not enough to attract labour-intensive activities if investors cannot count on reliable transportation routes and steady power and water supplies as well as streamline bureaucracy. [238]
Ethiopia is on the front line with the implementation of a five-year programme to support a prosperous manufacturing sector and it is going to achieve its objective by setting the expansion of its infrastructural system to reduce the cost of doing business and of its energy sources as priorities in Ethiopia's national budget. Implemented measures have included the construction of a railroad reaching both the port of Mombasa and the port of Djibouti and the building of Africa's largest hydroelectric dam. [239] Ethiopia also built and developed an extensive number of industrial zones located in strategic positions along key transport routes and well-connected to the ports. Moreover, these industrial zones provide exemption from income taxes and from taxes applied to imports of capital goods, of materials for construction or production of commodities to be exported and of spare parts for a value

[238] DOLLAR, D. 2016, *supra* note 53, at pp. 87 – 88.
[239] MORANGI, L. *Not Business as Usual.* China Daily Europe, September 16, 2016. Retrieved from <http://europe.chinadaily.com.cn/epaper/2016-09/16/content_26805434.htm>.

corresponding to the 15 percent of the imported capital goods. What should be underlined is that most of the industrial zones are operative in and concentrated on textile and apparel sector, in production of leather goods or in agro-processing.

China's most astonishing and successful venture in Ethiopia as well as in the whole African continent has been led by the Huajian Group, one of the major shoe manufacturers and exporters in China, which in 2011 invested in a factory in Ethiopia for a value of about US$ 10 million in order to produce shoes to be exported to North America under the AGOA agreements and to Europe. The final aim was the development of a manufacturing cluster dedicated to shoes manufacturing for export. Not only did this venture find Ethiopian government's approval, but it also encounters a collaborative governmental environment offering supportive investment policies. The first Huajian factory opened at the beginning of 2012 and in just one year of time it managed to turn profits. The success was also due to the extensive trainings offered to almost one hundred Ethiopian workers in Huajian's headquarters in Dongguan before the starting of all the operations in order to develop their turnkey technical skills.

Given the great achievement of the venture, the Huajian Group projected to set up an industrial city, the "Ethiopia-China Huajian International Light Industrial City" which will host a productive area, residential zones for workers and for skilled technicians, a wide commercial area, administrative offices, a training school for qualified workers, one hospital and one hotel along with a copy of the Great Wall as the icing of the cake and the signature of the Chinese presence. Zhuang Huarong, the President of the Huajian Group, estimated an investment which will cost up to about US$ 560 million and will directly create from 30 to 50 million of new job positions with the objective to export US$ 2 billion a year. Moreover, the Industrial City is also going to include other factories beyond Huajian's ones, namely, factories for the leather or textile manufacturing. The Huajian Group is also trying to attract other foreign firms to invest in the zone. [240]

[240] MARUCCI, G. 2016, *supra* note 59.

The above illustrated example of Ethiopian effort to provide foreign investors with a favourable investment climate and of the Huajian Group's commitment in the country should be understood as a replicable pattern of win-win cooperation, which can have beneficial effects on African economy.

5.3 Infrastructural development for connectivity

It was largely underlined the fact that China has heavily and incomparably invested in infrastructural development in Sub-Saharan Africa since the Tan-Zam Railway project soaked with Maoist ideology. Although China's current commitment in SSA's infrastructural building is less ideological and more commercial in nature, it has remained strong and evident.

Just to mention some large projects, the Merowe Dam in Northern Sudan is the biggest hydropower project in Africa for electricity generation and the major investment commitment China has ever embarked on internationally. There is the Mtwara – Dar es Salaam Natural Gas Pipeline driving natural gas from the Tanzanian natural gas fields in the south-east to the port of Dar es Salaam on the Indian Ocean.

The 130 kilometers of the Turbi-Moyale road built by the Chinese firm Wuyi connects the Kenyan northern county of Marsabit to Ethiopia, releasing economic opportunities in the region through trade facilitation among locals and stakeholders of other parts of the country, thus benefitting the whole Kenya's economy.

The visible presence of China's hand on the construction sector in SSA has brought to the not sporadic assumption that China is following a "grand strategy" in shaping SSA's network of infrastructures, i.e., roads, highways and railways which directly connect oilfields and mines to harbours in order to export natural resources to China. In other words, China is designing and materially setting up an infrastructural network linking SSA's extractive sector and points of sea access, thus serving its own needs. This assumption also reflects the widespread belief that Chinese companies' investments in Africa

are conceived by the Chinese government only aiming at the natural resources' supply for its own country's economy.

If this belief can be quite immediate, given the historical involvement of China in areas well-endowed with raw materials, it can be further corroborated by the so-called "Angola mode" or "resources-for-infrastructures" practice, which is substantially a financing package consisting in a mixture of FDI, bilateral aid, supply contracts and construction contracts. According to this practice, Beijing government agrees with a SSA country upon a development project to realize in exchange for the right to access to natural resources. In practice, there is no transfer of money from government to government. A Chinese construction company is awarded the construction contract by the Chinese government and is financed through loans by the China Eximbank, while another Chinese company is given the green light to explore and extract resources in the beneficiary country. It also happens that the Chinese company entrusted with exploration and extraction activities can enter a joint venture with a local firm. [241]

China inherited this *modus operandi* from Japan. Indeed, if nowadays China is known as the world's industrial factory floor, in the 1970s it was mainly an agrarian economy rich in natural resources like oil, coal and others raw materials such as copper and gold, resembling some SSA countries. For this reason, when China began to stand up again after the dark decade of the Cultural Revolution, foreign oil companies and mining firms showed great attention to its natural resources, with Japan sitting on the front-row seat. In 1973, it began its imports of Chinese crude oil and seven years later, China and Japan came to a long-term agreement establishing that Japan committed to export to China its modern plants, its advanced industrial technology and materials as well as trainings for a total value of US$10 billion in exchange for China's repayment in export of oil and coal. The seventy-four contracts signed by China and Japan under this framework agreement established strategic projects which turned to be the pillars of the modernization path China embarked on with Deng Xiaoping.

[241] MLACHILA, M. and TAKEBE, M. 2011, *supra* note 200, at p. 11.

More than twenty years later, China found itself into the need of securing its access rights to natural resources for the support of its stunning economic growth and of exporting its equipment abroad and it decided to resort to the lesson taught by Japan on the feasibility to promote a model of "win-win" cooperation between two countries at different stages of development. Similarities are clear in what has happened: SSA countries took advantages of China's interest in their natural resources in order to build or revitalize their infrastructural network useful for transport as well as for energy and to boost their export capacity, just as China did times ago with Japan's hunger for its resources. If the first Japanese investments were mainly focused on the construction of ports and railroads in order to enable easier, faster and smoother exports from China to Japan, further ones targeted the development of plants (hydroelectric, thermal, …), telecommunications, urban water supply and so on. A mutually beneficial cooperation was built out of the interests of both countries: while Japanese firms thrived, China's infrastructural network was broadened serving the needs of its economic expansion and making China more attractive also for the investments of other countries' enterprises from the "West" – from the United States, Germany, Italy, and later also from Australia, Brazil, Britain and Canada. The pattern can be easily explained saying that Japan helped China to unlock the potentiality of its natural resources using its modern technologies and that China repaid the investment through its endowment in resources. [242]

The same pattern can be observed in the case of China-SSA interaction and it is undeniable that resources do matter also in the relations between SSA countries and China and in China's projects of infrastructural development on the African continent. Nevertheless the discussion on Chinese economic approach to Africa requires a broader reflection, in particular looking at what can be beneficial to SSA states.

Even though Chinese resource-backed investments have been widely criticized in the West, in reality, they have been usually accompanied by

[242] BRAUTIGAM, D. 2009, *supra* note 141, at pp. 46 – 51.

agreements on the minimum local content in relation to the local workforce, on the percentage of investment to be allocated to trainings and on other measures linked to social aspects, with the result of having larger impacts on employment, education of workers and on social issues.

One example is the "Angola mode" initiative dated back to 2007 in the Democratic Republic of Congo, which included a Chinese Eximbank's loan of US$ 8.5 billion increased to US$ 13.5 billion thanks to a further loan in the following year with the aim of encouraging the exploitation of the country's mining sector. In return, China obtained access to Congolese cobalt and copper reserves. The aid package was linked to an investment package which envisaged taking advantages of mineral resources through a company jointly owned by a Chinese one (Sicomin) and a Congolese state-owned company. Future profits fully repaid the investment in the mines and, what is more, it was agreed upon the fact that Chinese workforce had not to exceed 20 per cent of the total workforce, that fifty per cent of the whole investment had to be designated to training, one per cent to projects of social scope and three per cent to environmental projects in the adjacent areas. Moreover, local firms had to be involved for at least twelve per cent of the total work, without forgetting that Beijing took the commitment to support investments in five fields recognized by the Congolese state as strategic for the country – education, health, electricity generation, water provision and transport facilitation. Many projects were designed and financed with the result that the DRC was provided with an extended network of roads and railroads, a network of high-voltage power distribution and water supply along with about thirty hospitals, more than one hundred clinics, two universities and thousands of dwellings. Beijing also committed to carry on training programmes on poverty reduction for African strategic stakeholders. Thus, China's trade needs and SSA's infrastructural and developmental needs turned out to be complementary, as if the first has a solution for the latter and vice versa in today's world based on the logic of demand and supply. [243]

[243] KAPLINSKY, R. and MORRIS, M. 2009, *supra* note 99, at pp. 564 – 566.

One of the staunchest supporters of China's involvement in SSA's infrastructural development is the Indian expert of international relations and geopolitical researcher Parag Khanna, who strenuously carries on the idea that African countries would have no future without the development of basic physical infrastructures. Those countries that are not linked to the network or those ones that will not be able to grasp the benefits of a globalized and interconnected economy will be easily cut out of the way.

Africa's political map – with countries' borders which seem to have been drawn arbitrarily with the use of a ruler – still recalls in memory the image of a continent crippled by the European *divide et impera* colonialism. If the poor demarcation of African countries' borders has further sharpened the already conflictual situation of the continent creating deeper ethic and territorial rifts, another aspect to consider is that Africa is the continent with the largest number of landlocked states with difficulties to have access to the sea.

Moreover, the infrastructural network has entered a process of decay due to the bad maintenance and the pressure of the high population. According to Dr. Khanna, foreign investment with infrastructure development as the main focus can improve productivity and efficiency in exports helping to prevail on historical circumstances.

China is enabling SSA's countries to go beyond colonial borders resulted off the drawing board thanks to the establishment of a network of cross-border infrastructures, which is capable of penetrating even into the hinterland of landlocked countries giving them the opportunities to be reached by trade flows and to have themselves access to these import and export routes. [244]

According to Khanna, China is shaping a supply chain world which does not leave SSA states aside. As a matter of fact, despite its recent slowdown in import and consumption of resources, China still needs to secure supply chains for its trade relations to all the world's areas and it will need to do it also in the future. [245]

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[244] KHANNA, P. 2016. *Connectography: Mapping the Future of Global Civilization.* New York, Random House, at pp. 74 – 78.

[245] KHANNA, P. *Use it or Lose it: China's Grand Strategy.* Stratfor, April 9, 2016. Retrieved from <https://www.stratfor.com/article/use-it-or-lose-it-chinas-grand-strategy> [last accessed 20/05/2017].

The intention not to disregard the African continent in its overseas investments can also be grasped by looking at the important role given to Africa within the China's ambitious project to restore the Ancient Silk Road, a project which is known as the "One Belt One Road" (OBOR) initiative launched by Xi Jinping in 2013.

The Ancient Silk Road permeated with its spirit of openness, peace, cooperation, mutual learning, inclusiveness and mutual benefits contributed to boost communication and cooperation between the East and the West bringing about prosperity and development to many countries located along the Road.

Given the fact that in the 21st century these values have been crippled by the complexity of international circumstances as well as by the global economic crisis, China promoted the far-reaching project of reviving the Ancient Silk Road spirit with the scope of promoting the connectivity among Asia, Europe and Africa and their seas. This hard attempt sets out to harmonize developmental strategies of the countries located along the Belt and Road, to identify and unlock untapped market potentialities, to stimulate investment and consumption in the region, to create new job opportunities as well as to increase cultural exchanges in order to enhance mutual learning and understanding from which should arise an inclination to trust and respect the others shaping a successful example of harmonious and peaceful living together.[246]

Therefore, while the Ancient Silk Road represented the main path for trade in goods and exchange of cultural elements and of technologies, the New Silk Road will be revived in the attempt to shape five kinds of linkages of coordination and cooperation in five different areas, namely, policies, infrastructures, trade, mobility of people and finance.[247]

For its part, China sees this project as an opportunity to enlarge and deepen its opening-up and its cooperation with countries of the Asian, European and African continents, while shouldering a greater responsibility at regional and

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[246] From MOFCOM website. 2015. *Belt and Road.* Retrieved from <http://english.mofcom.gov.cn/article/zt_ beltandroad/>.

[247] FBIC. 2015. *The Silk Road Economic Belt and the 21st Century Maritime Silk Road.* Retrieved from *<https://www.fbicgroup.com/sites/default/files/The%20Silk%20Road%20Economic%20Belt%20and%2021st%20Century%20Maritime%20Silk%20Road%20MAY%2015.pdf>.*

global level in a moment in which it is the second largest economy in the world and it is an expanding military power .[248]

The revival envisages two routes, namely, the “Silk Road Economic Belt” – with its focus on connecting China to Europe through Central Asia and Russia, to the Persian Gulf and the Mediterranean Sea, and to the areas of South and Southeast Asia and the Indian Ocean overland – and the “21st - Century Maritime Silk Road”, which aims at linking Chinese ports to Europe through Southeast Asia, India and Africa by a sea trading route.

Some concern arose when the roadmap of the OBOR initiative issued by China in March 2015 did not even hint at Africa. Some hypothetical explanations were advanced to interpret the lack of consideration towards the African continent, ranging from the fact that Africa had not been a major point of destination of the Old Silk Road historically speaking to the fact that the development of African infrastructural network and of its socio-economic conditions are not at an appropriate level to be included into such an ambitious project.[249]

On the contrary of what many believed when this China’s venture was presented, the OBOR initiative should be understood as a large-scale flexible plan in continuous progress and open to inclusion and participation of all countries as well as international and regional organizations in order to boost cooperation also among areas that were not touched by the Old Silk Road. Therefore, while at a preliminary stage Africa seemed to be cut out from the sixty-five countries identified as significant for the OBOR initiative according to the 2015 “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road”, it was included in a second moment, in particular with an evident focus on the importance of its Eastern part. As a matter of fact, Sub-Saharan Africa is inserted into the New Maritime Silk Road of the OBOR initiative with projects to be realized in Tanzania, Djibouti, Kenya and Mozambique, along with other projects in countries located on the Western coast of Africa, such as Senegal and Ghana.

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[248] From MOFCOM website. 2015, *supra* note 246.

[249] CUI, X. *China’s Belt and Road: Where is Africa?* The Diplomat, June 14, 2016. Retrieved from <http://thediplomat.com/2016/06/chinas-belt-and-road-where-is-africa/>.

In Tanzania, China is financing the construction of the Bagamoyo port, sixty kilometers north of Dar es Salaam and which is going to become the biggest and more receptive port in Africa, supplemented by a highway linking it to Zambia and by an adjacent Export Development Zone including an industrial city. As a focal point of the Maritime Silk Road, Bagamoyo will play the important role of connecting the Road with other countries of Eastern Africa, some with direct access to the sea – Mozambique, Kenya, South Sudan and the Democratic Republic of Congo – and landlocked ones – Uganda, Rwanda, Burundi, Zambia, and Malawi.[250]

Djibouti has been the target country of many Chinese-financed infrastructure projects since 2012-2013 attending to the construction of the recently delivered 753-kilometer long Addis Ababa-Djibouti railway – which offers an outlet to the sea to the landlocked Ethiopia, two airports, the Doraleh Multipurpose Port, a bulk terminal for great amounts of potash, a plant for salt extraction close to Lake Assal as well as pipelines for oil, water and gas transport. Along with these projects, China is also establishing its first overseas military naval base in Doraleh, adjacent to the newly built port terminal in order to secure its investments, its import-export routes and what is being shaped as a trade hub for the whole area, capable of opening new appendices to the New Silk Road creating links for African countries.[251]

Kenya set itself as one of the main supporter of the Chinese OBOR initiative with the President Uhuru Kenyatta trying to make the most from Chinese financing projects. In fact, Kenya saw the realization of the Mombasa-Nairobi Standard Gauge Railway linking the capital Nairobi to the Mombasa port with the future intention of connecting Kenya to Uganda, Rwanda and the DRC more closely. According to the Kenyan President, actively participating in the initiative would mean disclosing new opportunities for trade and investments together with an enhanced regional integration and continental connectivity of Africa signifying the possibility of reducing

[250] LÉAUTIES, F. A., SCHAEFER, M. AND SHEN, W. *The Port of Bagamoyo: A Test for China's New Maritime Silk Road in Africa.* The Diplomat, December 01, 2015. Retrieved from <http://thediplomat.com/2015/12/the-port-of-bagamoyo-a-test-for-chinas-new-maritime-silk-road-in-africa/>.

[251] DUBÉ, F. *China's Experiment in Djibouti*. The Diplomat, October 05, 2016. Retrieved from <http://thediplomat.com/2016/10/chinas-experiment-in-djibouti/>.

business costs and of acquiring technology useful for the processing of the main wealth of Africa, namely, resources.[252]

As regards Mozambique, China with its China Harbour Engineering Company Ltd. being part of a larger investing consortium targeted the Maputo province for the construction of the new deep water port, which will serve not only the country itself, but also other countries in the region, such as Botswana, Zimbabwe and Swaziland. Moreover, it will provide a shorter viable route to the sea for ores extracted in South Africa.

Projects in countries located in the Western coast of SSA include actions for the rehabilitation of the transport infrastructures in Togo as well as in Cameroon, which promotes itself as the access to Western and Central Africa and which saw its port of Kribi being built by China. Construction of deep water ports in Western Africa is also envisioned in Gabon, in Ghana and in Senegal.[253]

Based on five cooperation priorities, namely, policy coordination, facilities connectivity, trade facilitation, financial integration and connection of people,[254] the OBOR initiative fits well with SSA countries' needs. In particular with reference to China's scope of shaping an infrastructural network which connects all sub-regions in Asian, European and African continents in order to realize interconnectivity among countries and areas, SSA will greatly benefit from the fact that interconnectivity based on infrastructures is the precondition for greater flows of people and goods. This element is not to be underestimated in a region such as SSA, where infrastructural networks have always been chronically lacking or decaying, with the result of preventing large FDI inflows in the region, as it was explained in Chapter 3.

In addition, the Chinese project could be an opportunity helping to achieve the goals of the "Agenda 2063", i.e., an home-grown action plan elaborated in 2015 by the African Union with the objective of improving Africa's socio-economic situation over a period of fifty years. Among the priorities of the

[252] From XINHUA website. *Kenya lauds Belt and Road Initiative as Best Model for Growth for Africa.* Xinhuanet May 16, 2017. Retrieved from <http://news.xinhuanet.com/english/2017-05/16/c_136288318.htm>.

[253] ADEYEYE, A. *China-Africa relations: Musings from the Belt and Road initiative.* Access Africa, March 10, 2017. Retrieve from <http://access-africa.com/1460-2/>.

[254] MOFCOM. 2015, *supra* note 246.

framework plan there is the creation of a network of highest quality infrastructures (roads, high-speed railways, sea and air transport routes and ICT), which will support African continent's integration, unity and growth and its technological transformation. The envisaged Africa will be a main catalyst of trade and investments, turning to be a centre of manufacturing activities, which are labour-intensive, of skills and technology transfer and acquisition, of activities positioned at an higher level in the value chains such as research and development, and a tourist hub.[255]

As regards the implementation of strategic infrastructure projects, the "Agenda 2063" wants to achieve the direct and full connection between capitals and commercial centres, the efficiency and coordination of the aviation sector along with the consolidation the shipping sector and of ports in order to make them real assets at regional and continental level.[256]

Therefore, there are evident points where the OBOR initiative can comply with the "Agenda 2063" with the possibility of providing support to the African plan to achieve a greater and enhanced connectivity.

Talking about investments in infrastructure development and their positive impacts, their great potential for regional aggregation and integration, enabling an increase in intra-regional trade, must be underlined. As a matter of fact, the availability and the good state of maintenance of the infrastructural network allow the physical connection of markets with positive consequences at other levels.

In fact, physically well-connected markets can bring to both reduction of costs for delivering goods and facilitation of people mobility, without forgetting that a deeper and well-structured regional integration is crucial to make the region more competitive in attracting a higher amount of investments and trade.

In this context, businesses could make use of SSA's infrastructural gap in order to profitably allocate their capital, their expertise and their innovation potentialities, also finding their own position within the Belt and Road projects, which promote the participation of the private sector.

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[255] AFRICAN UNION COMMISSION. 2015. *Agenda 2063. The Africa We Want.* Addis Ababa: Final Edition, April 2015. Popular version, at p. 5. EBook version retrieved from <http://www.un.org/en/africa/osaa/pdf/au/agenda2063.pdf>.

[256] *Ibidem*, at pp. 16-17.

For the African governments' part, they should promote and ensure a receptive environment which will enable FDI to flow and designed projects to be successfully carried out. In particular, they should make sure that investments will be focused on the development of cross-border infrastructures from overland, air and maritime transportation routes to integrated power systems, which will create a deeper regional integration, a stronger regional competitiveness and a consequent greater disposition to look for a larger connection to the rest of the world.[257]

As a matter of fact, as Dr. Khanna underlines, when countries show to have in their own hands and to be able to manage and decide upon collective matters, such as the strategic position of ports and the establishment of boards and plans for the promotion of investments not only at local level but also at regional level, they also acquire a more solid bargaining power, which could be useful to decide for the best of their regions and not to surrender to decisions coming from outside.[258]

5.4 Integration into global production networks

Several elements mentioned in the previous sections in the attempt to describe the situation of Africa's economy and China-SSA relations are seen as important factors leading to Africa's increasing integration into global production networks.

As a matter of fact, the expanding African consumer market is exerting a considerable force of attraction on foreign investors, who are driven to relocate their production facilities on the African continent. In these cases, Africa becomes the target of market-seeking FDI, which are progressively branching out away from the resource-extraction sector. Just consider that 73.5 percent of greenfield investments in the region were focused on manufactures and on infrastructural construction ventures.

Another element contributing to Africa's greater integration into GPNs is the already explained increase in workers' wages related to manufacturing

[257] EYGM. 2017, *supra* note 192, at pp. 26 and 30.
[258] KHANNA, P. 2016, *supra* note 244, at pp. 76 – 77.

activities in China and in other part of East Asia, which makes Africa a more convenient and cost competitive relocation spot for manufactures.

What is more, the concerted China-SSA's attempt to improve the quality of infrastructural networks or to fill infrastructural gaps on the continent favours the movement of people and goods and lowers cross-border transportation costs. This facilitation in transports proves to be attractive to investors who have previously seen Africa's poor infrastructure conditions as a deterrent to investments on the continent.

Moreover, Africa's governance and political situation have considerably improved, making important strides in relation to the level of perceived corruption and in the field of democratic, regular, free and fair elections, thus giving the perception of a situation which is ready and enough steady for investments. Despite these positive elements, it must be underlined that some impediments still persist with the result of preventing Africa from fully benefitting from possible advantages given by the participation in GVCs.

Furthermore, some trends related to the globalization process which have pertained to the global economy in general, namely the segmentation of the productive process into smaller activities which can be situated into different countries even not geographically adjacent, the decrease in transportation and communication costs and the technological progress, began to affect the African continent, too.[259]

Thanks to the entrance of MNEs and other different actors in African economies along with their decision to invest all across the continent, Africa managed to develop some links to international production networks, which allow it to better integrate into GVCs with real opportunities of economic growth.[260] As a matter of fact, being involved into GVCs would represent a chance for African economies to make progress in terms of moving from being a producer and supplier of raw materials to having a larger and more developed manufacturing sector, and thus, also in terms of sustainable job

[259] FJELDSTED, K. *New Evidence on Africa's Integration into Global Value Chains.* OECD INSIGHT, Debate the issues, June 6, 2014. Retrieved from <http://oecdinsights.org/2014/06/06/new-evidence-on-africas-integration-into-global-value-chains/>.

[260] KHERRAZI, P. S. *Industrialization and Global Value Chains in Africa: Challenges and Strategies.* Angers Université, May 2, 2016. Retrieved from <http://master-iesc-angers.com/industrialization-and-global-value-chains-in-africa-challenges-and-strategies/>.

creation given the feature of labour-intensity which characterizes manufacturing activities.[261]

The IMF reports that developing and emerging countries' participation in GVCs has been followed by an increase in income level within them. Moreover, they managed to take advantage of knowledge transfer within the GVCs with the result of being able to realize production diversification and upgrading products' quality. In addition, it must be underlined that being part of a GVC is an opportunity to promote a more inclusive growth, especially in labour-intensive sectors which provide working positions also to low-skilled workers.[262]

These aspects cannot but hint at challenges that SSA is facing and its deriving needs. As a matter of fact, the case of Sub-Saharan Africa exemplifies the opportunities that GVCs could represent for countries with a still limited presence of manufacturing and service export base – although it is subjected to a rapid expansion also thanks to China's investments – and an enormous availability of labour. While the production of a product from scratch without segmenting the productive process is quite inconceivable considering the competitive advantage of countries, GVCs give the possibility to countries to specialize in a segment of the productive process with the result that SSA can also capture a share of value added coming from its exports. This can in turn support productivity and generate income growth. Furthermore, in the light of the fact that there are some conditions and standards of quality, capacity and efficiency for entering GVCs, FDI inflows from China and other countries, which usually bring to a transfer of technologies and knowledge, can help to reach these conditions essential to take part to GVCs.[263]

Even though the OECD talks about a greater Africa's participation in GVCs than it is generally thought, with Africa being the third most integrated region into GVCs in the world after North America and South East Asia, its integration is largely due to its role of mere supplier of inputs and raw

[261] UNECA. *Global Value Chains: Africa, the Factory of the World?* United Nations Economic Commission for Africa, June 28, 2016. Retrieved from <http://www.uneca.org/es-blog/global-value-chains-africa-factory-floor-world>.
[262] IMF. 2015a, *supra* note 49, at p. 56.
[263] *Ibidem.*

materials to other countries, which import and process them and export final goods and services in a second moment. This means that African countries' participation in GVCs is usually confined to activities with low added value.

They usually perform activities of supplying and assembly or logistical services, which are precisely those activities which are at the lowest level of the value chains, and their exported products usually get into GVCs at a very initial phase. This does not happen to other countries which import SSA's inputs and which, being involved in product-related research and development and products' design as well as marketing operations, concentrate higher value added activities domestically, managing to grasp the greatest share of the global value.

Stealing the definition of the above described situation advanced by the OECD, Africa's forward linkages are more developed than its backward ones.[264]

Of course, the situation in SSA is not heterogonous and varies from oil exporters, non-oil commodity exporters and resource-poor countries.

While oil-exporting countries (Angola, South Sudan, Chad, Nigeria, Gabon Cameroon and the Republic of Congo) result to have the lowest level of integration into GVCs due to their dependence on oil exports, non-oil resource intensive countries (Tanzania, Sierra Leone, Burkina Faso, Zimbabwe, Niger, Central African Republic, Guinea, the Democratic Republic of Congo and Ghana) improved their GVC-integrated position despite their exports are mainly constituted by commodities.

Among the countries which made substantial improvement in GVCs integration there are Tanzania, Kenya and Uganda. The IMF reveals the important role played by FDI in making integration into GVCs deeper in these countries of the East African region.[265] The best African performers in the commitment to develop participation in GVCs are Ethiopia, Seychelles, Tanzania, Kenya and South Africa. These countries have profited from deeper integration into sectors different from commodity-export, which force countries to remain at a low stage of the GVCs. As a matter of fact, generally speaking, their integration into GVCs had to do with agricultural products and

[264] FJELDSTED, K., *supra* note 259.
[265] IMF. 2015a, *supra* note 49, at p. 58.

agro-business sectors, light manufacturing, textiles and garments, transportation services and tourist industry.[266] With reference to these mentioned sectors, it must be underlined that these are areas in which SSA could make use of its large and increasing pool of young labour force waiting for being employed.

Ten years ago, Kaplinsky, McCormick and Morris considered the aspect of Chinese and SSA firms' interconnection in production and exports, underlining the little evidence of their real and solid interdependence in GVCs. Nevertheless, they highlighted the exception represented by textiles and garments sector. In fact, under the AGOA agreements framework and its derogation allowing some SSA countries to integrate inputs such as fabric and other materials obtained from other countries outside the USA or the region affected by AGOA agreements, some SSA countries managed to emerge as great exporters of clothing to the US. These countries which largely exported apparel overseas were Lesotho, Madagascar, Kenya and Swaziland, which sourced a great part of textiles for their produced clothing from China.[267] Moreover, Lesotho and Swaziland still fill top positions in a rank estimating the depth of integration into GVCs, giving the idea of the importance of manufacturing for these countries' participation in production networks. AGOA trade agreements were conceived to support the expansion of vertical linkages in GVCs in exporting economies such as SSA ones.

In reality, the link between one country's integration into GVCs and income growth is not given and automatic. Economies inserting at the bottom of the GVCs should aim at upgrading their position along value chains, in order to diversify their exports and realize industrial development. Involvement in manufacturing production networks would help SSA countries to diversify their exports and lay the foundations for their industrial development. What's more, even countries rich in resources are now putting emphasis on improving their position into GVCs in order to capture a larger portion of value added locally.

[266] IMF. 2015a, *supra* note 49, at p. 58.

[267] KAPLINSKY, R.,MCCORMICK, D. and MORRIS, M. 2007. *The Impact of China on Sub-Saharan Africa.* IDS Working Paper 291. Brighton: Institute of Development Studies at the University of Sussex. Retrieved from <https://www.ids.ac.uk/files/Wp291.pdf>.

One example is Zambia, which has benefitted from Chinese FDI inflows focused on its mining sector since the beginning of the 2000s. Zambian government developed a strategic plan for the country's industrial development including the Chinese provision of a copper smelter to process copper ores in loco and to transform them into electric wires in Zambia.[268]

In order to summarize the main point of this wide topic, it can be said that Chinese FDI inflows into SSA have contributed and will contribute to the SSA countries integration into GVCs, with all the benefits that will be possible to grasp, in three different ways.

Firstly, China's commitment in SSA's infrastructural construction and improvement of infrastructure quality is essential to demolish one of the higher impediment to trade and movements of goods in the region, i.e., bad conditions or lack of infrastructure. Better quality of the infrastructural network will bring to a more favourable disposition of investors to look at SSA and to dislocation on the African continent of more and more segments of the production process.

Secondly, Chinese FDI diversification across SSA economies' sectors away from resource-related ones as well as the already started transfer of labour-intensive light manufacturing activities from China to SSA represent real opportunities for African countries to shift away from resource-connected GVCs, in which they are forced to stay at the bottom, in the light of their role of producers, suppliers and exporters of raw materials.

Thirdly, given the fact that FDI inflows are considered as capable of bringing with them a certain degree of technology and know-how, enhanced and improved technological capacities, knowledge and skills would be useful for SSA countries to meet efficiency, quality an capacity thresholds and requirements to enter and take part in GVCs.

[268] MLACHILA, M. and TAKEBE, M. 2011, *supra* note 200, at p. 11.

5.5 Technology and knowledge transfer

Another important aspect for SSA countries is that Chinese FDI inflows into their economies can have an important role as sources of technology.

In the context of technology and knowledge transfer, Special Economic Zones should be catalysers of the transfer process, even if not the ultimate destination.

Professor Brautigam and Professor Tang highlight that Chinese developed zones in SSA are meant to attract more foreign and local investments, to boost trade and exports in particular, to provide local people with job opportunities, and to increase African countries' level of industrial competitiveness along with shaping a solid transfer of technology and know-how, which FDI inflows are usually assumed to bring. Nevertheless, from the whole country's point of view, the real success of the zones will be determined by the possibility for local investors to come in contact with the zones and technologies and business ideas brought there from abroad, so that they could be widespread and have positive impacts across the whole local economy.[269] In other world, the key issue is not only to attract FDI in order to benefit from the technological transfer they usually bring with it, but it is also to enable the transfer to African firms usually located outside from the zones. In this perspective, SEZs should not become isolated enclaves of investments, technology and knowledge, otherwise potential advantages for host economies will be missed.

The OECD identified the development of backward linkages with host countries' local suppliers as one of the main channels for technology transfer and distribution. As a matter of fact, in the presence of these kinds of links, foreign investors are more willing to contribute to the upgrading or the modernization of local suppliers' productive facilities, without forgetting their availability in providing them with instructions, advices and assistance to improve the quality of their products.[270] Developing links to local suppliers

[269] BRAUTIGAM, D. and TANG, X. 2011, *supra* note 174, at pp. 29 and 42.
[270] OECD. 2002, *supra* note 63, at p. 13.

could be a way to transmit technological potential and know-how outside the zones.

Another element favouring technology transfer is the internationalisation of research and development. Even though SSA countries have not usually been ready for hosting R&D high added-value activities, it is undeniable that MNEs and companies from the West and from China investing in SSA have in their own hands a large part of corporate research and development, with the potentiality to create technological spillover in SSA.[271] For this reason, forging strong links between companies investing in the zones and African universities as well as institutes for research and development would be a measure to spread learning chances and to enhance host countries' level of innovation.[272]

Kaplinsky found out that Chinese-provided technologies are often more efficient and brand-new in comparison to technology previously delivered by NGOs or Western investors, which were often second-hand and inefficient. This is a main sign of the Chinese entrepreneurial spirit driven by profit-seeking motives.[273]

Kaplinsky also discovered that China's involvement in SSA has come in contact with SSA small-scale native capital through two different dynamics entailing technology and knowledge transfer. The first one has concerned the provision of low-cost technologies employed in different kinds of industries (machineries for metal- or wood-working, tractors, packaging machines, machineries for farm modernization,…) which enabled small-scale producers and entrepreneurs to begin their production.

The second way has involved the migration of Chinese both skilled and unskilled workers to SSA economies. They turned to be model of frugal, diligent and hard-working practices, spreading a new entrepreneurial model which substantially differs from Western ones in the eyes of African workers.[274]

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[271] OECD. 2002, *supra* note 63, at p. 13.
[272] BRAUTIGAM, D. and TANG, X. 2011, *supra* note 174, at p. 47.
[273] KAPLINSKY, R. 2013. *What Contribution Can China Make to Inclusive Growth in Sub-Saharan Africa?* Development and Change, 44(6), pp. 1295 – 1316. International Institute of Social Science. DOI: 10.1111/dech.12059.
[274] *Ibidem.*

The case of Tanzania proves the willingness of Chinese firms to provide local workers with on-the-job trainings. Moreover, management training programmes which can last from a couple of months up to one year are devised for Tanzanian managers. [275] However, Tanzania is not an exception. Through his survey on training programmes conceived for local workers in Angola, Professor Tang Xiaoyang found out that Chinese companies respond to the necessity to train local employees and to enhance their skills with a wide range of training opportunities, namely, on-the-job trainings, intensive training programmes and overseas periods of training. The latter are occasional in the light of the high travel costs and are related in particular to sectors such as telecommunication, trade and manufacturing industry, which require high-profile skills. In fact, employees who attend these kinds of courses are mostly administrators and engineers. On-the job trainings are usually provided by all the surveyed companies in the light of the fact that they represent the most hand-on and cost-efficient solutions to give extensive learning opportunities. These kinds of trainings are not only useful to transfer smatterings on the way to use devices, machineries and new equipment, but they are also suitable to deliver specific professional skills in fields such as electricity and carpentry. Intensive training programmes are usually planned at the very beginning of the employment in order to provide employees with basics notions and skills to enter the job, or at the end of construction projects, when there is the need to train skilled staff to be employed for post-construction maintenance. As a matter of fact, paying Chinese engineers to stay in SSA for a period of two or three years after the end of the works will turn to be too burdensome. Moreover, SSA itself needs local skilled engineers able to carry on post-construction maintenance services. From his field-researches it also emerged that private companies are more attentive in providing training courses than state-owned construction companies, which are much more concentrated in completing projects according to deadlines than in delivering systematic learning programmes. [276]

[275] PIGATO, M. and TANG, W. 2015, *supra* note 180, at p. 18.
[276] XIAOYANG, T. 2010, *supra* note 230, at p. 356 – 357.

Spreading local managerial know-how is also important in the context of African SEZs, which sooner or later will pass under local management given the fact that they are run by foreign investors on the basis of concessions. For this reason, China's organized mobility programmes and workshops lasting twenty days on its own territory for sixty African different level administrative figures from Ethiopia, Nigeria and Zambia. Thus, ministers, members of the parliament, administrators at local level and high-level officials employed in customs, port authority, inspection divisions and finance went to China to attend a capacity building programme on management of SEZs developed thanks to the long-lasting Chinese experience of SEZs' planning, development and administration. Not only did they have the possibility to know more from Chinese zone developers and from China's provincial and national authorities, but they also could visit the fruitful and positive examples of Suzhou, Tianjin and Shenzhen SEZs. During the programme, African officials and administrative figures had the opportunities to deepen their knowledge about China's policies related to incentives for investments and to the creation of a supportive business environment.
Dr. Brautigam and Dr. Tang underlines the usefulness of these training programmes if they are accompanied by a well-organized strategic plan to make this kind of learning opportunities more systematic and continuing, in order to guarantee the creation of managerial figures able to handle the management transition without a decrease in zones' productivity and operations.[277]

Another aspect underlined by Pigato and Tang is that in Tanzania local workers employed in Chinese firms at some point left companies in which they were working in order to start their own activities from scratch, becoming local entrepreneurs.[278] These cases exemplify the potential of Chinese investment ventures and training programmes to spur African entrepreneurial spirit. Trainings at work and other types of learning programmes have the potential to influence positively the enhancement of human capital. As it was already stated, when workers' acquire specific or broader skills and know-how, they not only can take the courage to start a new business, but they are

[277] BRAUTIGAM, D. and TANG, X. 2011, *supra* note 174, at pp. 47 – 48.
[278] PIGATO, M. and TANG, W. 2015, *supra* note 180, at p. 18.

also more attentive to the needs and lacks of their communities and can be ready to answer to them.

What should be taken in mind is that the positive effects that FDI can have on human capital enhancement cannot replace the concerted and systematic action of countries' governments to provide good, general and public education. While knowledge transfer through trainings offered by FDI can serve as highlighter of the most demanded specific job-related skills helping to identify skills in high demand in labour market, host country's government should focus on providing education in form of specific vocational schools or university curricula in the attempt to shape stronger links between labour market and educational system.

CONCLUSIVE REMARKS

In the present work, it has been illustrated that China's interest in investing in Sub-Saharan Africa fits into the wider trend which sees traditional foreign direct investment recipient countries becoming direct investors in other countries, fostering the phenomenon which goes under the name of South-South cooperation, term that has been widely used into Chinese leaders' rhetoric towards African governments. Nevertheless, it has been highlighted the marginal role played by Sub-Saharan Africa in global FDI flows panorama. Indeed, despite the increase in its FDI inflows over the past decades, Sub-Saharan Africa proved to be unsuccessfully attractive to foreign investors in comparison with other world's developing regions, which managed to corner larger shares of total FDI flows. The main reason on which many scholars and economists agree is that Sub-Saharan Africa's countries have been perceived as highly risky environments for investments, in the light of their governance and rule of law situations.
In this context, Chinese pattern of investments turned out to be different, given the fact that China is interested in investing in politically stable countries as its Western counterparts are, but without being particularly concerned about host countries' rule of law situation. China is important in terms of the beneficial effects that these countries could derive from its willingness to invest also in countries with a poor governance situation, where other actors refrain from investing.

In the face of the accusations relative to the exploitative nature of China's engagement with Africa which blame Beijing to be just interested in grabbing African abundant raw materials and in exploiting its large pool of young and employable labour force, this work has tried to put the phenomenon into the right perspective, looking at Chinese direct investments in the region from a quantitative and qualitative point of view.

It has been demonstrated that the amount of FDI provided to Sub-Saharan Africa's countries is far less robust than what is usually thought and

supposed by many scholars, researches, politicians and journalists. Furthermore, it has been highlighted the diversification which is affecting Chinese direct investments on the African continent as a result of China's shifting growth paradigm from a model based on heavy internal investments to one more reliant on innovation and on increase in productivity. More specifically, China is enlarging its share of investments into manufacturing sectors and tradable services, while investing less into extractive industries and exporting fewer commodities. If this situation could be detrimental for large commodity-exporters, at the same time it will represent a great opportunity for Sub-Saharan Africa's countries seeking to diversify their economies and finding different sources of revenues.

The aim of the present work has been to provide a reflection on the importance of Chinese direct investment flows for Sub-Saharan Africa's economic growth, in the light of African countries' needs and challenges.

Foreign direct investment inflows are usually seen as catalysts of economic growth, because they not only provide host countries with an additional capital for investments, but also because they are considered to give their contribution to the improvement of host countries' economic situation. In this regards, what must be underlined is their potential to bring with them the creation of new job opportunities for local people, to generate technology transfer and knowledge diffusion with the result of contributing to local human capital enhancement and of increasing firms' efficiency.

Within this framework provided by the literature, it has been demonstrated the potential of Chinese foreign investments to create local employment, connectivity and possibilities for entering global production networks and to foster improvements in technological endowment and know-how in Sub-Saharan Africa.

With its forthcoming transfer of labour-intensive manufacturing activities to the region, and in particular into Chinese-inspired Special Economic Zones, as a consequence of the increase in workers' wages in Asian countries, China can provide a wide range of job opportunities to employ the large wave of young people who is going to enter the labour market in the next future. In this way, Sub-Saharan Africa could cope with the delicate demographic

transition it is facing and manage to realize its momentous demographic dividend to spur its economic growth. The provision of both more working opportunities and better economic conditions could also undercut the reasons which push African people to migrate abroad. With reference to the issue of job creation for local people, if the presence of a large amount of Chinese workers on the continent is attested, virtuous examples of frequent employment of local workers are not lacking. What is evident is that Chinese workers are preferred to African ones when there is the need for skilled professional profiles difficult to find in Africa. In this regards, governments should plan trainings of local employees and managers along with updating universities' and vocational schools according to labour market's needs.

China's heavy and incomparable investments in African infrastructural networks can be seen in terms of their potential to physically connect Sub-Saharan Africa's countries among them, but also to the rest of the world in a moment in which who and what remains disconnected is going to remain isolated. Giving a way to overcome colonial borders which represents real limits, especially for landlocked countries, Chinese-funded and built infrastructures are contributing to regional aggregation and integration with consequent transportation costs cut and trade facilitation. Sub-Saharan Africa has also been included in a wider sphere of connections thanks to the China's "One Belt, One Road" initiative, which comply with the African home-grown plan to improve its socio-economic condition in fifty years of time by leveraging the potential of infrastructures.

China's help to Sub-Saharan African countries to enter and integrate into global production networks can be outlined in three main points.

Firstly, brand-new or better infrastructures on the continent resulted from the Chinese commitment will bring more segments of production processes in Sub-Saharan Africa, because one of the main reasons impeding transportation and trade with the result of holding off many investors will be overridden. Secondly, Chinese transfer of manufacturing activities to Africa will bring to the continent new global value chains, different from extraction-related ones, which force African countries to position at the bottom of global value chains as mere suppliers of inputs. Thirdly, China is providing Sub-Saharan Africa with tools such as technology and knowledge useful to fill

eventual quality, capacity and efficiency gaps to be ready to enter global value chains.

Indeed, Chinese direct investments bring with them what literature considers as FDI spillovers, namely, transfer of technology and knowledge. One of the main challenges that African governments have to face is not allowing that Chinese investments' spillovers in these two fundamental fields remain confined to Special Economic Zones. Thus, measures to spur the development of links with local suppliers and entrepreneurs should be put in place. Moreover, they should be aware that on-the-job trainings provided by Chinese enterprises can contribute to the enhancement of the host countries' human capital, but they cannot replace government's strategic and long-term plans to improve national education.

It must be underlined that in debating the issue of Chinese presence in Sub-Saharan Africa the role of African governments should be taken into consideration. As a matter of fact, they have in their own hands the ultimate responsibility to mark the limits of Chinese engagement and influence in their countries and to set the conditions to make the most from this foreign presence.

In these terms China's direct investments can offer some answers to Sub-Saharan Africa's needs, without aspiring to be the one, the unique and the ultimate solutions to all its challenges and problems. After all, China has never portrayed itself as Africa's saviour as the West often did by advancing developmental programmes soaked with conditionality. It is out in the open that Africa is part of China's Going Out strategy in search for business chances and that opportunities offered by trade, construction sector and different industries in Sub-Saharan Africa fit perfectly with this Chinese aim. China has never introduced development recipes to its African counterparts. It rather won their trust through a long-lasting and industrious presence on the continent along with its own successful experience in managing to bring millions of Chinese people out of miserable living conditions by leveraging the power of investments, trade and technology.

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List of Figures and Tables

List of Abbreviations

ACP	African, Caribbean, Pacific Group of States
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
BRICS	Brazil, Russia, India, China, South Africa
CADF	China-Africa Development Fund
CPC	Communist Party of China
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Cooperation
GDP	Gross domestic product
GPN	Global Production Network
GVC	Global Value Chain
IMF	International Monetary Fund
M&As	Mergers and acquisitions
MENA	Middle East and North Africa
MNE	Multinational enterprise
MOFCOM	Ministry of Commerce of the People's Republic of China
OBOR	One Belt, One Road
ODA	Official Development Assistance
ODI	Outward Direct Investment (to distinguish it from Inward Direct Investment)
OECD	Organisation for Economic Cooperation and Development
OLI	Ownership, Location, Internalization
OOF	Other Official Flows
PPP	Purchasing power parity
the PRC	the People’s Republic of China
REO	Regional Economic Outlook
SAF	Structural Adjustment Facility

SAP	Structural Adjustment Programme
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SSA	Sub-Saharan Africa
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
UNOSSC	United Nations Office for South-South Cooperation
WB	World Bank
WEO	World Economic Outlook
WGI	World Governance Indicators