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Chinese FDI in Angola and Ethiopia: Between Flying Geese and Resource Colonialism?

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CHINESE FDI IN ANGOLA AND ETHIOPIA: BETWEEN FLYING GEESE AND RESOURCE COLONIALISM?¹

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INTRODUCTION

The notion that Chinese economic and diplomatic ties with Africa are motivated by attempts to secure access to natural resources (Klare & Volman, 2006), has raised concerns about African countries being exposed to new forms of colonialism (Clinton, 2011) and a new scramble over their resources (Frynas & Paulo, 2007). Counter-arguments hold that China's own industrial upgrading frees up jobs in export-oriented light manufacturing, which could help ignite industrialisation (Lin, 2012). Yet, even this type of engagement could be seen as a scramble for African resources, this time labour resources (a 'scramble for Africans' Meagher, 2016), within the context of a global race to the bottom in terms of labour standards and remuneration.

This paper provides a detailed quantitative and qualitative overview of Chinese official foreign direct investment (OFDI) to SSA as well as two in-depth case studies, one on Angola and one on Ethiopia. It argues that while flying-geese type relocations of labour-intensive industries from China to Africa can be observed, Ethiopia being one example, Chinese investments also support other forms manufacturing production. In fact, the majority of Chinese manufacturing investments in SSA come out of, and further support, domestic market formation. Even resource-seeking investments are shown to operate with a long time-horizon. The case of Angola shows that Chinese investments (coupled with Chinese construction projects and export demand) contribute to the diversification of an economy heavily skewed towards mining activities.

Whether opportunities in terms of spill-over effects and linkage formation arising from economic engagement with Chinese are made use of depends as much on domestic dynamics in African countries as on the mode of Chinese engagement. As shown in China's own example, the host country needs to be proactive and channel the inflow FDI in the direction for economic transformation. Since the turn of the century China's "Go Global" policy has been instrumental in the expansion of China's outward FDI. Apart from looking at how "Go Global" impacted the African countries, this paper also uses China's successful transformation to "Go Global" as a case to study the role of inflow FDI in economic transformation for developing countries. We find that FDI inflow is important for job creation and technology transfer, but to capture and utilise the benefits of inflow FDI requires a robust and independent industrial policy on part of the receiving country. FDI inflows should be used as a tool for structural upgrade empowering capacity building but not creating dependency.

¹ We recognize that many research papers on China's FDI will include trade, contracted projects and even aid. This paper only focuses on the official FDI. For details of China-Africa trade and contracted projects, please see our other papers specific for trade (Wolf, forthcoming) and contracted projects (S.-K. Cheng & Wolf, forthcoming).

1. CHINESE FDI IN SUB-SAHARAN AFRICA: A QUANTITATIVE AND QUALITATIVE ASSESSMENT

1.1. CHINESE FDI TO SSA: A QUANTITATIVE PERSPECTIVE

Data sources and sources of discrepancies

Chinese FDI figures have been claimed to be unreliable – but this is a general problem of FDI figures and not specific to Chinese data. Foreign direct investment (FDI) refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor (IMF, BMP5). A long-lasting interest, in turn, is defined as the attempt to gain an effective voice in the management of the enterprise. A 10% equity ownership is applied in the definitions of the IMF and the OECD as a threshold for effective voice in the management of the foreign enterprise (OECD, 2008 BD4; IMF, 1993 BMP5)

Similar to trade data, FDI are bilateral flows and recorded by the home country as outflows and the host country as inflows. Yet, the two accounts hardly ever match, because, despite the clear definition of what constitutes FDI, the measurement of FDI is inherently difficult.

Firstly, the components of FDI are equity capital, reinvested earnings and other capital (mainly intra-company loans). Data on reinvested earnings depends on the collection of company survey data because reinvested earnings do not involve foreign exchange transactions and therefore do not figure in the central banks' statistics on cross-border financial flows. This is especially a problem for data reported from developing countries, which often relies exclusively on the foreign exchange records of the central banks.

Secondly, there might be mismatches between stocks and flows reported. The only accurate source for stock data to account for changes in valuation due to depreciation and reinvested earnings are company surveys. Yet, in the absence of extensive company survey data, stocks are often approximated from the cumulative flows obtained through foreign exchange records, which can considerably under- or overestimate existing stocks. This problem becomes apparent in the case of Angola, where cumulative flows reported by the central bank (BNA) amount to negative stocks since 2013.

Thirdly, data on the sectoral composition of FDI are extremely limited if FDI records derive primarily from the international transaction records. Some countries have periodic census or benchmark surveys to complement information on the sectoral composition. In some countries, such as the Australia, Canada or the United States, these even constitute the main sources of FDI information. In developing countries, however, sectoral information on foreign investment is often limited to information provided the national investment promotion agencies. This introduces new sources of uncertainty, because not all FDI may be registered with the investment promotion agency. It is possible that only new investment projects are recorded (not reinvested earnings), projects might be miss-classified to benefit from additional investment incentives in certain sectors and data may only cover approved projects rather than actually implemented projects.

In addition, the industrial classification used by different national bodies does not always match and the industrial classification used may be based on either the primary activity of the parent company, or the primary activity of the affiliate. Exceptions are found in the German and United States FDI data, which are compiled in accordance with both of those criteria. In most countries, outward FDI is classified according to the industry of the parent company, while inward FDI is attributed to the industry of the foreign affiliate in the host economy.

Fourthly, equity capital, as well as changes in intra-company loans between parents and affiliates, and reinvested earnings tend to fluctuate considerably between years and may be substantially revised subsequently. Although there may be attempts to revise the FDI flow-data series accordingly, it can be difficult to attribute revisions to particular previous years. For that reason, proper adjustments are normally made only at the time of comprehensive surveys. Surveys also allow for a revaluation of assets which helps to ensure a more accurate assessment of investment stocks.

Fifthly, the geographical distribution of FDI flows is difficult to establish because of increasingly complex ownership structures of multinational companies and because the ultimate beneficial owner can be hidden if investments are channeled through holding companies in offshore tax havens such as Panama, Bermuda or the Cayman Islands. Survey data can reduce this problem if it distinguishes between immediate and ultimate owners of the offshore holding company (the latter being often the parent country itself).

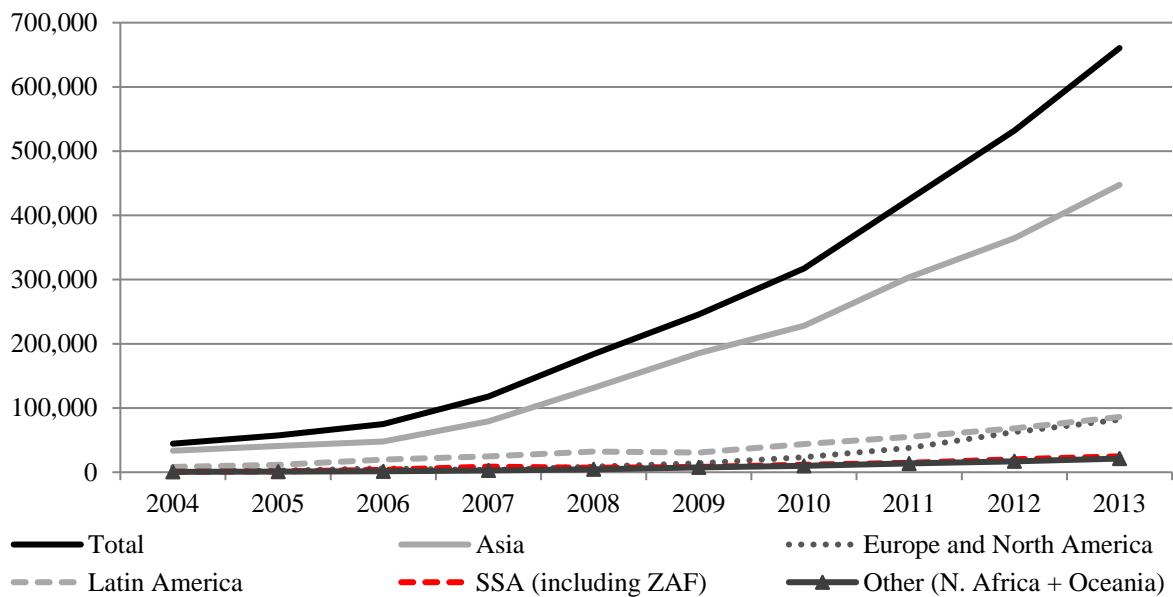
Considering all these issues in the collection and measurement of FDI data, information is not fully comparable across countries and likely involves a considerable error margin. This is particularly so for inflows to developing countries, because records often rely exclusively on the foreign exchange records of the central banks. In theory, inflows to developing countries can also be approximated through the records on outflows from the home countries. But this will only be meaningful for home country entities who provide data on outflows relying on complementary periodical enterprise surveys. This means that while more accurate data might be obtained through outflows from countries with advanced statistical records, total inflows can be derived from the home country data, which makes it difficult to get an accurate sense of the relative shares of different foreign investors. Also, FDI data between different developing countries is particularly hard to track.

Data on FDI outflows from China follow the guidelines set by the OECD and derive from company records of the Ministry of Commerce. Records of foreign assets include all components of FDI, crucially also covering reinvested earnings (China Statistical Bulletin on Outward FDI). Outflows reported by China are therefore likely to be comparable to outflows reported by the major OECD economies.

This paper relies on FDI outflows reported by China as well as the major OECD investors in Africa, i.e. the US, France, Italy and Portugal. For the case studies on Angola and Ethiopia, the paper also draws on data reported by the national investment authorities. While levels might be inconsistent across different data sources, this serves at least to discern common trends across different data sources as well as the error margins itself.

Seen from the Chinese perspective, outward FDI flows and stocks to Sub-Saharan African countries remain marginal, with OFDI flows to SSA increasing in absolute terms but barely relative to other regions: FDI stocks in SSA make up for 1.8% of total FDI stocks in 2004, and 3.7% in 2013. In absolute terms, Chinese FDI stocks in SSA increase from USD 780 million in 2004 to USD 20.3 billion in 2013 (excluding South Africa; Source: Statistical Bulletin of Chinese Outward FDI). The vast majority of Chinese outward FDI goes to Asian countries (USD 447 billion in 2013), the fastest growing market is Europe and North America (*Graph 1*).

Graph 1. Chinese OFDI stocks by region 2004-2013 (current USD, millions)



Source: 2013 Statistical Bulletin of China's Outward Foreign Direct Investment

These seemingly small figures need to be put into perspective. Pairault (2014) points out that the large volumes of Chinese OFDI to Asia are mainly investments to Hong Kong used by mainland firms for ‘round tripping’, i.e. outward flows to Hong Kong to benefit both from incentives for outward FDI followed by reinvestment to the mainland to benefit from investment incentives for inward FDI. Investments to other tax havens like the Cayman Islands, in turn, might obscure investment flows to third countries. Because it is impossible to trace the actual investment destinations through tax havens, Pairault (2014) proposes to look at the non-tax haven investments only.

Following the definition of tax havens deployed by Hines and Rice (1994), **Table 1** shows Sub-Saharan Africa is actually the third largest investment destination of non-tax haven bound outward FDI.

Table 1. Chinese FDI stocks by region and tax region in 2013 (\$ million)		
Total OFDI stocks	658,707	
<i>tax havens total</i>	480,450	% of tax haven total
<i>Hong Kong, China</i>	377,093	78.5%
<i>Cayman Islands</i>	42,324	8.8%
<i>British Virgin Islands</i>	33,903	7.1%
<i>Other</i>	27,130	5.6%
<i>non-tax haven total</i>	178,257	% of non-tax haven total
<i>OECD</i>	84,324	47.3%
<i>Asia</i>	40,403	22.7%
<i>SSA</i>	19,006	10.7%
<i>BRICS</i>	16,163	9.1%
<i>MENA</i>	9,739	5.5%
<i>Latin America (excl. OECD)</i>	6,894	3.9%
<i>Oceania</i>	1,000	0.6%
<i>Europe (excl. OECD)</i>	728	0.4%
<i>Calculations based on Statistical Bulletin of Chinese Outward FDI</i>		

While China has invested in 52 out of 60 African countries (86.7%), nearly 90% of FDI are concentrated in 21 countries. Both Angola and Ethiopia are among the top 10 destinations of Chinese outward FDI in Sub-Saharan Africa in 2013 (Angola ranking 3rd, Ethiopia 10th). Angola accounts for 8% of total FDI stocks of Chinese firms in SSA (excluding South Africa) and Ethiopia for 3.8%. Chinese FDI stocks in Angola amount to USD 1.6 billion in 2013 and are considerably higher than in Ethiopia (USD 771 million in 2013) (**Table 2**). This partially mirrors the global distribution of FDI in SSA. Some of the top SSA recipients of FDI also rank high in terms of total Chinese FDI stocks, e.g. Nigeria, Sudan, Ghana and Zambia and Angola. Angola used to be the second largest recipient of FDI in SSA up until 2010. Since then, the Angolan Central Bank (BNA) started to record large outflows of FDI, which by 2013 had cumulated to negative stocks. This is likely to understate total Angolan FDI stocks (see methodological issues above). In fact, total FDI out-stocks in Angola reported by the major OECD investors and China amount to USD 25 billion in 2012, which makes Angola one of the largest recipients of FDI, second only to Nigeria (USD 76 billion according to inflow records).

Table 2. Top destinations of Chinese OFDI stocks in SSA in 2013, current USD million				
Country	FDI stock China 2013	% of total Chinese FDI in SSA	Rank FDI China	Rank FDI total
Zambia	2164.32	10.9%	1	8
Nigeria	2146.07	10.8%	2	1
Angola	1634.74	8.2%	3	***
Zimbabwe	1520.83	7.6%	4	25
Sudan	1507.04	7.6%	5	2
Congo, DR	1091.76	5.5%	6	15
Lesotho	913	4.6%	7	40
Mauritius	849.59	4.3%	8	20
Ghana	834.84	4.2%	9	4
Ethiopia	771.84	3.9%	10	13

Source: Statistical Bulletin of Chinese Outward FDI and UNCTAD FDI Statistics

Other countries, such as Zimbabwe, Lesotho, Mauritius and Ethiopia, figure among the top 10 recipients of Chinese FDI but actually rank low in terms of total SSA FDI stocks, which indicates that China makes up for an important part of total investments in these countries.

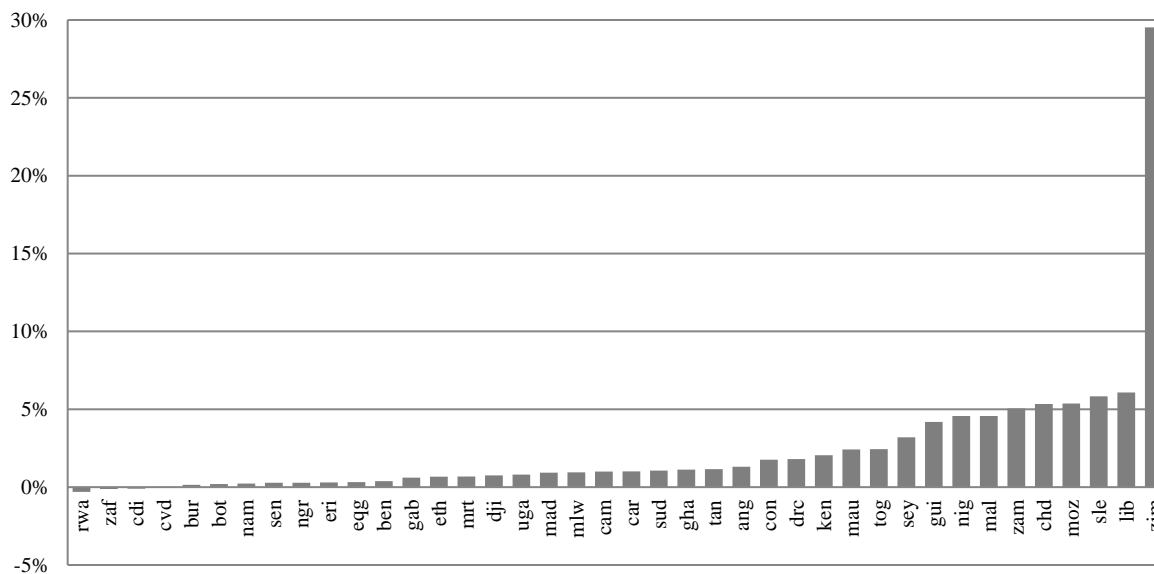
Seen from the African perspective, Chinese FDI not only grow quickly but also constitute an important source of investment. Comparing total FDI stocks of SSA countries reported by UNCTAD with total Chinese FDI stocks in SSA countries reported in the Statistical Bulletin of Chinese Outward FDI, shows that in 2013, Chinese FDI stocks account for approximately 6.5% of total FDI stocks in SSA (**Table 3**). As laid out above, information on shares has to be interpreted with care because total FDI records are derived from inflows data reported by the SSA countries, while information on the individual reporters comes from the outflows records of the reporters itself.

Reporter	2006	2007	2008	2009	2010	2011	2012	2013
France	10,009	17,907	18,987	23,763	25,798	25,975	28,668	n.a.
USA	10,051	10,891	12,587	18,038	24,805	25,005	25,394	n.a.
China	1,928	3,061	3,903	5,696	7,298	10,292	14,651	19,919
Portugal	1,282	1,787	4,212	3,388	4,479	5,291	6,227	n.a.
Italy	0	813	1,459	1,740	1,426	1,402	251	n.a.
SSA total	122,441	145,541	166,724	198,537	221,533	252,641	282,779	314,846
China % of SSA total	1.57%	2.10%	2.34%	2.87%	3.29%	4.07%	5.18%	6.33%

What is more, (W. Chen, Dollar, & Tang, 2015) point out that in absolute terms, China's stocks in Africa are on par with those of the major OECD countries. China's FDI stocks in SSA (excluding South Africa) amount to USD 19 billion in 2013 compared to USD 25.4 billion of the US and USD 28.6 billion of France in 2012 respectively (*Table 3*).

However, considerable variation across SSA economies can be observed when comparing Chinese FDI flows relative to gross fixed capital formation (GFCF), ranging from 29% of GFCF in Zimbabwe to -0.3% in Rwanda in 2013. The median of Chinese FDI as a ratio to GFCF in SSA economies is 1.01%, the average 2.45%. Angola and Ethiopia can be found somewhere in the middle, with Chinese FDI amounting to 1.3% in Angola and 0.7% in Ethiopia (*Graph 2*).

Graph 2. Chinese OFDI flows as % of Gross Fixed Capital Formation (2013)



1.2. CHINESE FDI TO SSA – A QUALITATIVE PESPRECTIVE: BETWEEN FLYING GEESE AND RESOURCE COLONIALISM?

In SSA countries, the ratios of FDI to Gross Fixed Capital Formation (GFCF) are high compared to world and developing country averages. *Table 4* shows that FDI flows amount to 16.1% of GFCF in the period 2008-2014, which is considerably above world and developing country average (9.2% and 10% respectively).

<i>Table 4.</i> FDI flows as share of GFCF			
	1990-1999	2000-2007	2008-2014
World	6.9	10.4	9.2
Developed countries	6.5	9.6	8.2
Developing countries	8.7	12.2	10.0
SSA (excl. S. Africa)	11.0	18.2	16.1

Source: UNCTADstat

This suggests that SSA countries are relatively successful in attracting FDI inflows, but less so in stimulating domestic investment and linkage formation. The question therefore is not just about the order of magnitude of Chinese FDI but also about the nature and investment motives of Chinese firms, which will determine linkage formation and spill-over effects.

There are a number of hypotheses why Chinese investment might actually support linkage formation and crowding-in of investments, including the smaller technology gap and therefore better possibility for absorption of positive spill-over effects from South-South/Chinese investments (Amighini & Sanfilippo, 2014) or the lesser degree of financialisation of Chinese firms which could positively impact on the time-horizon of investments (Lo, Wenzhe, & Lixia, 2011). The exact causal relations between Chinese investments and technological spill-over effects will have to be established on a case by case basis but there are a number of stylized characteristics of Chinese investments worth pointing out at the aggregate level, which include the strong degree of state-guidance of investments through China’s “Go Global” policy and the market-seeking nature of manufacturing investment.

State-directed FDI: China’s go global and the implications for the nature of Chinese investments in Africa

Chinese outward FDI needs to be understood in relation to China’s own industrial policy, which, in turn, has implications for the nature of Chinese OFDI in Africa in terms of ownership structures and the sectoral composition of investments.

“Go Global” or “Go Out” (*zou chu qu* 走出去) was first introduced in China’s Tenth Five-year Plan in 2001. A key target of this Five-year Plan was “making significant progress in establishing a modern enterprise system in state-owned enterprises, improving the social security system and taking part in international economic cooperation and competition extensively and in depth” (China.org.cn, 2014). The “Go Global” policy is thus a milestone of the Market Reforms, which hitherto emphasized the utilization of foreign capital inside China. Indeed outward foreign investments had been tightly controlled by the government even after the Market Reforms in 1978 and were only gradually liberalized in late 1980s and 1990s. The government actually tightened the approval procedures for overseas ventures in the wake of the Asian financial crisis in 1997/98 before consolidating the “Go Global” strategy in 2004 (Salidjanova, 2011, p. 5).

Under the speech title *Doing a better job in opening to the outside world in the light of economic globalization* outlining this Five-year Plan, Premier Zhu Rongji (Zhu, 2001) put China’s entry into the WTO in the same paragraph with the “Go Global” policy.

“We need to implement a ‘going outside’ strategy, encouraging enterprises with comparative advantages to make investments abroad, to establish processing operations, to exploit foreign resources with local partners, to contract for international engineering projects, and to increase the export of labor. We need to

provide a supportive policy framework to create favorable conditions for enterprises to establish overseas operations. We also need to strengthen supervision and prevent the loss of state assets.”

The 2004 *State Council Decision on Reforming the Investment System* codified the “Go Global” policy with concrete guidelines and targets. State-owned enterprises were now given greater decision-making powers and only government-funded capital projects required state approval (State Council, 2004). The joint guidelines published by the National Development and Reform Commission (NDRC) and the China Exim-Bank in October 2004 promoted outward direct investment in four types of projects: i) exploitation of resources which are scarce domestically; ii) manufacturing and infrastructure projects which encourage the export of domestic technologies, products, equipment and labour; iii) overseas R&D centres which can attract advanced technologies, management experience and professional personnel; iv) mergers and acquisitions which can enhance international competitiveness and rapidly develop overseas markets (NDRC & CHEXIM, 2004).

The double-digit economic growth since the reform era has also led to a high demand for external resources and technology to further the development plan. The massive foreign reserve holdings are managed by the State Administration for Foreign Exchange (SAFE) and are mostly invested in US Treasury bonds. The China Investment Corporation, created in 2007 as China’s official sovereign wealth fund, had major paper losses in its first few investments in US investment firm Blackstone and investment bank Morgan Stanley and was subject to fierce criticism by the Chinese public and government (Salidjanova, 2011, p. 14). The need for diversifying investment and further economic development makes “Go Global” a sensible move from the China’s perspective. One of the major differences between China and those countries being subject to the imposition of neoliberal reform is that China did not suffer from debt or currency crises and therefore did not rely on loans from the IMF or the World Bank. China seems to have the “luxury” to participate in the global economy relatively on its own terms despite of international pressure.

Various state agency are involved in fostering overseas investments which includes (Salidjanova, 2011, p. 13):

- i. The State-owned Assets Supervision and Administration Commission (SASAC)
- ii. The State Administration of Foreign Exchange (SAFE)
- iii. Ministry of Commerce (MOFCOM)
- iv. State banks including China Export-Import Bank which provide loans to enterprises
- v. The China Development Bank and the China Export & Credit Insurance Corporation which provide support with risk assessment, insurance and protection against currency fluctuations in the host country
- vi. Chinese embassies which provide support in feasibility studies for investment projects
- vii. Provincial officials who can approve foreign investments of less than US\$3 million

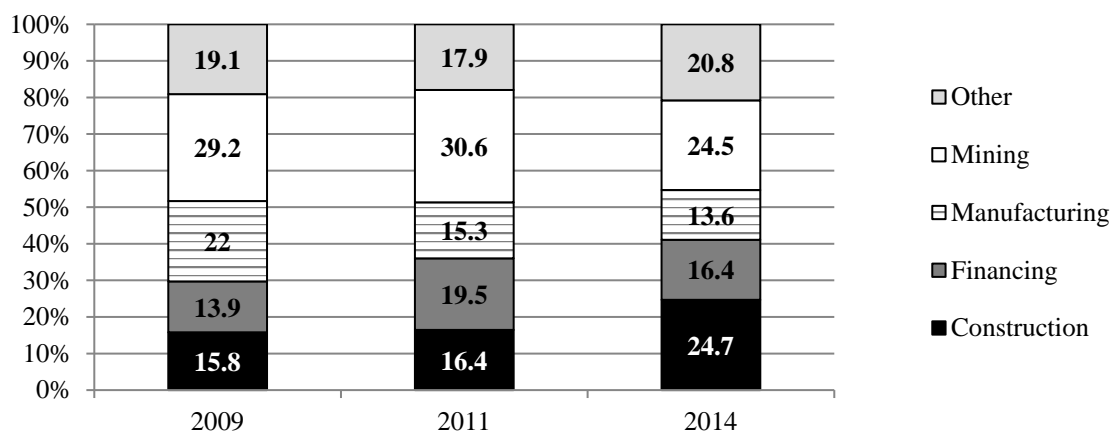
“Go Global” is very much a state-led project with the primary aims and objectives to strengthen the economic position and development of China itself. However, the policy is also used for political and strategic purposes in building South-South cooperation in areas outside of immediate economic gains. It is worth noting that Africa is the only region in

which ‘construction’ and ‘scientific research and technical services’ figure among the top five sectors of Chinese OFDI stocks (2014 Statistical Bulletin of China's Outward Foreign Direct Investment).

The *China-Africa Economic and Trade Cooperation White Paper* published by the State Council (Chinese State Council, 2013) dedicated two chapters to *Supporting African Infrastructure Construction* and *Stressing African People’s Livelihoods and Capacity Building*. The Chinese government recognizes the importance of infrastructure construction as a starting point for any improvement in the investment environment and people’s livelihoods. It “encourages enterprises and financial institutions to participate in African infrastructure construction, including transportation, communications and electric power projects, in a variety of different ways” (Chinese State Council, 2013, Chapter IV). The huge jump of Chinese FDI in construction in just three years has shown that the directives in the *White Paper* are not just talk but followed up by action.

In fact, mining- and construction-related investments make up for a high share of Chinese OFDI in Africa. The two sectors account for 49.2% of total stocks in Africa in 2014. What is noteworthy, however, is that the share of mining-related investments actually falls (i.e. grows less quickly than other types of investments), falling from a high of 30.6% in 2011 to 24.5% in 2014. The share of mining-related activities in Chinese OFDI is actually *below* the global level, with mining accounting for as much as 35% of total FDI to SSA in 2012 (UNCTAD, 2015). The relative decline of mining-related investments is explained by the rise of construction-related investments, which, by the end of 2014, overtakes mining in China’s OFDI stock in Africa (**Graph 3**; MOFCOM 2015, 109). In terms of flows, mining-related investments come only 4th in 2014 after construction, transportation/storage/postal service and manufacturing. In 2014, Chinese OFDI flows to construction in Africa are over USD 759 million which is about USD 340 million more than the flows to mining (MOFCOM, 2015, 99). This comparatively strong focus on construction investments has implications for the type of spill-over effects. Construction-related FDI together with Chinese overseas contracted projects drive linkage formation to the manufacturing sector. Ethiopia and Angola, for instance, become the 3rd and 4th largest producers of cement in SSA after Nigeria and South Africa over the course of the decade (S.-K. Cheng & Wolf, forthcoming)

Graph 3. Sectoral Distribution of Chinese FDI to Africa by selected years (% of total stocks)

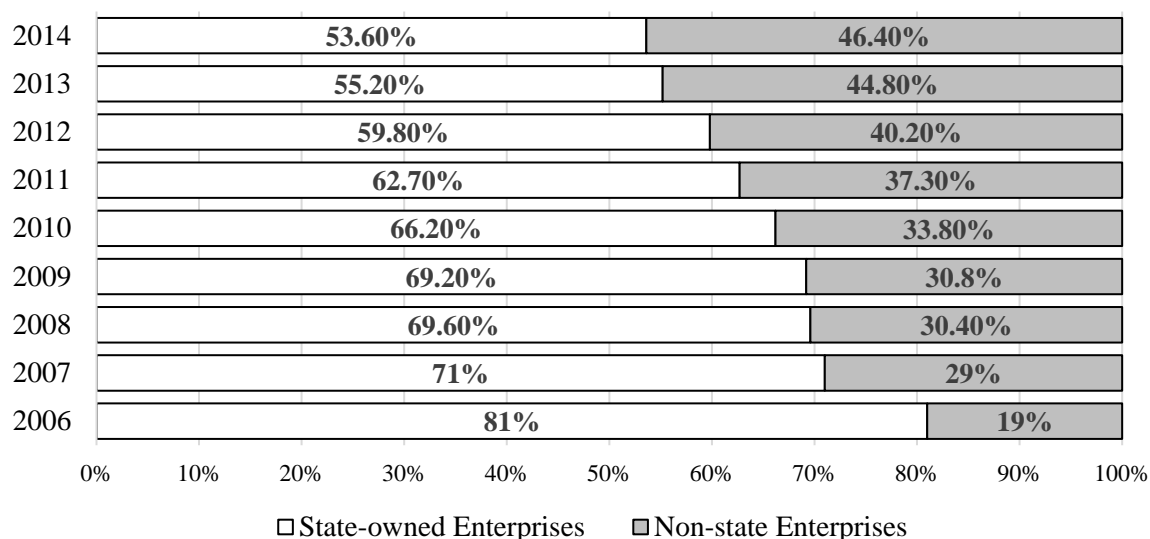


Source: Statistical Bulletin on Chinese Outward Foreign Direct Investment, various years

Although the “Go Global” strategy pledges support for “enterprises of all ownership types”, in reality it is the “national team” of state-owned enterprises, which successfully goes global. As shown in the recent Global 500, most of the Chinese companies listed are state-owned. The top 12, out of the total 98 China based companies, are state-owned (Cendrowski, 2015).

This is mirrored in the ownership structures of Chinese OFDI stocks, with SOEs accounting for more than 53% of China’s OFDI in 2014 (*Graph 4*; MOFCOM, 2015).

Graph 4. *Proportion of State-owned enterprises and Non-state enterprises in China's Outward FDI Stock 2006-2014*



Source: MOFCOM, 2015

Existing evidence shows that Chinese state-owned enterprises (SOEs) invest in longer-term and higher-risk infrastructure projects, which are usually refused by private enterprises (Poon, 2014). China’s continuous and increasing growth of outflow FDI at the time of global recession in 2008, with a year-on-year growth rate of OFDI flow in 2008 of 110.9%² is a very noticeable difference to the global trend (W. Tang & Pigato, 2015, 10).

The proportion taken by non-state enterprises has been increasing; from 19% in 2006 to 46.4% in 2014 (*Graph 4*). As the SOEs are mainly in the construction and mining sectors, the increasing number of Chinese private enterprises and manufacturers in Africa (W. Tang & Pigato, 2015) may signify a division of labour between the state and private sectors of China in outward investment – after the SOEs built the infrastructure for economic activities, the private sector then follows. Some Chinese firms are willing to incur short-term losses in order to become more cost-effective or to penetrate the domestic consumer market.

The market-seeking and long-terms oriented nature of Chinese FDI and government guidance of investment

Available evidence suggests that a substantial part of Chinese FDI is in manufacturing, which has a high potential for productivity growth, and is also predominately market-seeking and/or long-term oriented. In 2014, 13.6% of Chinese FDI stocks in Africa are in manufacturing activities (*Graph 3, pg 10*). This is below the global distribution of all FDI to SSA countries in which manufacturing accounts for 20% in 2012 (UNCTAD, 2015). As outlined above, this is mainly explained by the exponential rise of construction-related investments dominated by SOEs. Manufacturing sector investments amount to as much as 31% of Chinese private FDI in 2013 (Shen, 2015). Chinese manufacturing investments are not limited to resource-rich

² Even if to exclude the \$5.6 billion purchase of 20 percent share in South Africa’s Standard Bank the FDI level would remain constant during 2008-09

countries, examples include sugar refineries in Mali, glass and automobile factories in Ethiopia or textile and steel plants in Uganda (People's Republic of China, 2013).

One (frequently discussed) factor that might countervail the displacement of African light manufacturing exports is the potential relocation of labour-intensive industries from China to SSA due to rising labour costs in China (Zoellick 2010; Lin 2012). The World Bank Study on Light Manufacturing in Africa for instance is optimistic that this rise in labour costs in China could "jump-start Sub-Saharan Africa's structural transformation in the near future" seeing that "it is well endowed with inexpensive, low-skilled labor, a key ingredient in the initial industrialization of a long list of Asian economies." (Dinh, Palmade, Chandra, & Cossar, 2012)

Tang (2014) finds that while local apparel producers in the traditional apparel production bases in South-Eastern Africa suffer from Chinese and Asian competition, Chinese investments bring advanced technology and management techniques to this sector, which help the survival of local producers in market segments such as fast fashion, uniforms and work wear. However, most investments in apparel production remain small to medium in scale, with a few exceptions such as the China JD group in Tanzania and the Huajian shoe factory in Ethiopia (X. Tang, 2014).

Whether large-scale relocations such as China JD and Huajian will become a widespread trend remains unclear. Ozawa & Bellak (2011) argue that China is far from having reached the "Lewis turning point" (or period): there are an approximate 160 million Chinese rural migrants plus 70 million potential more migrants. All in all, 750 million Chinese live in the countryside where wages are one third below their urban counterparts. The Chinese government undertook massive rural infrastructure development and economic stimulus programmes with the aim of encouraging the relocation of industries to the hinterland. Also, none of the multi-nationals that drive China's labour-intensive export sector has shown any sign of relocating their activities to Sub-Saharan Africa, though some moved to the hinterland or nearby countries (e.g. Foxconn relocated 200,000 jobs to the cheaper inland provinces) (Ozawa & Bellak, 2011).

Even existing investments in export-oriented light manufacturing face problems. Most Chinese SME investments in apparel focus on cutting, making and trimming, and packing operations, which have low capital requirements. Moving costs being low, these firms often go after subsidies or even cheaper (labour/production) costs and therefore have a tendency to relocate very quickly rather than sustaining a lasting production base. Very large-scale apparel investments might base investment decisions on more long-term rationales. For instance, the investment by the China JD Group in Tanzania, which employs about 28,000 workers in Asia and about 1,000 in Tanzania, accepted losses for the first years of the plants operation to gain experience in the local market (X. Tang, 2014).

More fundamentally, flying-geese type relocations of labour-intensive export-oriented industries cannot prompt industrialisation evenly across and within countries, unless they are coupled with domestic market formation. Driven by the search for cheap labour, these flying-geese investment patterns reflect systems of hierarchical production and investment, in which competitive pressure on labour (in peripheral and core countries) intensifies while the technological and financial core remains under control of capital in developed countries (Hart-Landsberg & Burkett, 1998). With investments following a logic of primitive accumulation, for countries at the rear end of the flying geese formation, productivity increases are not fast enough to reach knowledge- and research-intensive activities that would generate high incomes. At the same time, under-consumption problems arise as the incomes generated by this type of industrial activity are too low to sustain production for the domestic

market (Lo 2011; Lipietz 1982). In this context, intense price and wage competition between developing countries supplying highly substitutable products to the world market causes a race to the bottom. The terms of trade for low value-added manufacturing products are declining (Sarkar and Singer 1991; Kaplinsky and Farooki 2012) and the concurrent attempt of each country to boost its competitiveness through wage depression further undercuts a vital source of domestic purchasing power and contributes to the deflation in world demand (Razmi & Blecker, 2008).

Existing evidence shows that Chinese investments often come out of and act in support of domestic market formation, which suggests that Chinese investments can further other forms of economic diversification as well. In particular, Chinese investments have been shown to be primarily market-seeking and/or long-term oriented. Qualitative firm-level evidence suggests that more than half of private sector-led Chinese FDI is attracted by the large domestic markets of African countries (Shen, 2015). This is confirmed by Gu (2011) who finds that the most frequently mentioned motives of Chinese firms to move to Africa are accessing the local market and intense competition in China, as well as Warmerdam and Dijk (2013), who for the Ugandan case find that domestic market potential was the main reason to invest in Uganda and that, in fact, none of the companies interviewed was interested in selling to the global market from their Ugandan base. Similarly, 12 out of 16 firms interviewed by Huang & Ren (2013) said their investment in South African was market-seeking.

Chinese investments often follow a rise in import tariffs on consumer goods, making relocation a more profitable way to penetrate the local market than exporting (Shen, 2015: 98). For instance, three of the twelve market-seeking firms interviewed by Huang & Ren (2013) specifically indicated that they wanted to avoid tariff barriers. Similarly, in the Nigerian case the rise of trade volumes alerted Chinese consumer goods manufacturers to the market potential in Nigeria. The rise in import tariffs on numerous goods in 2004 then prompted Chinese manufactures of furniture and textiles who had previously exported to Nigeria to look for alternative ways to penetrate the Nigerian market, namely by relocating production to Nigeria. This has triggered wider spill-over effects. The ban of Chinese consumer goods also incentivises former Nigerian traders to set up manufacturing plants and the employment of Chinese workers had productivity-enhancing demonstration effects among the domestic workforce (Mohan & Lampert, 2013). Spill-over effects of the Nigerian tariff scheme even extent to supply chain formation. By 2009, a number of Chinese shoe manufactures had moved their assembly lines to Nigeria and actively inquired the possibility of producing inputs (namely rubber soles) locally (Brautigam & Tang, 2014). The venture eventually failed due to financial troubles affecting the parent company in China, but this policy induced process of chain migration and investment reveals something interesting about the relation between trade and domestic market formation: Chinese manufacturers are only alerted to the sales potential of Nigerian market through the high volumes of import demand from African traders. The decision to relocate production to Nigeria is a direct consequence of changes in the Nigerian tariff structure.

Other than market-seeking manufacturing investment, Chinese FDI in SSA are attracted by natural resource wealth. In fact, 68% of Chinese OFDI stocks in SSA are in resource-rich countries (calculations based on China Statistical Bulletin of Outward FDI 2013).³ Yet, Chinese FDI follows the global pattern in terms of seeking natural resource wealth. The coefficients for resource wealth as explanatory variables for the spatial distribution of FDI flows in Africa are in fact similar for Chinese and overall FDI (W. Chen et al., 2015). What is

³ Following the definition of the IMF, i.e. countries whose exports of non-renewable primary commodities account for more than 25% of total export revenues.

more, even Chinese investments in mining and construction have been shown to take a long-term strategic view either to penetrate the African construction market for market outlets (C. Chen & Orr, 2009) or to secure access to raw materials. For instance, being more interested in the use value than in the market value of copper, Chinese SOE's have bought the worst performing mine in Zambia that could not attract any investors after privatisation and lay idle for 13 years because the mine was still more profitable than copper mines in China.

The market-seeking and long-term oriented nature of Chinese investments has implications for the business strategies and practices of Chinese firms. For instance, the response to the first slump in copper prices early 2009 illustrates the different accumulation logics of Chinese and other foreign firms. To protect their short-term financial interests, all mines listed in the London Metal Exchange reacted to the market fluctuation by laying off workers and freezing wages. By contrast, the Chinese-owned mine maintained production, staff and wage levels (Lee, 2014). Given their long-term and territorially specific interest in copper production, this business model has also been shown to be more sensitive to demands of workers (Lee, 2009).

For market-seeking investors training of local staff and their promotion into managerial positions not only aims to draw on the expertise of the local business environment, but also reflects Chinese firms' efforts to establish a good brand reputation within the host country. For instance, in the telecommunication sector, ZTE and Huawei try to establish themselves as providers of price-leading, yet reliable and high-quality products in the African market before venturing into Europe and North America. Building a good corporate image is part of this wider effort to establish brand reputation. In Africa, this involves various CSR practices but also training and promotion of host country nationals into managerial positions (Cooke, 2012). In Uganda, for instance, ZTE has explicit localisation targets where 70% of managerial positions and 100% of lower level positions are to be filled with Ugandan nationals (Warmerdam & van Dijk, 2013).

Evidence of spill-over effects from Chinese investments

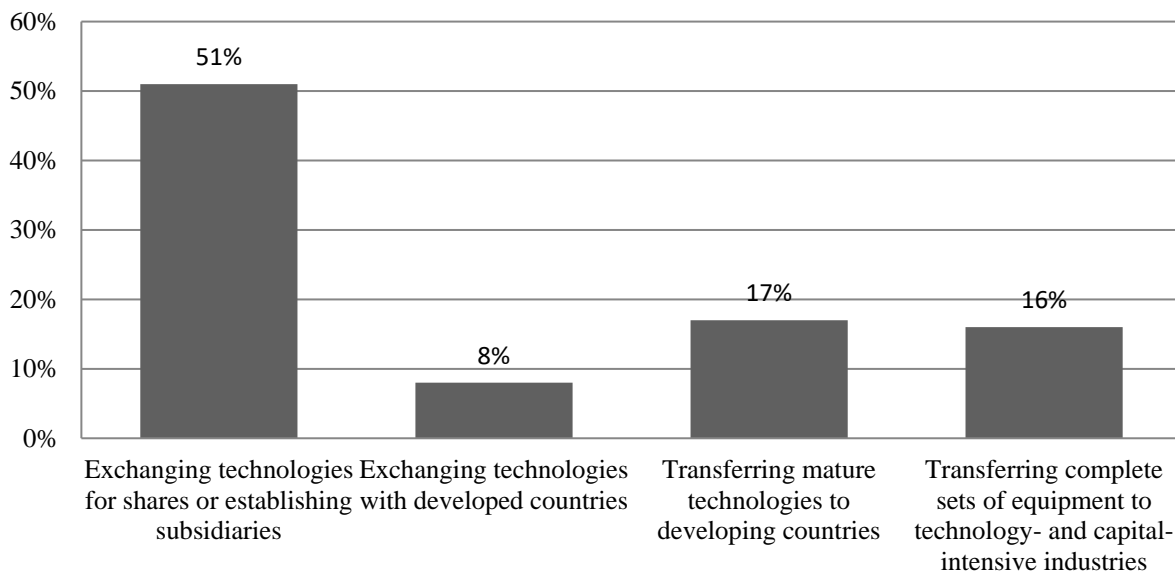
While Elu & Price (2010) find no evidence for productivity-enhancing effects of Chinese investments in Africa, more recent econometric evidence finds positive correlations between Chinese/South-South FDI and export-diversification in African countries, especially in low-tech sectors such as agro-processing and textiles and apparel production (Amighini & Sanfilippo, 2014). Contrary to FDI from OECD countries, South-South FDI flows are also positively correlated to the unit value of exports.

Econometric studies such as the above face problems of endogeneity (e.g. is there a causal relationship between Chinese investments or are Chinese investments simply attracted to higher productivity environments), appropriate parameterisation and control variables as well data quality more generally. Yet, survey evidence confirms that the operations of Chinese firms facilitate technology transfer. In a survey with over 250 Chinese overseas enterprises (36% SOEs, 63% POEs), of which 27% invest in Africa, 87% said they have transferred technologies or have technology cooperation with host countries (UNDP, SASAC, & MOFCOM, 2015, p. 57). Some 51% of firms transfer technology to their own subsidiaries, 17% transfer technology to other developing countries, 16% engage in the transfer of complete sets of equipment (i.e. turn-key projects) and 8% have some form of technological exchange with developed countries (*Graph 5*). Similarly, 77% of the contractors for construction projects said they will recommend the host countries to adopt their own or China's engineering quality standards if they are higher than the host country's standards (UNDP et al., 2015). As 46% of the interviewed enterprises in construction industry invest in

Africa (UNDP et al., 2015, p. 29), this will help to raise the technological standards and management skills of host countries. Other examples of technology transfer from Chinese firms include the Rwandan case where the government has negotiated technological upgrading and transfer of expertise with ZTE and Huawei, as part of the broader government strategy to enhance the country’s ICT sector (Gu & Carty, 2014). Brautigam (2008) also gives an example of Chinese trading networks having spurred a small boom in the production of spare auto parts in the Nigerian town of Nnewi.

Spill-over effects can also be observed in terms of skill formation. For instance, evidence from Angola also suggests skill-development: the number of semi-skilled workers such as brick layers and masons on Chinese construction projects increases (Corkin, 2011; for more detailed evidence see Cheng, Oya, & Wolf, forthcoming).

Graph 5. Forms of technology transfer during companies' investment and cooperation overseas (UNDP et al., 2015, pp. 56–57)



Remaining problems in terms of linkage formation and the role of policy

Despite observed spill-over effects in terms of knowledge and technology transfer and the market-seeking long-term oriented nature of Chinese FDI to SSA, problems remain. In particular, the same survey evidence as discussed above suggests that only 31% of the 250 companies believe the spill-over effect is significant, only 51% believe it has brought some benefits to the locals and 17% do not think there is any improvement to the local technologies and management. This could be due to “technology mismatches and language barriers, and the limited capacity of companies and industries in host countries to assimilate the technologies being transferred, which is especially pronounced in less developed countries.” (UNDP et al., 2015, p. 58).

In fact, Chinese firms operating in light manufacturing processing industries such as textiles, tannery and wood processing have also indicated being attracted by the availability of agricultural raw materials (Shen, 2015, p. 96). But existing evidence suggest that localised procurement remains sluggish. While 72% of the companies state that they prefer to source local products only 38% actually have the host country as their main procurement channel (UNDP et al., 2015). This is in line with the findings of Corkin (2011) and Gu (2011).

The reasons include unfamiliarity with the host market, cultural and language differences, and lack of experience in transnational operations and management, but also the availability and quality of domestic supplies (UNDP et al., 2015). The lack of supply capacities on the African side leads Chinese firms to turn to the established, reliable and cost-competitive suppliers in China (Gu, 2011). Sluggish linkage formation is an issue even for more long-term oriented investments. In Tanzania, for instance, the China JD group so far has not sourced fabrics domestically, even though Tanzania is one of the few African countries which still has a substantial textile production sector (X. Tang, 2014).

A World Bank report titled *China and Africa: Expanding Economic Ties in an Evolving Global Context* by W. Tang and Pigato (2015) echoes the same problems with regard to linkage formation. They find that the SSA firms “are not positioning themselves within China’s value chains, which limits the impact of Chinese investment on economic transformation and export diversification in SSA” (W. Tang & Pigato, 2015, p. 4). This can be due to numerous reasons including “the small size of many economies in SSA, the low capacity of critical public institutions, the absence of complementary private markets, bottlenecks in essential infrastructure, and the lack of regional integration, all of which can make the establishment of large economies of scale very difficult to achieve.” (W. Tang & Pigato, 2015, p. 4).

In certain sectors, linkage formation to the domestic economy is also weak because of the specific business models of Chinese firms. Chinese firms in the commodities sector, for instance, have greater access to “patient capital” (due to higher savings rates and support by the government) and could thus be expected to participate actively in the lengthy process of local linkage development. In reality, however, Chinese commodities firms form fewer linkages than their Western counterparts. Partially, this is because they are more reluctant to outsource parts of their non-core activities. Also, contrary to Western multinationals in the commodities sector, they have no local supply chain development programmes. Entry barriers may be lower in the case of Chinese supply chains, but exit is more frequent and no support is provided on the part of the Chinese lead firms (Morris, Kaplinsky, & Kaplan, 2011).

However, the findings of UNDP et al. (2015) also indicate that the proportion of procurement from host countries increases with the investment scale, i.e. 20% for an investment scale of less than USD 1 million, 38% for USD 5 – 10 million and 49% for over USD 50 million. The percentage is also higher for firms with more than 10 years of overseas experience (UNDP et al. 2015, 58).

2. CHINESE FDI IN ANGOLA: RESOURCE COLONIALISM?

Angola is one of China’s main partners in Africa, not just in terms of FDI but also in terms of trade volumes and Chinese construction projects (Cheng & Wolf, forthcoming; Wolf, forthcoming). These growing economic ties between China and Angola raise criticism in academic circles, in particular because China is seen to practice resource colonialism and undermine Western efforts to promote transparency and improve governance structures. Other than the lack of human capital, the quality of institutions is seen as one of the main structural deficiencies of the Angolan economy (da Rocha, 2011: 140f). This harks back to resource curse arguments, where the effective management of natural resources is only possible in the presence of good institutions, yet the presence of natural resources itself diminishes the quality of institutions (Wiig & Kolstad, 2012). China is seen to aggravate this catch-22 problem by way of increasing the government’s revenues from oil and by increasing

Angola's ability to resist pressures of Western donors for reform (Hodges, 2011: 109; Malaquias, 2007: 235f; Malaquias, 2012: 36; Fernandes, 2012: 80; Croese, 2012: 126; Kibble, 2006: 528)

While there is evidence that Chinese credit lines serve the Angolan elites to consolidate their own position of power (see Corkin, 2013: 139f on the subversion of CIF funds), there is no evidence that economic engagement with China hampers diversification in Angola. On the contrary, Chinese construction projects play an important role in the emergence of building materials manufacturing (S.-K. Cheng & Wolf, forthcoming) and Chinese investment is not merely focussed on resource extraction but also serves to strengthen manufacturing sector development.

2.1. DATA SOURCES AND METHODOLOGY

Data on FDI in Angola can be obtained based on the out-stocks/-flows reported by the major investors in Angola and based on the inflows reported by the Angolan central bank (BNA). Discrepancies between the two data sources reflect wider methodological problems in the collection of FDI data explored in section 1.1. In addition, the former national investment authority ANIP (replaced in 2015 by the *Agência para a Promoção do Investimento e Exportações de Angola, APIEX*) provides data on approved investment projects, domestic and foreign, exceeding a certain threshold. ANIP specific limitations are that ANIP data exclude most oil investment, since these are made under the terms of the production sharing agreements. For the year 2007 ANIP only recorded investments exceeding \$50 million.

Bearing in mind that ANIP data do not provide information on FDI as such but on approved domestic and foreign investment projects, they provide the most detailed source of information regarding the sectoral and geographical composition of non-mining sector investment projects.

To facilitate the analysis of the ANIP data base, investments have been grouped geographically based on the income level of the investor using World Bank definitions, i.e. high income countries (HIC), BRICS, low income and upper middle income countries (LICs and UMIs). In addition, following the definition of Hines & Rice (1994), a category of tax havens of all income levels was created.

The sectoral composition of ANIP data follows the broad categories defined by ISIC rev.3 (A-Q). For the years 2011 and 2012 a four digit disaggregation of investments is available. For manufacturing sector investments, these have been regrouped into broad categories by approximation of economic end-use following the methodology used by Wolf (forthcoming) as follows: "Food and Beverages"⁴, "Final Consumption Goods"⁵, "Intermediate Inputs"⁶ and "Machinery"⁷.

2.2. SITUATING THE MAGNITUDE OF CHINESE FDI IN ANGOLA

Data sources and discrepancies. *Table 5* shows Angolan FDI stocks derived from data on out-stocks reported by the partner countries and in-stocks reported by the Angolan Central Bank. What stands out is the huge discrepancy of the totals derived from the out-stocks

⁴ ISIC (rev. 3) codes 1511 to 1600

⁵ 1721 to 1920 and 2211 to 2230 and 3210 to and 3410 to 3699 + 3330 + 2893 + 2930 + 3150

⁶ 2010 to 2109 + 2310 to 2899 + 3130+ 3420 + 3430 + 3210 + 1533+ 1711 + 1911

⁷ 2911 to 3190 + 3313 + 3320 + 2813

reported by the sub-sample of partners and the totals derived from the central bank data. Since 2010, the BNA reports huge negative inflows (divestments), which cumulate to negative stocks in 2013. This is inconsistent with the out-stocks reported by all the major investors, which sum up to USD 25 billion in 2012. The share of Chinese FDI stocks is therefore practically impossible to establish given the uncertain denominator. The totals based on the out-stocks derive from a subsample of investors only and the totals reported by the BNA are likely to understate total FDI stocks given the lack of information on reinvested earnings. What we see, however, is that Chinese FDI stocks grow more quickly than those reported by the other major investors, reaching levels reported by the US in 2012.

Table 5. Angola FDI stocks by data source and partner (USD million)							
	2006	2007	2008	2009	2010	2011	2012
Total based on instocks reported by BNA	16,299	15,405	17,084	19,290	16,063	13,039	6,141
Total based on reported outstocks	8,842	11,848	13,691	15,686	21,233	25,102	25,747
France	1,379	5,922	4,686	5,937	7,296	7,961	9,067
Norway	5,091	2,999	2,919	4,145	5,030	6,349	7,306
Portugal	709	977	2,945	2,452	3,461	4,285	5,220
China	37	78	69	196	352	401	1,245
United States	1,540	1,633	2,645	2,540	4,460	5,473	1,245
Brazil	22	73	107	124	67	125	1,175
Other***	63	165	320	293	567	508	489
China % of BNA reported inflows	0.2%	0.5%	0.4%	1.0%	2.2%	3.1%	20.3%
China % of total reported outstocks	0.4%	0.7%	0.5%	1.2%	1.7%	1.6%	4.8%
***Denmark, Netherlands, Belgium, Italy, South Korea, South Africa							
Data Source: UNCTAD bilateral FDI statistics for outstocks; UNCTAD FDI statistics for instocks							

Table 6 compares FDI inflows to Angola based on central bank data and outflows to Angola reported by the major foreign investors as well as investment projects approved by ANIP. All data sources confirm that China is a major investor in Angola. Chinese FDI constitutes the third largest source of inflows in 2012 and China ranks 8th in terms of cumulative value of investment project approved by ANIP over the period 2003-2013. Chinese investment projects reported by ANIP are almost always lower than FDI outflows reported by China which might be explained by legal structures in Angola counting some foreign firms as Angolan, some investments being counted as coming from tax havens, and the absence of most mining investments in the ANIP data.

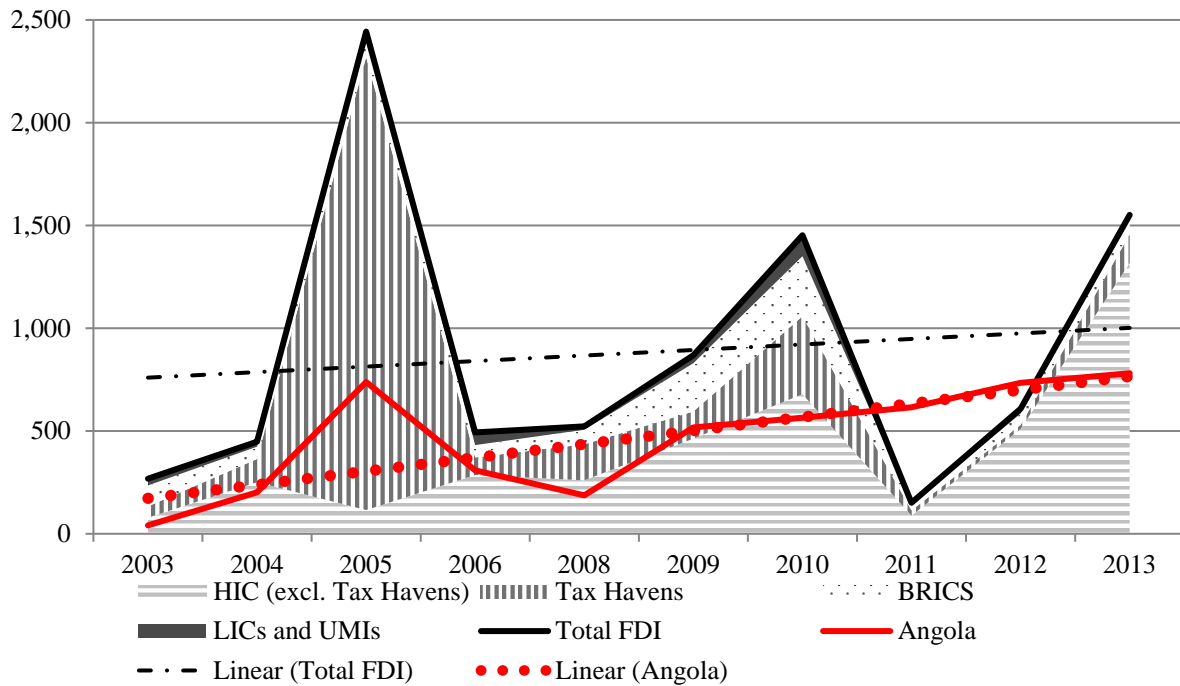
Table 6. Angola FDI and foreign investment projects by data source (current USD mil.)									
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Totals based on BNA	-1,304	-38	-893	1,679	2,205	-3,227	-3,024	-6,898	-7,120
Totals based on reported outflows	974	1,300	-383	505	-1,025	3,856	2,212	1,941	
France	678	694	694	519	-478	1,511	979	953	
Portugal	192	246	-1,051	-965	-512	208	524	530	
China	0	22	41	-10	8	101	73	392	
Other*	104	338	-68	961	-43	2,035	638	65	
Total foreign projects (ANIP)**	2,443	529	287	807	1,174	2,074	262	1,104	2,815
Cayman Islands	2,140	0	0	0	0	2	30	0	0
Portugal	45	192	0	334	555	219	136	489	79
Italy	5	6	0	1	1	9	1	0	2,095
British Virgin Islands	25	69	120	28	43	496	3	2	204
Netherlands	22	6	0	3	6	668	0	106	128
South Africa	25	23	0	11	19	308	4	55	41
China	18	9	0	39	164	79	50	45	76
Spain	1	6	0	11	8	13	5	297	6
Brazil	58	24	0	45	109	8	1	0	6
Bermuda	0	0	0	208	0	0	0	0	5
Gibraltar	26	4	167	0	0	1	0	0	0
* Italy, Cyprus, Denmark, Germany, South Korea, Luxemburg, USA, Sweden, Belgium)									
** top 10 based on cumulative value of approved investment projects									

ANIP data illustrate some broad trends in terms of the geographical distribution of investment outside the oil sector. *Firstly*, the volume of reported investment projects increases rapidly. Foreign investment projects increase from USD 268 million in 2003 to USD 1.5 billion in 2013 (in constant 2005 prices), though with large fluctuations (see Graph 6) – marked in particular, by the global financial crisis and a single large-scale investment in 2005.

Secondly, investment projects are dominated by investments from high income countries accounting for more than 45% of total foreign investment projects in most years, with the important exception of 2005. In that year, one single investment of more than USD 2 billion from the Cayman Islands in the construction sector made up 87% of total investment projects. Investment from the BRICS countries picked up in the mid-2000s when it accounted for more than 26% of total reported foreign investment projects in 2006, but then slowed down again in relative terms over the last two years, accounting for only 4% of total investment projects in 2013.

Thirdly, Angolan domestic investment increased from USD 41 million in 2003 to USD 781 million in 2013. On the whole, it appears to be less volatile and – as indicated by the trend lines of domestic and foreign investment in *Graph 6* – it also shows a much stronger upwards trend than investment from other sources, even though it still remains below foreign investment projects in absolute terms (see Graph 6).

Graph 6. Angola – FDI by country and Domestic Investment 2003 – 2013 (constant 2005 USD)

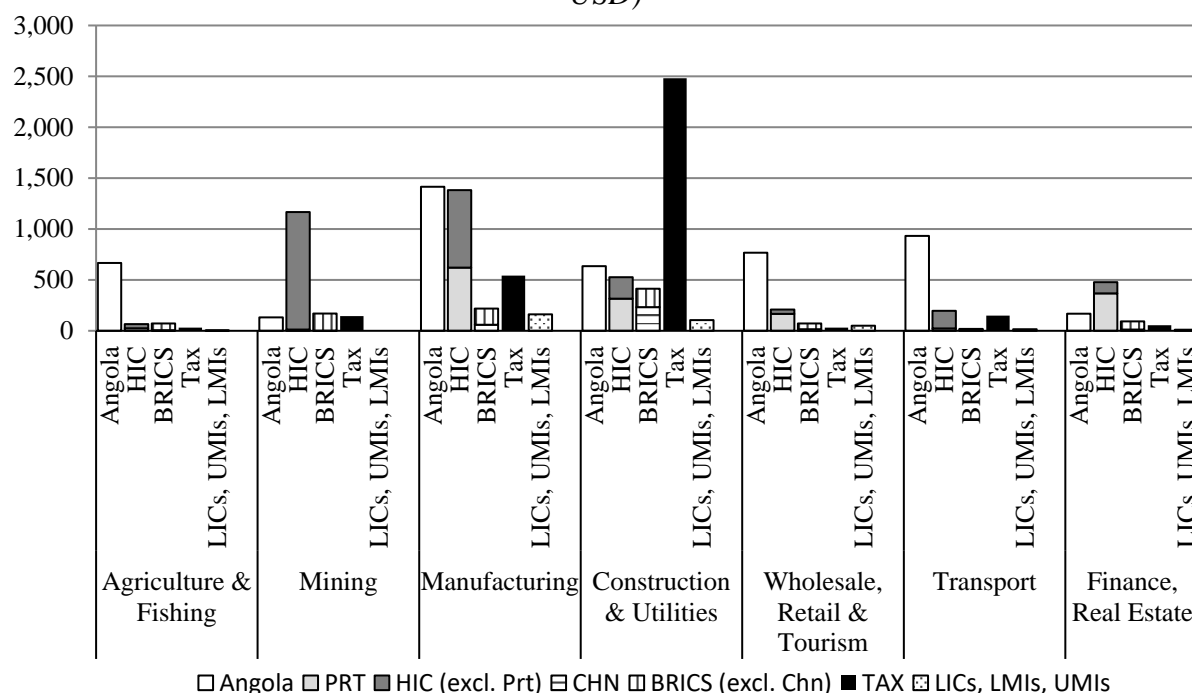


Source: Agência Nacional para o Investimento Privado

2.3. SITUATING THE SECTORAL COMPOSITION OF CHINESE FDI IN ANGOLA

Overall sectoral distribution of investments by partner. After Angolan domestic investment, the second largest share of manufacturing sector investment comes from high income countries (37% of total manufacturing investment, nearly half of which come from Portugal alone). Investments from high income countries dominate particularly in extractive industries (72% of total investments in that sector) as well as financial services and real estate activities (59% of total investments in that sector). Investments from tax havens are concentrated in manufacturing and construction, with 15% and 69% respectively – through the large share of the construction sector is mainly driven by the one big investment from the Cayman Islands of USD 2 billion in 2005 (see Graph 7). Investments from BRICS are comparatively small and more geared towards manufacturing and construction, which account for 22% and 33% of total BRICS investments respectively.

Graph 7. Angola – Investment by Sector and Country (cumulative 2003-2013, constant 2005 USD)



Source: Agência Nacional para o Investimento Privado

Details of the sectoral distribution of Chinese investments. Looking specifically into Chinese FDI, we see that absolute volumes of investment are very small. Even FDI in the construction sector, which accounts for 81% of total Chinese FDI over the period 2003 to 2013 is smaller in absolute terms than Angolan domestic investment in that sector. Manufacturing sector investments are the second largest component of Chinese FDI, but with a cumulative value of USD 55 million over the period 2003 to 2013, these pale compared to domestic and Portuguese investment volumes.

Sector	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total	
Agriculture and Fish.	0	0	1	0	0	0	0	0	0	5	0	6	1.2%
Mining	0	0	0	0	0	0	0	2	0	0	0	2	0.4%
Manufacturing	9	0	9	2	0	2	8	6	9	1	9	55	9.9%
Construction	9	0	5	8	0	42	221	81	19	28	38	450	81.2%
Wholesale, Retail, Tourism	0	0	0	0	0	0	0	5	4	0	6	16	2.8%
Transport	0	0	5	2	0	0	1	0	0	1	0	9	1.7%
Finance, Real Estate	0	0	0	0	0	1	1	1	3	3	4	13	2.3%
Public Services	0	0	0	0	0	0	0	0	0	0	3	3	0.5%
Total	18	0	20	12	0	45	232	95	35	37	59	554	100%

Agência Nacional para o Investimento Privado

Details of the manufacturing sector investments by partner. For the years 2011 and 2012, ANIP provides a sub-sectoral breakdown of investment following the ISIC rev. 3 classification at the 4 digit level, which shows that the majority of manufacturing sector

investments have been made in the production of intermediate inputs, followed by food and beverage, as well as machinery production. The majority of investments in the production of intermediate inputs were carried out by Angolan nationals. Investments from HICs focus on food and beverage production and make up for the second largest share of total investments, despite the overall depressed levels of Portuguese investments over these two years (*Table 8*).

Table 8. Manufacturing Sector Investments 2011 and 2012 by Broad Category (constant 2005 USD, thousands)

Broad category	HIC (excl. PRT)		PRT	CHN	TAX	LICs, LMIs, UMIs	Total
	ANG						
Food + Beverages	34,201	157,442	3,230	259	2,573	2,814	200,520
Intermediate Inputs	612,318	897	5,889	551	2,913	9,369	631,937
Machinery	29,481	2,225	173	5,766	0	0	37,644
Final consumption	3,963	144	288	3,270	17,551	0	25,217
Medical equipment	0	2,452	0	0	0	0	2,452
Recycling	0	0	0	0	2,305	2,205	4,509
Total	679,963	163,160	9,580	9,846	25,342	14,387	902,279

Source: Agência Nacional para o Investimento Privado

Despite these nominally small numbers, Chinese investment have played a major role in the emergence of the two main manufacturing sector activities in Angola. Chinese dominated construction activities have created a market for building materials, which facilitated the emergence of the cement industry in Angola (S.-K. Cheng & Wolf, forthcoming). In addition, the Hong-Kong based China International Fund (CIF) Luanda operates the largest Angolan cement plant with an installed capacity of 3.6Mta at Bom Jesus (i.e. 41% of installed capacity in the cement sector) (S.-K. Cheng & Wolf, forthcoming).

Disaggregation of investments in food and beverage production shows that, in 2011 and 2012, investments came mainly from high income countries, and the majority of these was for the production of alcoholic beverages (beer and spirits). The beverage market in Angola is dominated by European and South African multinationals and some domestic producers, such as the Angolan market leader in soft-drinks Refriango. The largest beer producers are owned by the French beverage giant Group BGI (Castel) producing the local brands Cuca, Nokal and Eka, as well as the South-African SAB Miller and the Portuguese Unicer. However, there are also substantial Chinese investments in this sector: the CIF financed Lowenda Brewery emerges as a major player producing about 10% of domestic beer output in 2013 and employs 250 Angolan and 170 expatriate workers (MIND, 2014).

Though no specific research exists on the investment motives of Chinese manufacturing firms in Angola, firm-level accounts from the beverage sector suggest that foreign investments are attracted by growing consumer demand in Angola itself. Two examples from the alcoholic beverages industry illustrate how localised production is a strategy used by firms to expand sales in the growing Angolan consumer market.

Distell, a South African producer of spirits wines and ciders, which had previously invested USD 3.05 million in Angola in 2008 (according to ANIP data, constant 2005 USD) has opened further plants in Angola in 2014 following the sharp rise in import tariffs on food and beverages, which, according to Distell's CEO make exports to Angola less profitable relative to setting up production there.

“An import model – paying excise and transport costs – can never be as effective or efficient from a pricing standpoint than a locally-owned production and route-to-market business,” (R. Rushton, CEO of Distell, cited in Maritz, 2014)

Thus, it is the rise in import tariffs and a potentially fast growing consumer market rather than trade liberalisation that motivate Distell to relocate production to Angola.

Diageo, the British multinational producer of brands such as Guinness and Johnnie Walker, has, according to ANIP data, invested USD 1.1 million (in 2005 constant terms) in 2012 to improve its wholesale activities in Angola and is now considering setting up production facilities in the country. Internal company reports consider Angola a key new market, with Angolan beer consumption per head being at two thirds of UK levels, thereby making it the largest African market for beer and the third largest African market for alcohol (Diageo, 2013).

The car assembly plant CSG Automóveis is considered another Chinese model investment in Angola, producing 32,000 vehicles a year and employing over 600 workers (of which 500 Angolan).⁸

3. CHINESE INVESTMENTS IN ETHIOPIA: THE GEESE FLYING TO AFRICA?

Different data sources on Chinese investment suggest that China is the most important foreign investor in Ethiopia. Ethiopia is often seen as emblematic for the onset of a flying-geese type relocation of labour-intensive industries from China to Africa. This is true, but Chinese investment motives in Ethiopia are much wider than benefitting from cheap labour costs, and investments are predominantly market-seeking. This offers a wider potential for structural transformation on the back of economic engagement with China. Ethiopian policy has actively shaped the relationship with China, which explains, for instance, the success of (parts of) the leather industry despite of Chinese competition. Yet, some policy mismatches impede domestic linkage formation.

3.1. ETHIOPIAN INVESTMENT TRENDS AND RELATIVE IMPORTANCE OF CHINESE INVESTMENT

Ethiopia is not a typical FDI attracting country. As for Angola, data on FDI provided by the Ethiopian Central Bank (NBE) and the outstocks reported by the main investors differ greatly. Instocks reported by the NBE are significantly larger than totals derived from the outstocks of main investors (*Table 9*). This might be explained by the fact that reported outstocks cover only a sub-sample of investors. However, there are likely to be other sources of discrepancy given the gap between the two.

⁸ <http://www.noticiasautomotivas.com.br/angola-vai-ter-sua-primeira-montadora-de-automoveis-e-a-previsao-e-de-32-mil-unidades-por-ano/>

Table 9. Ethiopia FDI stocks by data source and partner (USD million)							
	2006	2007	2008	2009	2010	2011	2012
Total instocks reported by NBE	3,366	3,588	3,697	3,918	4,206	4,833	5,111
Totals based on outstocks by reporters	99	268	330	522	610	673	660
China	96	109	126	283	368	427	607
Turkey	0	6	11	28	21	23	36
United States	2	2	2	3	6	9	11
Other*	1	0	0	1	1	1	1
China % of total NBE	96.1%	40.7%	38.4%	54.3%	60.3%	63.4%	91.9%
China % of total outstocks reported	2.8%	3.0%	3.4%	7.2%	8.8%	8.8%	11.9%
* Belgium, India, Italy, South Korea and Norway Source: UNCTAD bilateral FDI statistics							

In 2013, China's flows to FDI to Ethiopia is USD 102 million, China's total FDI stocks amount to USD 772 million (calculations based on Statistical Bulletin of Chinese outward FDI). What stands out is that Chinese FDI stocks in Ethiopia are much larger than any of the other major investors (see *Table 9*). This is consistent with the data from the Ethiopian Investment Commission (EIC), which show that China is the lead investor for the largest number of projects (1016) recorded between 2000 and 2015, followed by India (479), Sudan (433), the US (369) and the UK (288). Consequently, China is also the largest employment generator, with 285,123 jobs created by Chinese investment projects over the period 2000 to 2015. This is followed by the UK (215,141) and Saudi Arabia (237,138). Interestingly, although Chinese investment projects generate the most employment in absolute terms, they seem to be less labour intensive than UK-led projects, which generate more employment per project on average. Data by the EIC are very detailed in that they indicate all investors in case of joint ventures. What stands out, is that China engages less in joint ventures than OECD investors (*Table 10*).

Region	No. of Investment Projects	of which JV	% JV	Total Employment Generated
BRICS	1553	326	21%	426,548
China	1016	146	14%	285,123
India	479	145	30%	132,718
OECD	2020	957	47%	720,152
USA	369	132	36%	80,969
UK	288	154	53%	215,141
SSA	606	140	23%	100,593
Sudan	433	58	13%	71,446
Kenya	73	34	47%	13,481
MENA	668	265	40%	295,720
Saudi Arab.	212	103	49%	237,138
Egypt	84	39	46%	12,487
Asia	105	29	28%	25,123
Latin Am.	45	19	42%	5,792
Europe (non-OECD)	33	19	58%	22,692
Total no. of projects	5030			Total Employment Generated: 1,596,620

Source: EIC

3.2. INVESTMENT MOTIVES AND SECTORAL COMPOSITION OF CHINESE FIRMS IN ETHIOPIA

Even in Ethiopia, often presented as a model case for flying-geese type relocations of Chinese labour intensive industries (Geiger & Goh, 2012), survey data of the Ethiopian Central Statistical Agency (CSA) suggest that about 84% of Chinese manufacturing firms in Ethiopia are local market-seekers (Seyoum, Wu, & Yang, 2015; Geda and Meskel, 2010). The two most frequently mentioned investment motives of the 45 Chinese manufacturing firms in Ethiopia interviewed by Geiger & Goh (2012) are the ‘good understanding of the investment climate (from social networks)’ and the ‘local market in Ethiopia’. ‘To take advantage of cheap labour in Ethiopia’ is ranked on average ‘neither agree nor disagree’ among Chinese manufacturing firms, though Chinese firms in the service sector ‘strongly agree’ (Geiger & Goh, 2012). In addition, Chinese FDI is different from the others as most of the Chinese investment is in green field, compared to, for example the locally-dominant Saudi-owned MIDROC group and others who are more interested in purchasing public enterprises and acquisition of privatized firms (Geda & Meskel, 2010, 23-4).

Out of the 69 Chinese companies interviewed in the World Bank’s report, 45 (65%) are in manufacturing (including textile, garments/shoes, non-metallic minerals, machinery and equipment supplies, information technology, electronics, food/restaurants) and only 13 are in construction (Geiger & Goh, 2012). This reflects the sectoral distribution of Chinese investment projects reported by the EIC. Over the period 1999 to 2015, the Ethiopian investment commission has registered a total of 694 Chinese projects in manufacturing. By contrast, the US, i.e. the largest OECD investor, has undertaken just 88 manufacturing sector investment projects over the same period. About 68% of Chinese-led investment projects are manufacturing sector investments, compared to 34% of OECD country-led investments, and

40% of SSA-led investments. In particular, we find a stronger concentration of Chinese investments in final consumer goods production and intermediate inputs (*Table 11*).

Table 11. Ethiopia: investment projects by sector and country (% of total by investor)

Sector	BRICS	China	OECD	SSA	MENA	Asia	Latin America	Europe (non-OECD)
Agricult., Forest., Fishing	7%	1%	17%	10%	22%	8%	13%	18%
Mining	0%	0%	0%	0%	0%	1%	0%	0%
Food & Beverages	6%	5%	10%	17%	17%	20%	24%	21%
Final Consumer Prod.	21%	27%	8%	6%	8%	25%	7%	0%
Intermediate Inputs	31%	32%	12%	14%	17%	17%	9%	27%
Machinery	4%	4%	2%	1%	1%	2%	0%	0%
Medical Precision	0%	0%	1%	1%	1%	0%	0%	0%
Public Transport								
Equipment	0%	0%	0%	0%	0%	0%	0%	0%
Luxury	0%	0%	0%	0%	0%	0%	0%	0%
Services	30%	30%	50%	50%	33%	28%	47%	33%

Source: EIC

The areas of investment have become increasingly diversified which involve both POEs and SOEs, e.g. the traditional resource extraction in iron and steel, the new light industry, manufacturing in glass production and automobile assembly, construction of SEZ and industrial park (Li, 2014). Zooming further into the type of Chinese manufacturing sector investment shows that these are very diverse, covering a total of 78 sub-sectors at the 4-digit level and involving a whole range of activities. To put this into perspective, US manufacturing investments only cover 42 sectors. Textiles, garments and footwear production dominate in Chinese investments, but we also find plastic products, cement and concrete articles, steel and furniture among the top ten manufacturing investment sectors. The largest employment generators are textile, garments and footwear projects, but plastics and cement projects are also large employment generators (*Table 12*).

Table 12 Ethiopia: Chinese manufacturing sector investments 2000-2015 by ISIC 4 digit

ISIC 4digit	Description	No. of Investment projects	Empl. generated	% of total empl.
2520	Plastics products	65	10,750	9%
1721	Made-up textile articles, except apparel	49	5,147	4%
1810	Wearing apparel, except fur apparel	42	15,213	12%
3610	Furniture	40	1,931	2%
1920	Footwear	28	12,062	10%
2695	Articles of concrete, cement and plaster	26	2,128	2%
2694	Cement, lime and plaster	25	10,716	9%
3220	Television + radio, telephones	23	1,963	2%
1912	Luggage, handbags and the like, saddlery and harness	21	14,852	12%
2710	Basic iron and steel	19	2,163	2%
1511	Processing of meat and meat products	17	1,760	1%
1711	Spinning of textile fibres; weaving of textiles	17	9,206	7%
2021	Veneer sheets; plywood, laminboard and other panels	15	2,160	2%

Table 12 Ethiopia: Chinese manufacturing sector investments 2000-2015 by ISIC 4 digit

ISIC 4digit	Description	No. of Investment projects	Empl. generated	% of total empl.
2693	Structural non-refractory clay and ceramic products	15	1,489	1%
2811	Structural metal products	15	2,609	2%
3430	Parts and accessories for motor vehicles	12	808	1%
3699	Other manufacturing n.e.c.	11	1,305	1%
2109	Other articles of paper and paperboard	11	1,418	1%
1554	Soft drinks; production of mineral waters	10	1,121	1%
1911	Tanning and dressing of leather	10	5,156	4%
2610	Glass and glass products	10	1,706	1%
1514	Vegetable and animal oils and fats	9	529	0%
2422	Paints, varnishes, printing ink and mastics	9	238	0%
2519	Other rubber products	9	645	1%
2924	Machinery for mining, quarrying and construction	9	330	0%
1730	Knitted and crocheted fabrics and articles	8	1,355	1%
2424	Soap and detergents, perfumes and toilet preparations	8	331	0%
3410	Motor vehicles	8	1,015	1%
3592	Bicycles and invalid carriages	8	209	0%
2899	Other fabricated metal products n.e.c.	8	792	1%
2696	Cutting, shaping and finishing of stone	7	842	1%
2930	Domestic appliances n.e.c.	6	478	0%
3150	Electric lamps and lighting equipment	6	425	0%
3591	Motorcycles	6	601	0%
2731	Casting of iron and steel	6	2,260	2%
3130	Insulated wire and cable	6	1,797	1%
2921	Agricultural and forestry machinery	6	298	0%
3190	Other electrical equipment n.e.c.	6	140	0%
1544	Macaroni, noodles, couscous + similar farinaceous products	5	418	0%
2101	Pulp, paper and paperboard	5	223	0%
2429	Pther chemical products n.e.c.	5	200	0%
2915	Lifting and handling equipment	5	256	0%
2411	Basic chemicals, except fertilizers + nitrogen compounds	4	167	0%
3140	Accumulators, primary cells and primary batteries	4	980	1%
1712	Finishing of textiles	3	432	0%
1729	Other textiles n.e.c.	3	85	0%
2893	Cutlery, hand tools and general hardware	3	179	0%
1549	Other food products n.e.c.	3	91	0%
2320	Refined petroleum products	3	598	0%
2720	Basic precious and non-ferrous metals	3	421	0%
3230	Television + radio receivers, sound or video recording	2	80	0%
1531	Grain mill products	2	65	0%
1532	Starches and starch products	2	350	0%
1541	Bakery products	2	200	0%

Table 12 Ethiopia: Chinese manufacturing sector investments 2000-2015 by ISIC 4 digit

ISIC 4digit	Description	No. of Investment projects	Empl. generated	% of total empl.
1542	Sugar	2	65	0%
2010	Sawmilling and planing of wood	2	225	0%
2102	Corrugated paper and paperboard and of containers of paper and paperboard	2	420	0%
2511	Rubber tyres and tubes; retreading and rebuilding of rubber tyres	2	92	0%
3210	Electronic valves and tubes and other electronic components	2	95	0%
3420	Bodies (coachwork) for motor vehicles	2	140	0%
3110	Electric motors, generators and transformers	2	56	0%
1722	Carpets and rugs	1	1,000	1%
1723	Cordage, rope, twine and netting	1	120	0%
1513	Preserving of fruit and vegetables	1	12	0%
1520	Dairy products	1	20	0%
1543	Cocoa, chocolate and sugar confectionery	1	35	0%
2029	Other products of wood; articles of cork, straw and plaiting materials	1	70	0%
2412	Fertilizers and nitrogen compounds	1	100	0%
2421	Pesticides and other agro-chemical products	1	30	0%
2430	Man-made fibres	1	11	0%
2691	Non-structural non-refractory ceramic ware	1	50	0%
2692	Refractory ceramic products	1	22	0%
2699	Other non-metallic mineral products n.e.c.	1	90	0%
2812	Tanks, reservoirs and containers of metal	1	60	0%
2919	Other general purpose machinery	1	80	0%
2925	Machinery for food, beverage and tobacco processing	1	10	0%
3313	Industrial process control equipment	1	183	0%
3320	Optical instruments and photographic equipment	1	13	0%
	Total	691	125,692	100%
			Source: ECI	

Chinese investors in Ethiopia are also diverse in terms of ownership structures: large and medium-sized SOEs, joint-stock enterprises, individual and private SMEs. To name a few, ZTE (formerly Zhongxing Telecommunication Equipment) Corporation, China Sinohydro Corporation, China Wanbao Engineering Company, China Gezhouba Water Conservancy, Huajian Shoe Factory (Li, 2014).

3.3. SPILL-OVER EFFECTS FROM CHINESE FDI IN ETHIOPIA

Seyoum et al. (2015) find that Chinese FDI in Ethiopia is positively correlated to domestic firms' productivity when the technology gap is small. Small firms and non-exporting firms benefit more from spill-over effects than do other types of domestic firms.

Geda and Meskel's research (Geda & Meskel, 2010) showed strong performance in Ethio-Chinese relation in the following areas from 2005 to 2009: road construction, supply of manufactured goods from China, telecommunication and installation of big electric power

stations by Chinese companies, and Chinese firms' involvement in the Ethiopian manufacturing sector. Their survey (about 50 targeted companies each for Chinese firms and domestic firms) showed that the majority of both Chinese firms and domestic firms perceive Chinese investment to have a positive impact in Ethiopia. These impacts are not based on empirical analysis but on perception of the targeted firm managers. The results therefore have to be taken with some caution particularly for the self-assessment of the Chinese firms.

3.4. POLICY MEDIATION OF CHINESE INVESTMENT IN ETHIOPIA: SUCCESSES AND FUTURE CHALLENGES

Ethiopia has been widely discussed as a case of China outcompeting local manufactures. Survey evidence by Gebre-Egziabher (2009) reveals that out of the 98 small and medium enterprises in the Ethiopian footwear industry, 60 per cent were forced to close or to rationalize their activity because of Chinese competition (Gebre-Egziabher, 2009).

However, Sonobe, Akoten, & Otsuka (2009) show that those enterprises that survived the Chinese competition are now growing dynamically and serving both local and international markets. The interesting question is which policies facilitated this bounce back and explanations for this success vary. Sonobe et al (2009) underline that Chinese competition had spurred a process of creative destruction with domestic SMEs having to improve product quality and production processes, thereby increasing their export capacity and leading other local firms to enter the market. This in turn led to cluster building and supply-side externalities including improvements in technology and managerial capabilities. Brautigam, on the other hand, attributes the rebound of the Ethiopian leather industry to a successful policy response by the Zenawi government, which set-up industrial parks (and within that large factories) and encouraged learning spill-overs from joint ventures (among others with Chinese firms) (Brautigam, 2009).

Limited supply chain formation might be partially a temporary phenomenon explained by unfamiliarity with local suppliers, but it also reflects policy mismatches in the host country. In Ethiopia, for instance, both Chinese shoe manufacturers and tanneries have set up production bases. Yet Chinese tannery firms are reluctant to supply Chinese shoe manufactures in Ethiopia because they would lose their tax benefits if products were sold domestically instead of being exported (Brautigam & Tang, 2014).

4. CHINA'S "GO GLOBAL" – A STUDY OF FDI AND INDUSTRIAL POLICY

For Chinese enterprises to be able to "Go Global" means to successfully upgrade and compete internationally, and the Chinese experience itself is a very useful case for studying the relation of FDI and industrialisation. While many believe that inflow FDI is the key for Chinese economic transformation, the reality is more complicated.

FDI for industrialisation and modernisation?

Like many low- and middle-income countries which rely on the foreign industrial goods and machinery for industrialisation and modernisation, China is no exception. When the international blockade was eased in 1978, China increased imports dramatically and bought goods ranging from arms, aircraft, steel-making plants, petrochemicals, mining equipment, oil rigs to wheat (H.-S. Cheng, 1979). The import commitments saw a tenfold increase from the previous year and quickly changed China's trade surplus to trade deficit. Including

commitments under negotiation, the total import bill came up to about USD 60 billion in 1978 whereas the exchange reserves at the time were only between USD 2 billion and USD 4 billion (H.-S. Cheng, 1979). Prior to the SOE reform in the 1990s, many of the SOEs were in debt and had to rely on state support.

Ten years before Zhu's speech on "Go Global", in 1991, a State Planning Commission paper endorsed by the State Council entitled *Strengthening Administration on Overseas Investment Projects* recognized that Chinese enterprises had not obtained the capability to conduct large-scale overseas investment, and that overseas projects using large amounts of foreign currency had to be examined and approved by the state.

Since the Market Reforms which open China for inward FDI, China has successfully accumulated a large reserve of foreign exchange. By the end of 2010, China had nearly USD 2.65 trillion and is growing by as much as USD 500 billion a year (Salidjanova, 2011, 14). Although FDI inflows as a percentage of China's GDP stood at around 4% to 6% from 1990s to 2000s, higher than the world average, China's GDP growth has actually outgrown the growth of FDI inflows (Naughton, 2006, 405). Foreign capital is not the main engine of growth in China. As noted by Naughton, China had restricted incoming FDI to the export manufacturing sector up until 1990. The domestic market was effectively closed to foreign firms with only a few exceptions (Naughton, 2006, 403). Even after 1990, FDI was concentrated in the coastal provinces and could not account for the general growth across the country. As suggested by Bramall (2009, 276), the talk of export-led growth may apply to Guangdong but not in provinces such as Zhejiang or Jiangsu where domestic factors were critical. Furthermore, exports of goods and services as percentage of GDP in China hit nearly 36% in 2006 and then dropped (World Bank, 2016). Only between 2002 and 2008 did the export share in China exceed the world average. But compared to the average of the developing countries in East Asia and Pacific, the percentage in China remained below the average in the region (World Bank, 2016).

Preferential treatment is given to foreign capital to attract investment in export manufacturing with the aim to induce technology transfer and structural upgrade. On the other hand, a national policy on creating a group of "national champions" is gearing up at the same time. Some scholars name it the "dual-track" reforms – effectively cordoned off "strategic parts of the domestic economy from the processing trade regime's outputs and imported inputs" (Poon, 2014, 9).

China's industrial policy with the state sector taking the lead

Although "Go Global" is not exclusive to state-owned enterprises (SOEs), the strategy design and the timing worked hugely in favour of the SOEs, particularly in the beginning. Chinese SOEs have been subject to waves of reform and restructuring, including the corporatization and privatization of some small- and medium-sized SOEs. This has led to massive lay-offs of workers and an emerging private sector in the Chinese economy. However, the reforms do not mean the government is giving up the state sector. It actually includes an ambitious plan to turn the fortunes of the selected SOEs in strategic industries, and to make them competitive and leaders in these industries.

Some 120 large enterprise groups were selected by the State Council in the 1990s to create a "national team" under preferential policies. These policies could be roughly grouped into three categories: 1) High levels of tariff and non-tariff protection. For example, the average level of tariffs was almost 25% in 1999, on vehicle imports it was 80-100%, and 31% on farm products. There were mandated technological transfers for certain categories of imported goods, and the state bureaucracy matched domestic component suppliers with foreign

investors, routinely excluded foreign firms from domestic distribution channels, and required foreign investors to set up joint ventures with selected domestic partners; 2) Enhanced legal rights on fundamental areas such as profit retention, investment decisions and engagement in international trade. SOEs were given the right to set up internal finance vehicles, and to manage companies within the same SOE group. Many state-run R&D centres were transferred to these companies. The 1994 Company Law enshrined their property rights as independent legal entities formally separate from the bureaucracy. The top 120 led the move to domestic and international stock market listings, the latter tightly controlled by the state as a key mechanism for raising capital; 3) Large-scale state financial support. The big four state banks concentrated their funds in support of the national team and the process of concentration. A simplified loan procedure was put in place in the late 1990s, and hundreds of dedicated bank branches were set up to advise the top 120 and facilitate access to capital markets. Billions in loans have been made to facilitate the expansion and export of key sectors (Nolan 2001, 18-19).

The result of the SOEs reform was transformative: the overwhelming majority of the “national team” ceased to be loss-making and became profitable concerns. In 2006, Premier Wen Jiabao reported to the 11th National People’s Congress that compared to 2002, the SOEs’ total profits increased by 223% and their tax contribution by 105%. The largest SOEs, now well-integrated, fully-financed and viable businesses, were now ready to compete on the international stage (Xinhua 2008). The relative success of the industrial policy is reflected in the structural changes to China’s export basket: China is exporting higher value-added manufactures such as electrical, computers, and telecommunications equipment, and domestic contents in the exports are increasing (Poon, 2014, pp. 5–6). The proportion of assembly operations in the processing trade balance dropped from over 30 percent in the late 1990s to about 10 percent in 2006 (Poon, 2014, p. 6). China has also advanced into “core product markets of developed countries – such as in heavy equipment manufacturing like construction machinery and other capital equipment sectors – and taking market share at the expense of western companies in non-OECD markets. Moreover, a BCG [Boston Consulting Group] report surveyed seven large-equipment industries (photovoltaic, wireless telecom, wind power, coal power, power transmissions, railing rolling stock, and civilian aerospace) and noted that all except one (civilian aerospace) have at least one Chinese company among the top five global players”(Poon, 2013, p. 4).

China’s success in industrial policy and lessons for SSA economies

If China did not have an independent industrial policy and had not developed its indigenous technological capabilities, it could have remained a large assembly hub and its processing trade could be completely susceptible to foreign capital, technology and market. Okazaki & Fukumoto’s study of China after the global financial crisis in 2008 shows that the net inward direct investment dropped by 47 percent in 2009 according to the balance of payments statistics published by SAFE; the foreign banks had withdrawn USD 10.4 billion direct investment from Chinese banks (Okazaki & Fukumoto, 2011, p. 13). This could be catastrophic to any economy which relies on foreign investments and markets. China was able to recover quickly largely due to government intervention and the successful implementation of the stimulus plan through the state controlled banking sector and SOEs. “In the first quarter of 2009, the net increase of bank loans amounted to 4.6 trillion RMB, which was nearly the equivalent of that for the whole year of 2008. Medium- and long-term loans made up 41 percent of the total loans. This was because the banks followed the government’s guidance to support infrastructure investment and technological innovation. The increase in infrastructure loans constituted 50 percent of the total medium- and long-term

loan increases. Such a rapid increase in infrastructure loans helped the economy to recover quickly.”(Okazaki & Fukumoto, 2011, p. 18) The stimulus plan not only increased investment, it has also furthered the industrial upgrading of domestic firms in a variety of sectors and increased the market share of some of the top domestic producers (see examples in Poon, 2014, pp. 12, 18).

As suggested by (Lo, forthcoming), productivity growth and industrial upgrading might be the more important driving forces in China’s expansion of international trade. The state plan and strategy to create a “national team” and the selective opening to foreign capital were the measures used to protect the domestic industries and reduce dependency. The relative success of China’s industrial policy serves as a reference point for the developing countries. As Daniel Poon (2014) points out, China’s own experience has, against the Washington Consensus, carved out policy spaces for industrial policy and should encourage others to pursue an alternative strategy for development. China’s relative success in upgrading – the ability to build up indigenous technological capabilities – has substantially lowered the prices of vital capital goods. As quoted in Poon’s (2014, p. 20) report, the OECD commented that “such a downward shift in the relative price of capital goods could represent a major growth payoff from the expansion of India and China for the world economy as a whole, but especially for low-income countries where prices for capital goods have historically been excessively high”. China’s growing investments in developing countries should also give the latter increased bargaining power with other bilateral partners. With China’s strategic concerns in mind, these developing countries can better position themselves and leverage for more technology transfer and capacity building assistance.

CONCLUSIONS

Existing evidence shows that Chinese firms are willing to incur short-term losses in order to become more cost-effective or to penetrate the domestic consumer market. This engagement offers opportunities for SSA countries through spill-over effects in terms of linkage formation and skill development. Whether they are made use of depends as much on the domestic dynamics in African countries as on the mode of Chinese engagement. China’s “Go Global” experience has demonstrated that inflow FDI is important for host countries in accumulating foreign reserves and technology transfer, but that FDI alone cannot guarantee growth and industrialisation. For a developing country to achieve economic transformation and industrialisation it takes much more than just attracting FDI.

Chinese investments in Africa are mainly in construction, mining and manufacturing. Our studies show that it has generated some positive impact in the two cases examined here– Angola and Ethiopia. The positive impact on SSA countries also depends on the extent and pace of China “deepening its industrial capabilities and diversifying into productive sectors and activities up the industrial value chain” (Poon 2014, p.2). China’s structural transformation and its ramifications are welcomed but should be analysed with caution given the fact that China is still a developing country itself and has been under tremendous pressure to roll back government investment and move towards financialisation. While it is certain that some ground work for economic development has been laid by Chinese investment, it is too early to say whether it will bring structural change to these countries.

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