Chinese FDI in Africa

**Description**

# Overview of overseas business of Chinese companies

China's role in the global economy has rapidly changed. As Chinese FDI outflows are rapidly closing the gap with inflows, the country is expected to be the most important net investor in the world in the coming two years (*Unctad, 2014*).

The increasing importance of state-owned enterprises (?????????) in China has accounted for the majority of outward direct investments worldwide, resulting in a strong interest for developing countries with a significant amount of resources.

The promotion of the "*Go Out Policy*" by the Central Government have boosted China's worldwide investment and contracts exponentially, reaching $66,790 million in 2014 (*The Heritage Foundation, 2014*) and with an average of $ 87,039 million from 2005. The data show also that, despite a decrease in 2014 FDI outflows, the yearly number of Chinese contracts and investments worldwide increased with a yearly average of 27.63% from 2005 to 2013.



Another reason for China's interest in doing business overseas is due to the growing accumulation of money reserve from the past years that had significantly led to international pressures in order to make the RMB more flexible and convertible. Through heavy strategies of M&A and Joint Ventures on behalf of its SOEs, China has been able to use some of its reserves in order to acquire foreign companies and increase its presence within the global market.

This strategy has already affected China's cross-border RMB settlements with a yearly increase of 61% in 2013 and the currency is expected to become one of the most traded currencies worldwide in the coming five years (*Aitken, 2014*).

Finally, the large-scale local privatization of enterprises, started in 1999 and boosted by the combination of less political, social and strategic burdens together with an effective stock therapy, created a favorable environment also for private enterprises (?????????) which now can operate in a more competitive market (*Lin, 2012*).

In March 2014, private enterprises showed a higher level of profitability, with an increase in their value added of 11.7%, compared to SOEs, which registered only a 4.5% increase (*World Bank Beijing, June 2014*).

# Chinese FDI in Africa

Investments between Africa and China have grown significantly from $10.5 billion in 2000 to $40 billion in 2005 and $166 billion in 2011 and China is currently Africa's largest trading partner, having surpassed the US in 2009 (*United Nation 2013*).

On the other hand, Sub-Saharan Africa contains 5 out of 10 economies that reduced their distance to frontiers across 3 or more areas in 2015 (*Doing Business 2015*).

In particular Togo, Cote d'Ivoire and Senegal improved the most in Registering Property, Protecting Minority Investors and Starting a Business, which cover a critical role for Chinese companies investing abroad as their privatization and consequent globalization raised concerns about the necessity to establish new corporate governance frameworks and IP protection worldwide.

It is highly profitable nowadays to do business overseas in the form of OEM/JV. In 2008/2009, the Central Government has relaxed the restrictions related to foreign exchange prepayments for exporters and extended payment for importers, allowing easier trade transactions (*Circular on Issues concerning Management of Registration of the Foreign Debts under Trade in Goods, 2008*).

The emphasis that the Central Government has already put in innovation targets will be supported by an increase in government expenditure up to CNY 4trillion (*KPMG, 2011*) in seven priority industries for a forecasted money supply of 16% until 2015 (*China's 12th Five-Year Plan, 2011*), making access to credit much easier than the past.

The domestic credit provided by the financial sector, as a percentage of the GDP, has already increased by +0.06, +0.05 and +0.05 in the first three years of the plan (*World Bank/IBRD/IDA, 2014*) and, as already observed, POEs are increasing in number as the ease of obtaining credit grows. This will, in turn, boost Chinese FDI in Africa.



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