MASTER THESIS

Titel der Master Thesis / Title of the Master's Thesis

„China's Foreign Direct Investment in the African Manufacturing Sector "

verfasst von / submitted by

Federico Zanotti

angestrebter akademischer Grade / in partial fulfilment of the requirements for the degree of

Master of Advanced International Studies (M.A.I.S.)

Wien 2019 / Vienna 2019

Studienkennzahl lt. Studienblatt Postgraduate programme code as it appears on the student record sheet:	A 992 940
Universitätslehrgang lt. Studienblatt Postgraduate programme as it appears on the student record sheet:	Internationale Studien / International Studies
Betreut von / Supervisor:	Prof. Dr. Werner Neudeck

Vienna School of International Studies
École des Hautes Études Internationales de Vienne

universität wien

Pledge of Honesty

On my honour as a student of the Diplomatic Academy of Vienna, I submit this work in good faith and pledge that I have neither given nor received unauthorized assistance on it.

Signature

diplomatische akademie wien
Vienna School of International Studies
École des Hautes Études Internationales de Vienne

Abstract

China’s actions in Africa have attracted great international attention during recent years and its engagement on the continent is commonly described as either an altruistic move or as only being targeted at exploiting abundant African natural resources and local labour. This thesis goes beyond these highly polarized views of China-Africa relations and seeks to offer a more balanced and data-driven analysis of Chinese investment in Africa with the aim of understanding its influence on the economic development of the continent. To this end, this work analyses official Chinese data - drawn from the Ministry of Commerce of the People’s Republic of China (MOFCOM) - and investigates the patterns of Chinese foreign direct investment in Africa between the years 2004 and 2017. Noticeably, these data show that China’s investment in Africa is increasingly moving into productive sectors rather than into natural resource extraction, with a major focus lying on infrastructure and manufacturing. As a result, China’s FDI in Africa could hence lead to the creation of jobs on the continent and advance its development. Yet for this to happen, African countries will need to develop the ability to capitalise on China’s engagement by enacting pragmatic and tailored policies that can channel this potential towards the industrial transformation of the continent. A case study on Ethiopia will help to illustrate this argument.

Abstrakt

Chinas Engagement in Afrika hat in letzten Jahren für enormes internationales Aufsehen gesorgt und wurde entweder als altruistisches Verhalten oder als Ausbeutung afrikanischer Ressourcen und Arbeitskräfte beschrieben. Diese Arbeit versucht daher diese zwei Sichtweisen zu diversifizieren und Chinas Investitionen auf dem Kontinent mittels einer Datenanalyse genauer zu bestimmen. Ziel ist es dabei zu ermitteln, in welcher Weise China die Entwicklung Afrikas beeinflussen oder sogar vorantreiben könnte. Die Analyse Chinesischer staatlicher Daten zu dessen Direktinvestitionen in Afrika hat ergeben, dass Investitionen immer öfter in wertschaffenden Bereichen erfolgt anstatt an Rohstoffgewinnung gerichtet zu sein. Diese Investitionen haben daher das Potential den Kontinent wirtschaftlich voranzutreiben und zur Schaffung von Arbeitsplätzen zu führen. Eine Fallstudie in Äthiopien zeigt jedoch, dass dies nur durch die Implementierung nötiger Richtlinien seitens Afrikas ermöglicht werden kann, die dazu führen Chinas Investitionen in Richtung des industriellen Wandels des Kontinents zu lenken.

Table of Contents

Glossary of Abbreviations and Acronyms

AAF-SAP	African Alternative Framework to Structural Adjustment Programs for Socio-Economic Recovery and Transformation
AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunity Act
AU	African Union
BRI	Belt and Road Initiative
BEA	Bureau of Economic Analysis
EBA	Everything But Arms (EBA)
EIC	Ethiopian Investment Commission
EIDSP	Ethiopian Industrial Development Strategic Plan
EIZ	Eastern Industrial Zone
ELF	Eritrean Liberation Front
EPRDF	Ethiopian People's Revolutionary Democratic Front
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Cooperation
GDP	Gross Domestic Product
GTP II	Growth and Transformation Plan
IS	Import Substitution
MOFCOM	Ministry of Commerce of the People's Republic of China
LDC	Least Developed Countries
ODI	Overseas Development Institute
OFDI	Overseas Foreign Direct Investment
SAPs	Structural Adjustment Programs
SDGs	Sustainable Development Goals
SEZs	Special Economic Zones
SOEs	State-Owned Enterprise
UNCTAD	United Nations Conference on Trade and Development

1. Introduction

In less than half a century, China has become a powerful force in Africa and its economic engagement on the African continent is now visible in all major sectors such as trade, investment and infrastructure financing. As a result, China's actions have attracted great international attention in recent decades and were often scrutinized, especially by the West. The recent involvement of some African countries in China's Belt and Road Initiative (BRI) further intensified discussions and studies on this topic. Yet, understanding the deep dynamics and intricacies of Chinese engagement in Africa remains a challenge. Although many publications touched upon the topic and many speculations regarding the country's motivation have emerged, there continues to be a lack of rigorous empirical and field research studies that delve deeper into important aspects of the matter.

While Chinese officials consistently portray their relationship with Africa as one of friendship and mutual benefit, thousands of articles written since the year 2000 have voiced concerns and scepticisms about the real nature of China's interests. The narrative which has been most commonly accepted, especially by Western powers, portrays China as a rogue and destabilising partner for Africa. According to this view, China is only targeting African resource-rich countries with questionable governance by offering investments which are delinked from any long-term development perspective and in no way beneficial to local economies. When seizing energy related investment opportunities, China is said to either be exporting its own workers or exploiting local ones and to have contributed to African recent growth only through its increasing demand for African countries' natural resources.

However, a new strand of literature has now emerged pointing in a different direction and giving an alternative portray of China's engagement on the African continent. In this narrative, Chinese presence in Africa is planned and more long-term and growth oriented than is often believed. It is argued that China is seeing Africa for its potential wealth and enormous economic opportunities and is, in fact, interested in all sectors of African countries' economy, rather than just a selected few. This is said to be marked by significant changes in the nature of China's economic engagement in Africa, especially with regards to China's investments in the African infrastructure and manufacturing sector[1]. Contrary to the extractive sector, investments in the above two have a high employment multiplier and a great structural transformation potential, signalling that China's presence in Africa might likely be generating jobs and development on the continent.

Given these contrasting views, this Master Thesis aims to explore the above-mentioned new strand of literature and to examine the validity of its arguments. In doing so, it wants to move beyond analysing China as either an altruistic partner to, or the exploiter of Africa, as do the two most polarizing narratives. It should rather provide a more nuanced view of the country's engagement on the African continent and identify the influence it might already be having and will continue to have on Africa's economic development. To this end, the following **research questions** will be investigated:

- What is the nature of Chinese investment in Africa in recent years and how has it evolved?
  - Which countries does it target and which economic sectors is it directed at?
  - Does it only target the extraction industry in resource rich countries or is it more diverse and growth oriented?
- What is the potential of Chinese investment for the development of the African continent?
  - Which impact does Chinese FDI have on African local economies?
  - Which are the opportunities and challenges likely to emerge under China-Africa investment cooperation during the next years?

Hypothesis: Chinese investment is diversifying both in terms of location and sector, with increasing investments being allocated to the manufacturing sector. Hence, Chinese investment could, in the future, function as catalyser of African industrialisation and contribute to the urgently needed structural transformation and development of the continent.

To this end, the thesis will consist of both qualitative and quantitative research and will be structured as follows:

First, it will provide an overview of the history of China's economic engagement in Africa as well as of its Foreign Direct Investment to the continent, based on a comprehensive

[1] Alemayehu Geda, Lemma W. Senbet, and Witness Simbanegavi, "The Illusive Quest for Structural Transformation in Africa: Will China Make a Difference?" Journal of African Economies, vol.27, no.1 (2018):8 Accessed February 12, 2019. https://academic.oup.com/jae/article-abstract/27/suppl_1/i4/5075679?redirectedFrom=fulltext

literature review. It will also focus on the concept of economic development and industrialisation and will discuss its main drivers, including the manufacturing sector. Finally, industrialization in the context of the African continent will be examined.

Second, the research will shift to the analysis of one specific channel of China's engagement in Africa, namely Foreign Direct Investment (FDI). Indeed, as "FDI may have the potential for a larger effect on growth than trade in goods, due to the diffusion of knowledge from the entering firms" [2], it is crucial to explore this economic force in order to assess whether China's economic presence in Africa can contribute to the economic development of the continent.

To this end, this part will initially offer a data-driven analysis of the patterns of recent Chinese investments in Africa. What drives the research is the belief that, although natural resources clearly constitute a big part of China's interest in the African continent, Chinese FDI in Africa is becoming more diverse, both regarding location and sector.

It will then move on to analysing the nature and characteristics of Chinese investment in African economic sectors other than the extractive one, with a particular focus on manufacturing. The aim is to understand whether there is evidence for positive growth synergies between China and Africa as well as to investigate whether African industry is benefitting from China's FDI.

Third, in order to understand whether an Africa-China partnership can deliver sustainable industrialisation and development to the continent during the next decades, this part of the work will offer an analysis of the current development context of China-Africa investment cooperation. Specifically, the opportunities and challenges presented under China's New Normal Growth, the Forum on China-Africa Cooperation (FOCAC), the BRI and African Union (AU) Agenda 2063, will be discussed in order to investigate future prospects of Africa-China partnership and its potential for the African continent.

Fourth, an analysis of the recent economic and political relationship between China and Ethiopia will be conducted in order to further investigate the hypothesis that China's investment is becoming more diverse, with respect to both location and sector, and that it can be conducive to the development of African economies. The reason for the choice of Ethiopia as case study will be explained in the following methodology section.

---

[2] Deborah Brautigam et al., "Chinese Investment in Africa: How Much Do We Know?" (2017): 19, Accessed February 1, 2019, https://pedl.cepr.org/sites/default/files/PEDL_Synthesis_Papers_Piece_No._2.pdf.

1.1 Methodology

This interdisciplinary thesis combines the fields of economics and political science. FDI is an economic instrument which is partly driven by political decisions and has political implications. The following work will initially provide an extensive review of existing literature, with a focus lying on recent patterns of China's FDI in Africa whilst also investigating and defining the link between economic development, industrialization and the manufacturing sector. The focus of the thesis will then shift to a data-driven analysis of the patterns of China's FDI in Africa. To this end, Outward Foreign Direct Investments (OFDI) flow data primarily drawn from the Ministry of Commerce of the People's Republic of China (MOFCOM) will be investigated and analysed. This data is concerned with investment projects that have actually been materialized and hence usually differ significantly from data regarding approved investment projects, captured by the MOFCOM OFDI project data. The MOFCOM OFDI flow data are considered the most reliable source of China's FDI by the United Nations Conference on Trade and Development (UNCTAD) which included the data in UNCTAD's World Investment Report, also used for this research. However, a shortcoming of this data is that it does not track smaller projects with a value below $10 million, whose aggregate importance should not be neglected. For this reason, specialized literature in form of books, reports and documents mainly resulting from field studies will also be consulted to conduct the research.

Before moving to the case study, the current development context of Sino-African investment cooperation will be examined via a discussion of the opportunities and challenges presented under China's New Normal, FOCAC, BRI and Africa's Union Agenda 2063. This will constitute the main political analysis of this work.

Concerning the case study, several criteria have led to the choice of Ethiopia as the country to be analysed. Ethiopia is a landlocked country largely devoid of natural resources. It has a population of 109.3 million inhabitants and is today considered one of Africa's fastest growing economies[3]. Though it is still one of the continent's poorest countries, it has set the goal of reaching the status of middle-income country by 2025. Even more importantly, political and economic relations between China and Ethiopia have become closer and increasingly more important over the past ten years, with China's FDI into the country growing from not even $1 million in 2003 to $282,2 million in 2016.

[3]Chris, Giles. "Ethiopia Is Now Africa's Fastest Growing Economy," CNN, (April 24, 2018), accessed February 22, 2019. https://edition.cnn.com/2018/04/24/africa/africa-largest-economy/index.html.

2. Literature review and theoretical framework

This literature review firstly offers a short analysis of the history of Chinese economic engagement in Africa in order to provide some clarity about China's economic presence there. It will then move on to exploring the main strands of existing literature concerning Chinese investments on the African continent, and will review the recently emerging argument of a shift of investment into more diverse sectors of the economy.
Since part of the discussion about China's engagement in Africa has evolved around whether it would contribute to or inhibit African development, the concept of economic development and its drivers will also be introduced. The main focus of this section will, however, be set on the analysis of whether manufacturing is still an important factor in creating economic development and on examining industrialization in the context of Africa.

2.1 Overview of Chinese Economic Engagement in Africa

The growing economic relationship between China and Africa became a main focus and a subject of deep scrutiny in the West only in 2006, following the Beijing Summit of the Forum on China-Africa Cooperation. On this occasion, an important number of African leaders were invited to Beijing by China's President Hu Jintao, who, in the opening speech, introduced his programme of a new 'economic partnership' and an intensification of 'economic cooperation' with African countries[4]. In the wake of this political pledge, Chinese officials committed themselves to double aid, to highly increase soft loans for trade and infrastructure, to facilitate African exports to China by guaranteeing duty-free entry, to accelerate investment flows to Africa and to build economic cooperation zones across the continent[5]. In the following years, China outpaced Britain and the United States as the African continent's major trading partner and its economic engagement with African countries rose impressively across aid, infrastructure funding and financing of Chinese exports and business in Africa.

Given the impressive and unexpected acceleration of China's economic involvement in Africa, alarming remarks and speculations emerged concerning this phenomenon and its implications for African development from Western side. China's rise in Africa came

[4] Deborah Brautigam, "The Dragon's Gift," Oxford University Press (2011): 1.
[5] Ibid.

under scrutiny and some scholars rapidly concluded that China's new presence in Africa was "destabilizing, bad for governance, und unlikely to help Africa to end poverty"[6].

To respond to the level of fear raised by some, academics started to delve deeper into the history of China's economic engagement in Africa, with the aim of bringing clarity and more structure to discussions on the topic. Indeed, much of the West only started to pay attention to this trend in the aftermath of the 2006 Beijing Summit, overlooking the already existing and deeply rooted Sino-African economic ties. China's big economic move into Africa had already taken place in the early 1990s, after over fifty years of aid given by China to all African countries with the exception of the Kingdom of Eswatini (also known as Swaziland), which still today continues to be the only African country with diplomatic ties to Taiwan[7]. Besides aid, China, already in the 1950s, was actively involved in several infrastructure projects across Africa, all while politically backing some African countries' independence efforts[8], which contributed to the establishment of solid and favourable political and diplomatic relations.

Economic ties, however, loosened during the 1980s, owing to China dramatically changing its economic policy; the country's economic focus shifted to internal economic development and China's Communist Party implemented reforms to attract FDI from Western nations. Yet, as a response to the freezing of diplomatic ties and the imposition of economic sanctions from Western powers following the Tiananmen Square Massacre, China decided to turn back to Africa and widen its economic partnership and prospects with the continent[9]. This decision explains the raise of an unprecedented degree of economic involvement of China in African economies in the early 1990s. Economic engagement highly accelerated and widened in areas of trade, technological aid, infrastructure investment as well as skills training. Recognizing the benefits that the above brought to several African countries, many African leaders started to not only consider China as a reasonable economic partner but they were also increasingly attracted by the Chinese model of development perceived as an alternative to the Western one.

This interest and attraction to China spread among African leaders and was further consolidated when, on the global level, it became evident by the mid-2000s that the economic model proposed by the Washington Consensus was failing. With Sino-African economic ties further expanding, China's increasing engagement in Africa developed

[6] Brautigam, "The Dragon's Gift," 307.
[7] Ibid., 2
[8] Chima Henry Nwabia, "China: Africa's New Economic Partner or Coloniser? A Case Study of Nigeria-China Relations," (2018):9, accessed February 24, 2019, file:///C:/Users/utente/Downloads/Hiina_+kas+Aafrika+uus+majanduspartner+v%C3%B5i+kolonisaator_+Nigeeria-Hiina+suhete+juhtum%20(3).pdf
[9] Ibid.

into what might today be seen as the replacement of the Washington Consensus referred to by the economist Rodrik already in 2006; he argued that "the debate now is not over whether the Washington Consensus is dead or alive, but over what will replace it"[10].
Given the above-discussed deeply rooted relationship between Africa and China, the importance of taking it into account when analysing recent trends and future prospects of China's engagement in Africa becomes evident.

2.2 China's Investment in Africa

Although China's investment in Africa can be analysed from various directions, the following discussion will focus on the motivations and determinants driving China's investments in Africa, as it represents the main strand of literature regarding China's engagement in Africa.

Many scholars argue that China's investment in African countries is intimately tied to their natural resource endowments, to shorter trading times and to poor governance of the host country, concluding, that Chinese actions in Africa "can be highly detrimental to the development prospects of African countries"[11].
However, these studies tend to focus only on investments of state-owned firms, and often overlook two important aspects:

- They only consider approved projects, neither looking at their value nor at whether or not they have been materialized.
- They do not take into consideration Chinese private firms, which are driven into Africa mainly by its larger and new markets.

Alternative studies point in a different direction and draw different conclusions. Through data-analysis they firstly show that China's attraction to African natural resources does not differ significantly from that of Western investors. Cheung et al, for example, conclude that Chinese investment in Africa is only partly motivated by natural resource endowments together with traditional economic motives including GDP, real GDP growth, and financial and commercial ties with China[12]. Other studies find that there is a

---

[10] Dani Rodrik, "Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's "Economic Growth in the 1990s: Learning from a Decade of Reform," (2006):973, accessed February 15,2019.
https://www.jstor.org/stable/pdf/30032391.pdf?refreqid=excelsior:6268818e3f61f0b43086e7c067a8bf2f.
[11] Ivar Kolstad and Arne Wiig, "Better the Devil You Know? Chinese Foreign Direct Investment in Africa." (2011):46, accessed February 23, 2019,
https://www-tandfonline-com.uaccess.univie.ac.at/doi/pdf/10.1080/1536710X.2011.555259?needAccess=true.
[12] Cheung Yin-Wong, "China's Outward Direct Investment in Africa," Review of International Economies Vol. 20, No. 2 (2012): 201-220.

significant trend of Chinese projects going into manufacturing and services rather than into extractive industries and construction and “that Chinese investment follows typical profit-seeking motives in that it concentrates in skill-intensive sectors in skill-abundant countries and capital-intensive sectors in capital-scarce countries”[13]. However, these results are based on the MOFCOM OFDI project data, which has been speculated not to keeping track of actual investment very well. At a country level, a World Bank survey in Ethiopia concludes that most of Chinese investors are investing in manufacturing and that their decision to move to the country is determined by market-seeking motives, including firm-specific advantages and access to local and foreign markets[14].

In short, the literature either addresses the negative determinants of Chinese investment in Africa, or suggest that China’s FDI in Africa is also growth and market oriented but does not investigate further. Thus, there is the need to delve deeper into the evolving nature of Chinese investment, and in particularly to investigate whether it offers any development potential to the continent. To this end, more attention should be devoted to the alleged growing trend and characteristics of China’s FDI into African manufacturing sector, which is indeed considered to be a key leverage of economic development.

2.3 Industrialization and economic development

Industrialization can be defined as “the structural change that backward countries experience in their development process from an agricultural to an industrial economy, with the profound changes in the society that this entails”[15]. It is widely acknowledged that industrialization plays a decisive role in the process of economic diversification and growth of a country[16].
Industrialization is commonly associated with the European Industrial Revolution that occurred at the turn of the eighteenth and nineteenth century and which had his roots in Great Britain. Over time, this phenomenon evolved and spread from there to other countries and continents. At the turn of the nineteenth century, Germany and the United States became the pioneers of the Second Industrial Revolution, sometimes referred to as the Technological Revolution, which constituted an impressive leap forward in

[13] Brautigam et al., "Chinese Investment in Africa: How Much Do We Know?", 13.
[14] ibid.
[15] Francesca Guadagno, "The Determinants of Industrialization in Developing Countries, 1960-2005,"n.d., 2, accessed April 15, 2019. http://www.aomevents.com/media/files/ISS 2012/ISS Session 9/Guadagno.pdf.
[16] Bruno Martorano, Marco Sanfilippo, and Nobuya Haraguchi, "What Factors Drive Successful Industrialization? Evidence and Implications for Developing Countries," United Nations Industrial Development Organization, (2017):2, accessed April 10, 2019, https://www.unido.org/api/opentext/documents/download/9920891/unido-file-9920891.

technology and society. The late 20th century, in turn, is well-known for the rapid industrialization and ensuing economic growth in East Asian countries.
As Guadagno pointed out, hardly any countries have developed without experiencing industrialisation, which she defines as the transition from an agricultural to a manufacturing-based economy[17]. Thus, there exists consensus, which is also built on the experience throughout the industrial world, that "transformation of the economy from a fundamentally agrarian, subsistence one to an urbanized, integrated, enterprise-dominated one is the essence of economic development" [18], and hence is what ultimately sustains improvements in quality of life. The above is also supported by Duarte and Restuccia, who referred to structural transformation as the reallocation of labour over time from agriculture to manufacturing, and who empirically observed that larger shares of hours in agriculture is associated with lower level of economic development[19]. In addition, UNIDO, through the 2018 Industrial Development Report, recognizes industrialization as the key driver for achieving sustainable development and, thus, as the main force to attain poverty alleviation and shared prosperity.
The industrial sector is typically divided into the manufacturing industry and construction. This thesis will focus on the former, as it is considered the real engine of economic development.

2.4 The key role of the manufacturing sector

It is often argued that the manufacturing sector is the driver of sustained structural transformation and hence the main engine of economic development. The main theory supporting the link between manufacturing and economic growth was developed by Nikolas Kaldor in the 1960s. While investigating the sources of economic development, Kaldor formulated three laws relating to the causation of economic growth, which advocates the key role of manufacturing in the process of development of a country. According to the first law, there exists a positive relation between the manufacturing sector and the growth rate of an economy: the higher the growth of the manufacturing product in a country, the greater the growth rate of the economy's output as a whole. This effect stems from the reallocation of labour from low productivity sectors to the industrial sector and from the manufacturing sector having economies of scale. The

[17] Guadagno, "The Determinants of Industrialization in Developing Countries, 1960-2005," 2.
[18] Louise Fox, Alun Thomas, and Cleary Haines. "Structural Transformation in Employment and Productivity What Can Africa Hope For?" (2017): vii, accessed February 25, 2019. file:///C:/Users/utente/Downloads/44710-afrdp.pdf.
[19] Margarida Duarde and Diego Restuccia. "The Role of the Structural Transformation in Aggregate Productivity." The Quarterly Journal of Economics, Vol. 125, No. 1 (Feb., 2010): 135, accessed April 13, 2019. https://www.jstor.org/stable/pdf/40506279.pdf.

second law, also known as Kaldor-Verdoorn law, states that the productivity of labour in manufacturing is positively linked to the growth rate of the manufacturing sector via increasing returns to scale. Kaldor’s third law identifies a positive relationship between productivity of the non-manufacturing sectors and the growth in manufacturing product. This means that further growth of the manufacturing sector translates into higher productivity in non-manufacturing sectors due to surplus labour moving out of these sectors and masked unemployment being reduced[20].

According to Rodrik, industrialization facilitates long-term economic development via two channels: the shift of labour from low-productivity sectors of the economy to higher productivity ones and the more significant productivity growth experienced by the manufacturing sector over time. For these reasons he emphasizes that structural transformation can only be obtained through the development of the manufacturing sector[21]. Other economists highlight the importance of manufacturing as a catalyser for other jobs through backward and forward linkages to other economic sectors. Manufacturing constitutes a big portion of the so-called traded sector. The traded sector, as opposed to the non-traded sector (e.g. local services, construction and health services), is generally more productive and tends to have a larger multiplier effect. It is demonstrated that for every new manufacturing job, 1.6 service jobs are created[22]. As Ron Bloom, senior counsellor to the former U.S President Barack Obama for Manufacturing Policy, used to say, “if you get an auto assembly plant, Walmart follows; if you get a Walmart, an auto assembly plant does not follow.”[23] Other scholars, besides recognizing the higher levels of productivity of manufacturing as well as its significant capacity to create employment, highlight its role as promoter of savings, facilitator of capital accumulation and creator of favourable investment opportunities[24].

Even more interestingly, the nexus between industrialization and economic growth seems to be more pronounced for developing countries. Recent empirical research shows that while manufacturing is no longer an engine of growth in advanced economies, it continues to play a decisive role for industrialization in developing countries. However, it also highlights that the most dynamic industrial sectors shall be targeted and investments in skills prioritized. An investigation of the role of the manufacturing sector in 67 developing countries and 21 advanced economies revealed that manufacturing is more important in developing countries than in advanced economies and that generally,

---

[20] Yaya Keho, "Manufacturing and Economic Growth in ECOWAS Countries: A Test of Kaldor’s First Law," Modern Economy, (September 2018): 897-898, https://file.scirp.org/pdf/ME_2018051016401161.pdf.
[21] Fox, Thomas, and Haines, "Structural Transformation in Employment and Productivity," vii-viii.
[22] Irene Yuan Sun, “The Next Factory of the World”, Harvard Business Review Press (2017): 94.
[23] Ibid., 95
[24] Martorano, Sanfilippo, and Haraguchi, "What Factors Drive Successful Industrialization? Evidence and Implications for Developing Countries," 2.

industrialization plays a crucial role for growth in developing countries[25]. As a matter of fact, historical evidence shows that, except for the Indian case in the beginning of 2000s, there are no important examples of developing countries experiencing successful economic development without undergoing a process of industrialization. All the Asian examples of economic miracle are stories of industrialization and neither tourism, nor primary exports, nor services have ever played an as important role as manufacturing did[26]. On top of that, economists have demonstrated that modern manufacturing is a vital engine of growth in developing economies as it is the sole sector in which these countries have persistently been capable of catching up to advanced ones in terms of productivity[27]. As the economist Dani Rodrik put forward, this finding is rather noteworthy as “it says that modern manufacturing industries converge to the global productivity frontier regardless of geographical disadvantages, lousy institutions, or bad policies.”[28] Moreover, this convergence exists irrespective of time period or geographical location and includes the African continent. What is more, a United Nations study on 131 developing countries disclosed that the strong correlation between manufacturing value addition and economic development is more remarkable in sub-Saharan Africa than in other regions of the world[29]. A manufacturing-led-transformation is thus likely to boost the widely recognized need for industrialization in Africa and to help African countries to diminish poverty and raise the standard of living.

Despite the above, following the failure of certain countries in South America and in Africa to industrialize, a debate has emerged among scholar as to whether manufacturing will continue to be the engine of growth in developing countries in the 21st century. The main concern is that, since we are rapidly reaching a post-industrial world, growth might only be attained through the advancement of the service sector, like the example of software services in India shows. This would explain why the importance of the manufacturing sector has decreased over the last 20-25 years, leading to a trend of premature deindustrialization or even non-industrialization in developing countries. Yet, research on developing economies indicates that the reduction in both manufacturing output and manufacturing jobs cannot be explained through a decline in the significance of manufacturing as engine of growth; rather, they must be attributed to the failures of

[25] Martorano, Sanfilippo, and Haraguchi, "What Factors Drive Successful Industrialization? Evidence and Implications for Developing Countries," 2
[26] Adam Szirmai. "Industrialisation as an Engine of Growth in Developing Countries, 1950–2005." Structural Change and Economic Dynamics,” (2012): 417, accessed April 13, 2019. https://www.sciencedirect.com/science/article/pii/S0954349X1100018X.
[27] Yuan Sun, “The Next Factory of the World”, 20.
[28] Ibid.
[29] Ibid.

some countries to build a strong industrial sector[30]. In addition to that, this objection does not take into account that most service sectors continue to be characterized by low productivity growth due to the inherent labour-intensive nature of service production.

A second theory emerged supporting the argument that the swift advancement of robotics and automation will inevitably cause manufacturing jobs to disappear and the manufacturing sector to lose its unique role. However, this argument tends to ignore certain essential aspects. First, factories in developing countries often have thin margins and cannot afford expensive and advanced technology. The replacement of manufacturing work through robotics is thus likely to take decades; how automation affects the job market will not depend on what is technically doable, but rather on what is economically viable. Secondly, ever since manufacturing has existed, factories have consistently evolved and advanced state-of-the-art labour-saving technologies. Yet, manufacturing jobs have not disappeared[31].

2.5 Industrialization in Africa

According to the United Nations 33 out of the 47 countries currently classified as Least Developed Countries (LDCs) are in Africa. LDCs are characterized as "low-income countries confronting severe structural impediments to sustainable development"[32] and as extremely vulnerable to environmental and economic shocks. A captivating question arose among academic and policy makers as to why growth on the African continent was slower than on other continents. Several scholars have emphasized the fact that, in the 1960s, Africa's growth was faster than in Asia and African political leaders were committed to embark on industrialisation. In order to pursue a structural transformation of the economy, almost all post-independence African leaders implemented the Import Substitution (IS) strategy, aiming at strengthening domestic industries and production. However, this policy soon failed and resulted in a negative impact on African economies. The reasons for the failure are manifold and continue to be discussed. Political and economic circumstances in Africa deteriorated during the 1970s and definitely contributed to the poor success of the Import Substitution model. However, the policy

[30]Nobuya Haraguchi, Charles Fang Chin Cheng, and Eveline Smeets. "The Importance of Manufacturing in Economic Development: Has This Changed?" (2016): 1-2, accessed April 12, 2019. https://www.unido.org/sites/default/files/2017-02/the_importance_of_manufacturing_in_economic_development_0.pdf.

[31] Yuan Sun, "The Next Factory of the World", 172-173.

[32] "Least Developing Countries Economic Analysis and Policy Division." Development Policy & Analysis Division, United Nations. Accessed April 17, 2019. https://www.un.org/development/desa/dpad/least-developed-country-category.html.

itself had structural flaws in that it had been implemented in a context of badly articulated economic strategy and was never envisaged as a long-term class project[33].

The failure of the IS strategy indicated that Africa's intent to industrialise was already hindered during the years after independence. In reaction to that, by the end of 1980s, two new policy schemes, designed to promote structural transformation in Africa, emerged: the International Financial Institutions (International Monetary Fund and World Bank) based model of 'Structural Adjustment Programs' (SAPs) and the 'African Alternative Framework to Structural Adjustment Programs for Socio-Economic Recovery and Transformation (AAF-SAP)', devised within the UN Economic Commission for Africa. The SAPs, coupled with primarily western aid, became the prevailing policy scheme assisting African economies until today[34]. There is now consensus among analysists that SAPs, which consist of provisions of loans under the condition that austerity measures and liberalization programs are implemented, completely failed to bring about industrialization on the African continent. Regarding western aid, while they are proving to be important in improving children's education or health systems, they have been delinked from investments in business and job-creation and are therefore not being instrumental to the structural transformation of the continent[35]. Aid programs tend to see Africa for its poverty and not for its potential wealth; an "approach one could argue simply places a bandage over complicated and embedded structural problem" [36] and which hence cannot promote sustainable development in Africa. A prime example illustrating this point is the response to the HIV emergency in Africa in the beginning of the 1990s. Following the spread of the disease, Western governments and donor agencies such as USAID in America and the UK's Department for International Development declared the HIV crisis in Africa as a global emergency. Even more remarkably, the UN, through the Millennium Development Goals, for the first time prioritized social services such as health care and education on the development agenda over more-traditional prerogatives such as encouraging foreign investment and meliorating infrastructure[37]. Thanks to these initiatives, over the past twenty years, deaths due to HIV have dropped by 41% and thousands of lives were saved[38].

[33] Geda, Senbet, and Simbanegavi, "The Illusive Quest for Structural Transformation in Africa," 6.
[34] Ibid., 6-7
[35]Deborah Brautigam. "China in Africa: What Can Western Donors Learn?" Norwegian Investment Fund for Developing Countries, (2011):3, accessed April 8, 2019. https://www.norfund.no/getfile.php/133986-1484571456/Bilder/Publications/Norfund_China_in_Africa.pdf.
[36]Heather Brown, "Chinese Investment in Africa: New Model for Economic Development or Business as Usual?" (September 13, 2018), accessed April 7, 2019. https://doc-research.org/2018/09/chinas-approach-to-africa/.
[37] Yuan Sun, "The Next Factory of the World", 153-154.
[38] Ibid., 156

Specifically, a strategy was implemented that would save as many lives as possible, as fast as possible. The Global Health Organization signed contracts to purchase a large number of pharmaceutical products from big, well-functioning factories around the world – mainly from India - which guaranteed the lowest unit price per quantity of medicine; and in some cases, they even contracted to acquire future supplies. This initiative not only provided the African market with the needed volume of pharmaceutical products, but it also generated a fall in the annual cost of HIV treatment per person from $10,000 in 1987 to around $150 in least developed countries today[39]. This was an enormous accomplishment which, however, had an obvious loser: Africa's pharmaceutical industry. Due to vast amounts of medicine still being bought from foreign factories at non-competitive prices, the African pharmaceutical industry today remains in a condition of perennial infant industry. To make an example, Ethiopia, has only 9 pharmaceutical producers compared to almost a thousand in Germany[40].
As the economist Acemoglu argues, the idea that donations can propel African development - thinking which has prevailed among international aid agencies and governments since 1950 - has inherent flaws. Over a quarter of Sub-Saharan countries are, in fact, poorer today than in 1960; in the meantime, Asian countries moved millions of people out of poverty by focusing on productive investment and by only receiving little foreign aid[41]. Interestingly, the share of manufacturing in African GDP today remains extremely low.

Despite the failure of the above-mentioned attempts to propel African industrialization, the African continent experienced an impressive and surprising economic growth between 2000 and 2015. It is, however, widely recognized that most of African countries' recent economic performance was intimately tied to foreign countries' insatiable demand for commodities and thus not driven by structural transformation. The collapse in commodity prices in the second half of 2015 has, in fact, severely damaged Africa's macro-economic situation, with resource-abundant countries such as Angola and Nigeria having been hit the most. For instance, in Angola, a country in which 90% of exports are made up of oil, the average growth rate plummeted from 10.8% to 3.5% following the drop in commodity prices, which will likely negatively affect the country's long-term development[42].

---

[39] Yuan Sun, "The Next Factory of the World", 155.
[40] Ibid., 156
[41]Daron Acemoglu and James A. Robinson. "Why Foreign Aid Fails – and How to Really Help Africa," The Spectator, (April 22, 2017), accessed April 12, 2019. https://blogs.spectator.co.uk/2017/04/9824422/.
[42] Mzukisi Qobo and Garth Le Pere, "The Role of China in Africa's Industrialization: The Challenge of Building Global Value Chains," Journal of Contemporary China V. 27, N. 110, (October 28, 2017):215,

In this situation in which most African economies remain dependent on commodity exports and hence very vulnerable to external shocks, a shift occurred in the debate about Africa's development. Recognizing that a commodity dependent growth is rather elusive and might even hinder Africa's long-term development, emphasis is now placed on encouraging Africa to implement policies that would finally bring about structural transformation. Economists agree that African resources should be shifted from traditional to productive and value-enhancing activities and that new policies promoting infrastructure construction, industrialisation and the diversification of the economy should be implemented[43]. Africa, for example, is still exporting a lot of raw materials instead of processing them on the continent, the latter of which would create added value and help upgrade its industrial capabilities.

Currently, African leaders are not only increasingly recognizing that manufacturing might play a decisive role in helping the continent reach economic modernization, but they are also convinced that the continent has great manufacturing and industrial potential. In the Action Plan for Accelerated Industrial Development in Africa, African heads of State and Governments stated that "no country or region in the world has achieved prosperity and a decent socio-economic life for its citizens without the development of a robust industrial sector" [44]. Moving in this direction, the African Union put industrialisation of the continent as a priority on its Agenda 2063 and 44 African countries signed the African Continental Free Trade Area agreement (AfCFTA) in Kigali, Rwanda, in March 2018. The aim thereby is to establish a single continental market encouraging intra-African trade, free movement of capital and a better business environment. Through the removal of tariffs, the African manufacturing sector is predicted to accelerate which, as a result, could lead to economic diversification. It is also estimated that AfCFTA has the potential to create 14 million formal and well-paid jobs by 2025[45]. Even more importantly, African governments are promoting strategies to attract foreign investment in targeted economic sectors that can nurture African industry and speed up structural change in Africa.

It is within this scope that special attention should be devoted to the increasing flow of Chinese FDI in Africa and, in particular, to those investments that are growth and market seeking and hence capable of propelling African industrialisation.

---

accessed April 22, 2019, https://www.tandfonline.com/doi/full/10.1080/10670564.2018.1389016?scroll=top&needAccess=true.

[43] Ibid., 208

[44] "Launch of the Economic Report on Africa 2017: "Urbanization and Industrialization for Africa's Transformation"." Permanent Observer Mission of the AFRICAN UNION to the United Nations. N.D:4. Accessed April 20, 2019. https://www.un.org/en/africa/osaa/pdf/events/20171208/Statment-ECAEco-report-Africa.pdf.

[45] Landry Signé, "The Potential of Manufacturing and Industrialization in Africa Trends, Opportunities, and Strategies," African Growth Initiative at Brookings, (September 2018):6, accessed April 9, 2019. https://www.brookings.edu/wp-content/uploads/2018/09/Manufacturing-and-Industrialization-in-Africa-Signe-20180921.pdf.

3. China's FDI in Africa

As mentioned in section 1.1, the following analysis will primarily rely on MOFCOM OFDI flow data. However, as this data does not track smaller projects worth less than $10 million, additional data from fieldworks will be used to further deepen the discussion in this chapter.

In the first part, the period from 2004 to 2017 was chosen for the analysis. 2004 is the first year for which Chinese OFDI flow/stock data is available. Moreover, China's OFDI to Africa started to become an important economic dimension with the turn of the century and have risen in significance since then. The graphs used in the next section have been built on these data and will help analyse the following:

- patterns of China's OFDI flow/stock to Africa
- geographical distribution of China's OFDI flow/stock to Africa
- sectoral distribution of China's OFDI flow/stock to Africa

In the second and third section the work will move on to analysing the characteristics of Chinese firms on the continent, with a focus on the manufacturing sector.

3.1 Recent Patterns of China's FDI in Africa

Although only 2.9% of world FDI is directed at Africa, figure 1 and 2 indicate that there has been a significant growth in FDI to Africa between 2004 and 2017 both from China and the world. The bars in figure 1 indicate that global FDI flows to Africa tripled from $17 billion in 2014 to $53 billion in 2016, however, they decreased to $41 billion in 2017. Over the period from 2004 to 2017, we notice that the share of Chinese FDI compared to the Africa's FDI flows from the World has risen from 1.8% to almost 10%, with the exception of the year 2008 due to a single transaction with the South African Standard Bank[46]. The orange-coloured parts of the bars show the value of China's FDI to Africa, which, as we see from figure 1, grew from $317 million in 2004 to $4 billion in 2017.

[46] Brautigam et al., "Chinese Investment in Africa: How Much Do We Know?", 9.

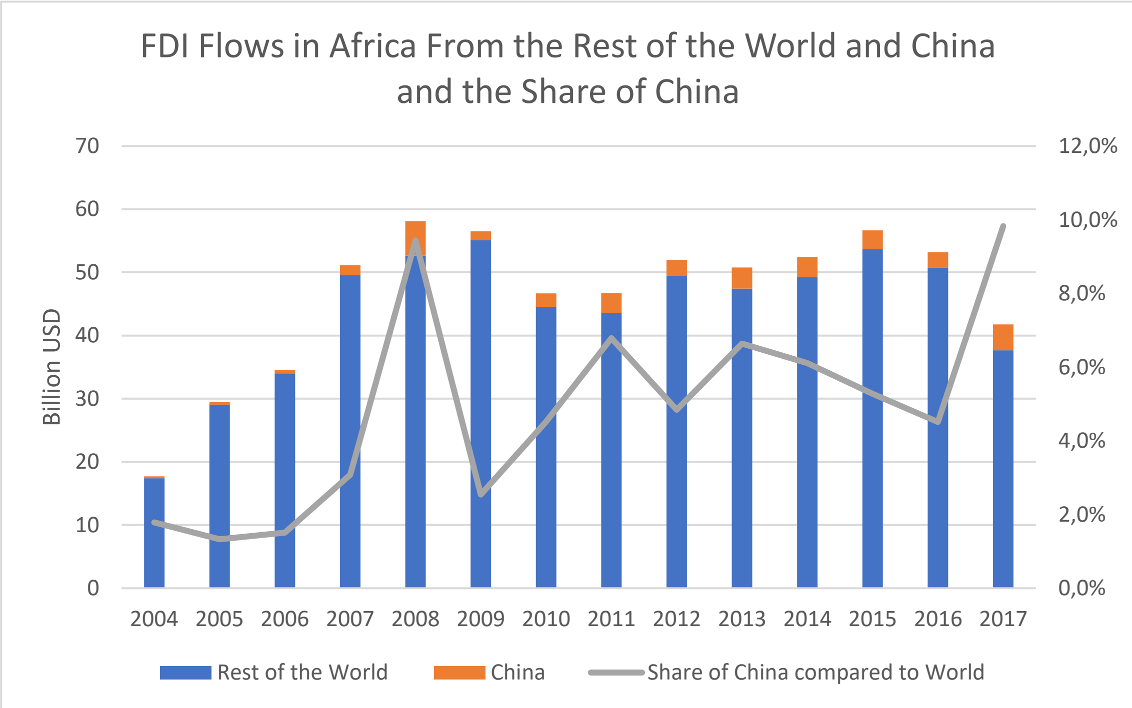


Figure 1: *FDI flows in Africa from the rest of the world and China and the share of China*
Source**:** Data from Johns Hopkins University SAIS China-Africa Research Initiative

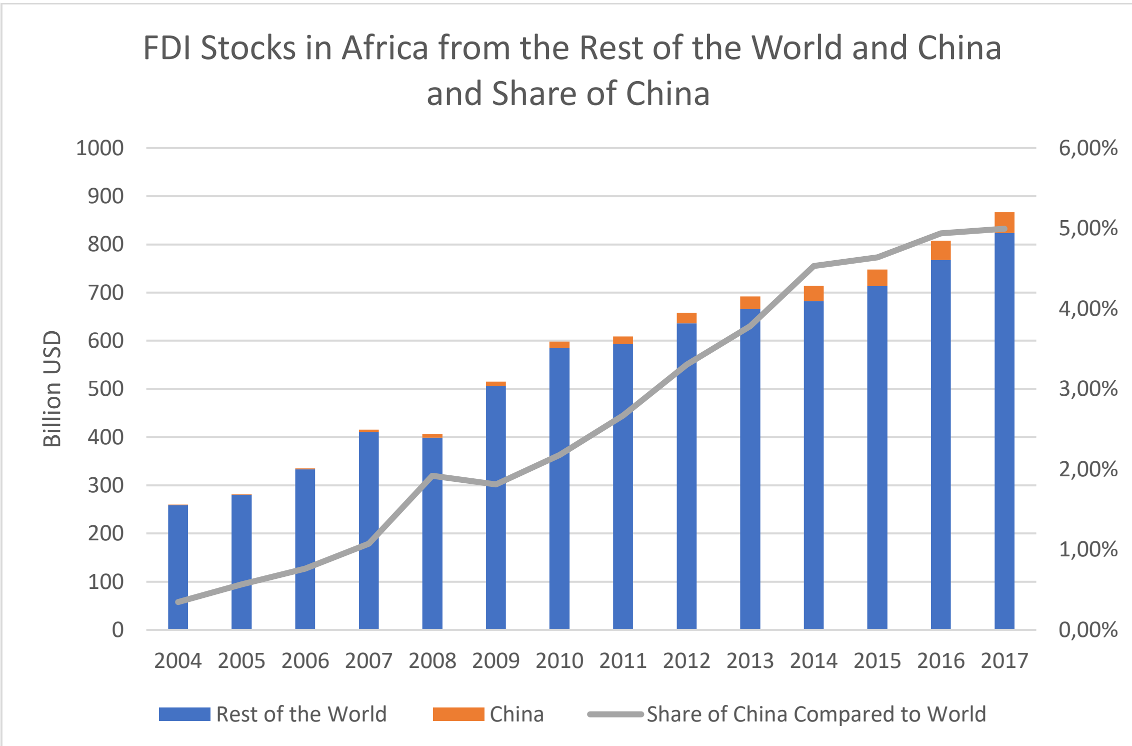


Figure 2: *FDI Stocks in Africa from the rest of the world and China and the share of China*
Source**:** Data from Johns Hopkins University SAIS China-Africa Research Initiative

Regarding FDI stocks, the bars in figure 2 indicate that during this same period, total FDI stocks in Africa increased from around $250 billion to over $850 billion. Concerning China, its FDI stocks in Africa rose from $900 million to $43 billion and its share in Africa's FDI stocks increased from less than 1% in 2004, 2005 and 2006 to 5% in 2017.

What emerges from analysing figures 1 and 2 is that, against what is often believed, China's share of total FDI in Africa is still rather small both in terms of flows and stocks. Investors from the United States, the United Kingdom and France remain, in fact, the largest contributors to foreign direct investment to the continent[47]. However, it is also evident that the pace at which China's FDI has risen in Africa over the last decade is impressive. Noticeably, while the World FDI outflow plummeted after the 2008 financial crisis, China's Outward Foreign Direct Investments (OFDI) continued to increase, with its share in Africa more than tripling in the very same year and growing regularly thereafter[48]. Even more interestingly, when comparing the four major investor economies into Africa – the United States, the United Kingdom, France and China - between 2011 and 2016, China appears to be the only country to experience a dramatic increase in its FDI stocks on the continent. As a matter of fact, while China's FDI stocks in Africa dramatically rose from $16 billion to $40 billion, United States' FDI stocks in Africa stayed constant at $57 billion over the same time period. Also, United Kingdom's FDI stocks only increased from $54 billion to $55 billion and France even reduced its FDI stocks in Africa from $52 billion to $49 billion[49]. In addition to that, figure 3 shows that ever since 2014, China's FDI flow into Africa has been much greater as compared to that of the United States. While China's FDI flow to Africa amounted to more than $4 billion in 2017, the U. S. invested only $332 million on the continent that year.

The above findings suggest that although the United States, the United Kingdom and France still hold the biggest direct investment stakes on the continent, investment from China is steadily increasing and is likely to grow at a faster pace during the next years than that of the traditional investor countries.

[47] "World Investment Report 2018", (2018):42,accessed April 18, 2019, https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf.

[48] Xiaofang Shen. "Private Chinese Investment in Africa: Myths and Realities," Development Policy Review © 2015 Overseas Development Institute 33 (1): 83-106. (2015):84, accessed April 12, 2019. https://onlinelibrary-wiley-com.uaccess.univie.ac.at/doi/epdf/10.1111/dpr.12093.

[49] World Investment Report 2018", (2018):38,accessed April 18, 2019, https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf.

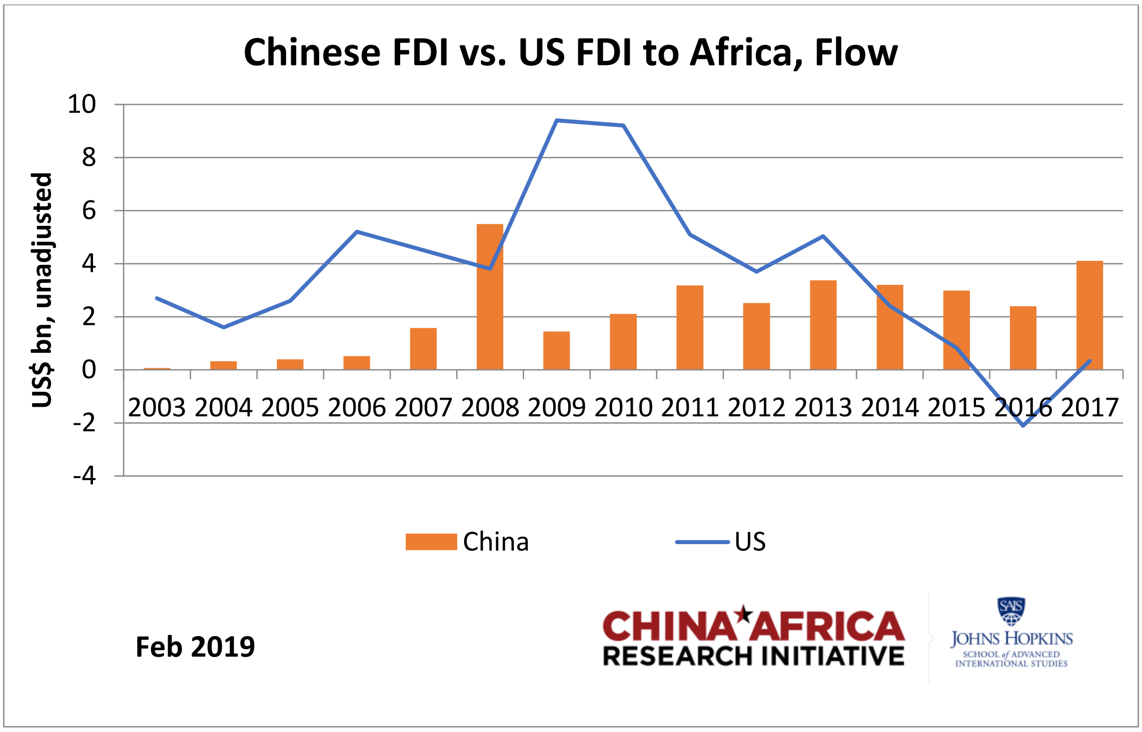


***Figure 3:** China's FDI vs. U.S.' FDI to Africa, Flow*
***Source*:** Johns Hopkins University SAIS China-Africa Research Initiative

When breaking down China's FDI data into the volume allocated to the five largest Sub-Saharan recipients of FDI based on stock levels in 2011 – namely, the Democratic Republic of Congo, Nigeria, South Africa, Sudan and Zambia – and into the amount of FDI going to the rest of Sub-Saharan Africa, a significant picture emerges. Figure 4 and 5 depict the quantity of Chinese FDI flowing to the major five recipients compared to that going to the remaining SSA countries during the period between 2004 and 2017. Both figures reveal that early FDI by China in SSA was primarily directed at the five traditional recipients, which are abundantly resource rich countries [50]. This is in line with the fact that initial Chinese investment into Africa was intimately tied to China's acquisition of African natural resources and was mainly realized by Chinese State-Owned Enterprises (SOEs)[51]. However, figure 4 clearly indicates that flows of China's FDI to the five largest recipients have been steadily decreasing since 2011, with the only exception of 2017. On the other hand, the flow of China's FDI to the rest of SSA has been experiencing a remarkable increase over the same period. This finding suggests that China's FDI is not reduced to a limited number of resource-abundant countries anymore but has started to diversify and to move into other economies on the continent. Moreover, Chinese's investment in the top five recipient countries is not necessarily linked to their natural resources. For instance, the great flow of Chinese investment to South Africa is mainly

[50] Brautigam et al., "Chinese Investment in Africa: How Much Do We Know?", 10.
[51] Ibid., 7

related to the single acquisition of a 20% stake in Standard Bank in 2008 by the Industrial and Commercial Bank of China, while China's FDI in Nigeria, which is one of main recipients of foreign investments in the extractive sector, goes beyond natural resources and has a particular focus on manufacturing[52]. In addition to that, China's FDI flows to Nigeria plummeted between 2012 and 2017.

Even more noticeably, when considering the remaining SSA countries, there exists research concluding that Chinese FDI is primarily directed at high-growth countries that are often non resource rich. It also emerges that China's share of global FDI in Africa increased by 100% in seven African economies between 2001 and 2004 and between 2012 and 2015 of which only Chad was resource-rich[53].

The above findings show that China's involvement in Africa can no longer be depicted as monolithically being directed at a selected number of resource-rich countries. Contrary to popular perception, China is not only interested in benefitting from Africa's natural resources; the picture is more subtle and data shows that, after the financial crisis, the correlation between China's FDI and a recipient country's natural resources possession became much less significant than in the first decade of the 21st century. The same can be argued with regards to Chinese loans to Africa. There is scarce evidence that Chinese loans are only allocated to extractive industries, which is also indicated by the fact that Ethiopia, a landlocked and resource poor country, is one of the main receivers of Chinese loans[54].

[52]"The State of African Cities 2018 The Geography of African Investment," United Nations Human Settlements Programme (UN-Habitat), 2018. (2018):123, accessed April 9, 2019. https://unhabitat.org/books/the-state-of-african-cities-2018-the-geography-of-african-investment/.

[53] Brautigam et al., "Chinese Investment in Africa: How Much Do We Know?", 12.

[54] Qiaowen Zhang and Anna Kangombe, "Chinese Investment in Africa: How the New Normal Can Leverage Agenda 2063 for Sustainable Economic Co-operation," AFRICAN December 2016 EAST-ASIAN AFFAIRS THE CHINA MONITOR, December (2016):71, accessed April 9, 2019, file:///C:/Users/utente/Downloads/177-403-2-PB%20(2).pdf

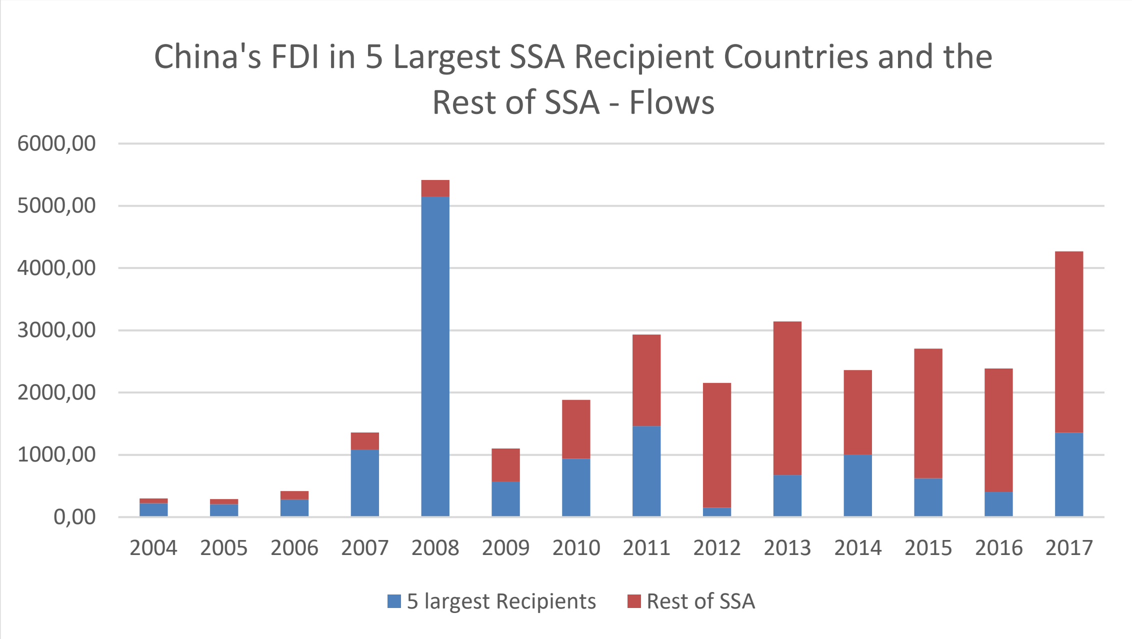


Figure 4: *China's FDI in 5 largest SSA recipient countries and the rest of SSA-flows*
Source*:* *Data from Johns Hopkins University SAIS China-Africa Research Initiative*

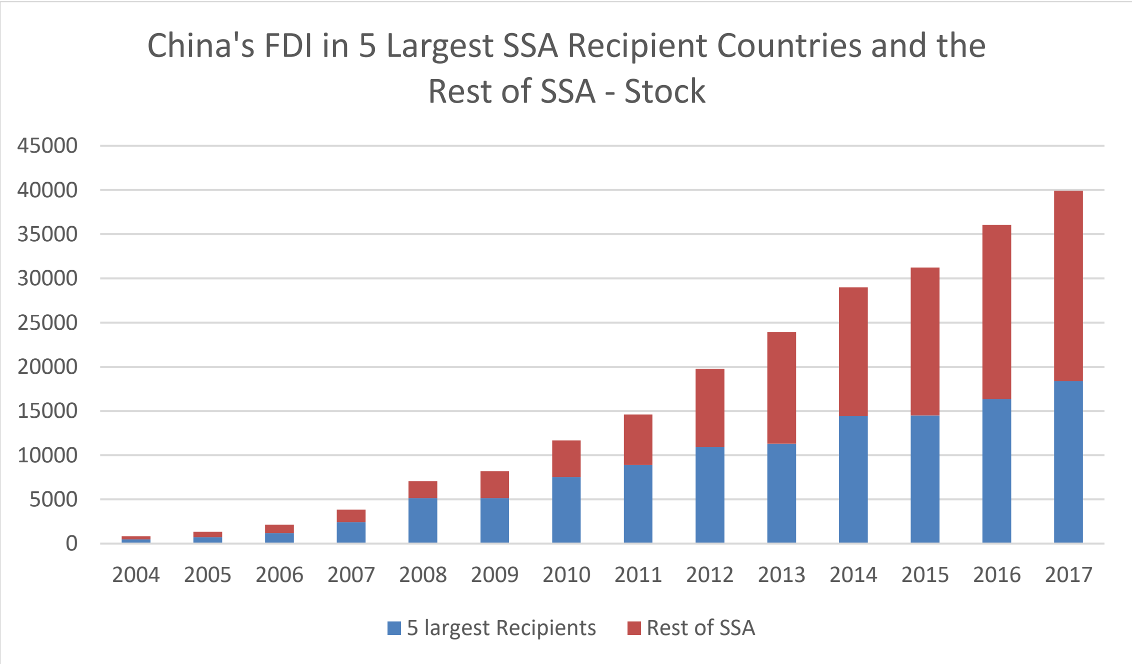


Figure 5: *China's FDI in 5 largest SSA recipient countries and the rest of SSA-stock*
***Source*:** Data from Johns Hopkins University SAIS China-Africa Research Initiative

There are only five years of data from 2013 to 2017 available describing China's FDI stocks in Africa in terms of sectoral structure. These data refer to the five main sectors, namely infrastructure construction, mining, manufacturing, financial intermediation and services[55].

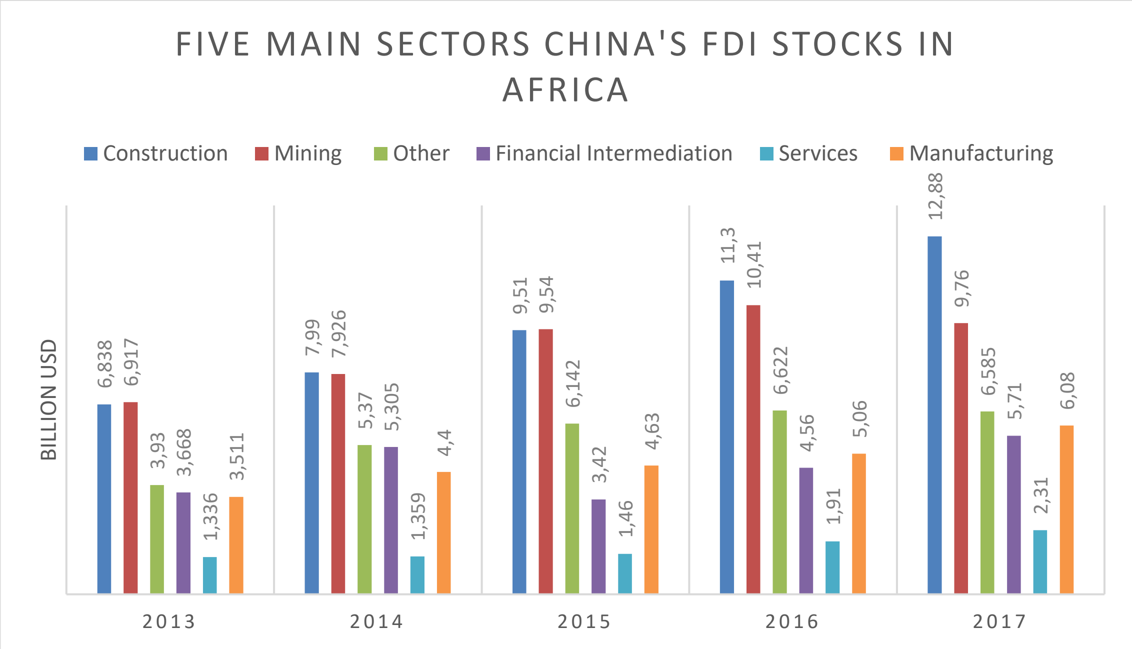


Figure 6: *Five Main Sectors China's FDI Stock in Africa*
Source: Data from Johns Hopkins University SAIS China-Africa Research Initiative

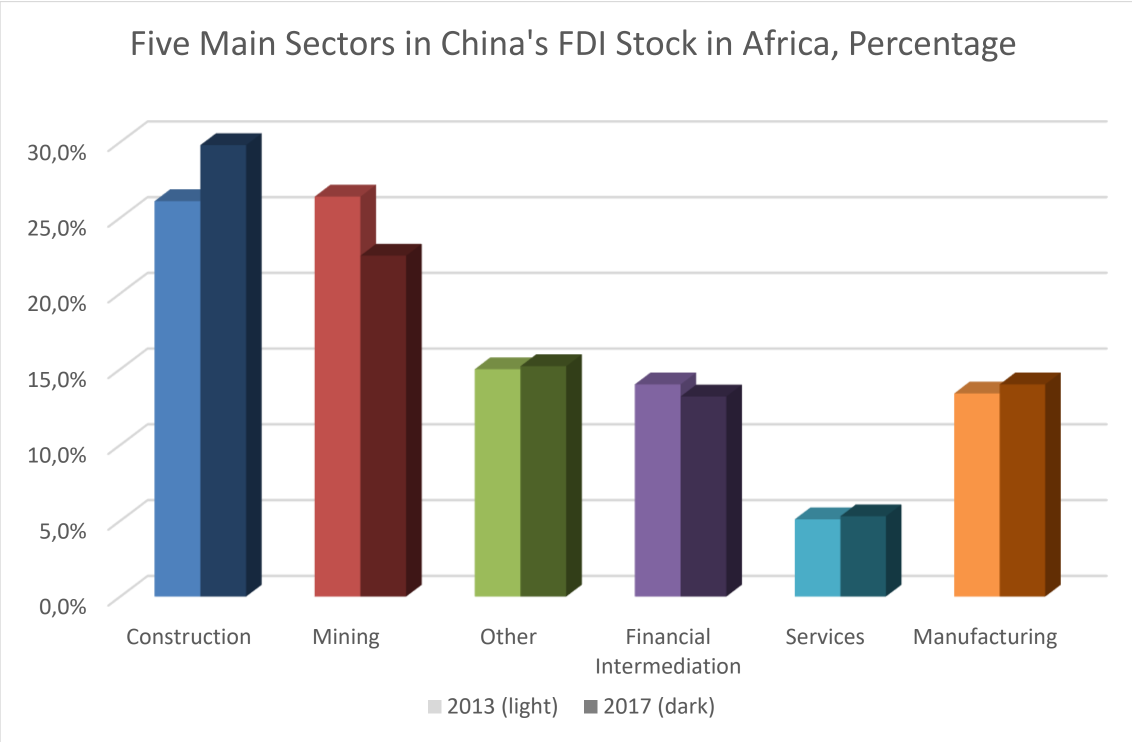


Figure 7: *Five Main Sectors in China's FDI Stock in Africa, Percentage*
Source: Data from Johns Hopkins University SAIS China-Africa Research Initiative

[55] Brautigam et al., "Chinese Investment in Africa: How Much Do We Know?", 7.

Figure 6 and 7 show that, although a significant part of Chinese FDI is still allocated to mining, Chinese FDI into Africa is actually well diversified across sectors, covering resource-oriented ones, construction, financial services and manufacturing. Furthermore, while mining accounted for the bulk of Chinese FDI in Africa in the years 2013, 2014 and 2015, the amount of China's FDI concentrated in this sector has been declining since 2016, with construction becoming the first sector in terms of stocks of China's FDI in Africa thereafter. Figure 7 also shows that the share of mining in Chinese total FDI stocks in Africa decreased from 26,4% in 2003 to 22,5% in 2017, indicating that China's interest for African natural resources has been diminishing over time. On the other hand, the share of construction in Chinese FDI stock on the continent rose from 26% to almost 30% over the same period, reaching around $13 billion in 2017. This trend is of particular relevance due to poor infrastructure connectivity being one of the major problems affecting Africa and hindering its development. The World Bank estimates that SSA's gross domestic product (GDP) per capita growth would increase by 1.7 percentage points per year if the infrastructure gap relative to the developing countries average level was filled[56]. Higher foreign investment in infrastructure projects will help propel economic development and might draw further FDI flows into the continent by enhancing African countries' competitiveness. As an example, for the AfCFTA to be successful in boosting intra-African trade and accelerate consumer income and consumption on the continent it is essential that African countries meliorate their infrastructure. Also, electricity infrastructure is an essential prerequisite for the development of a robust manufacturing sector which is key to the structural transformation of the continent. Not surprisingly, the African countries with better quality of physical infrastructure are also those with the most advanced manufacturing sectors on the continent[57].

Even more noticeably, figure 6 and 7 underline the fact that Chinese FDI in Africa is increasingly moving into manufacturing. The amount of FDI allocated to this sector increased from $3,5 billion in 2013 to over $6 billion in 2017, indicating a growing Chinese interest on African productive sectors and further questioning the idea that China's presence on the continent is intimately tied to its commodities. As figure 7 shows, the share of manufacturing in China's FDI stocks in Africa has steadily increased over the period, accounting for 14% of China's total FDI stock on the continent in 2017. On the

[56] Edinger, Hannah, and Jean Pierre Labuschagne. "If You Want to Prosper, Consider Building Roads." Deloitte Insights. (March 22, 2019). Accessed April 1, 2019. https://www2.deloitte.com/insights/us/en/industry/public-sector/china-investment-africa-infrastructure-development.html.

[57] Signé, "The Potential of Manufacturing and Industrialization in Africa Trends, Opportunities, and Strategies,"18.

contrary, the investment from EU and the U.S in the African manufacturing sector has declined over the last 10 years[58]. For instance, the $14 billion of US private sector investment in Africa pledged by Obama in 2014 is mainly directed at banking, construction and information technology[59]. According to the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce, the mining sector was by far the first destination of U.S.' FDI on the continent in 2016, amounting to 60.4% of total U.S. FDI in Africa. The manufacturing sector, on the other hand, accounted for only 7.1% of it[60]. Moreover, while the investment allocated to mining has increased by 14.8% between 2010 and 2016, the amount of U.S.' FDI to manufacturing has decreased by 6.7% during the same period, from $4.112 billion in 2010 to $4.054 billion in 2016 (Table 1). Data on U.S.' FDI in Nigeria, which is the third largest African recipient of U.S' investments after Mauritius and South Africa, well reflects this trend. In 2016, the U.S allocated the bulk of FDI to Nigeria into mining (52.3%) and services (44.6%), while only 3.1% went to manufacturing[61]. In addition, in 2016, 66.8% of U.S' FDI in African manufacturing was allocated to only one country, namely South Africa (Table 2). With traditional partners accounting for a small share of FDI in African manufacturing, the majority of FDI in this sector is already coming from non-traditional investors, mainly China, India and South Africa[62].

Table 1: *U.S' FDI distribution across sectors (2010-2016)*

	2010	2012	2014	2016	Absolute change 2010–16	% change 2010–16
	Million $					
All industries	54,816	55,849	66,403	57,465	2,649	4.8
Mining	30,243	33,538	42,873	34,717	4,474	14.8
Manufacturing	4,112	3,925	4,509	4,054	-58	-1.4
Wholesale trade	1,273	1,754	2,139	1,895	622	48.9
Information[a]	183	171	227	926	743	406.0
Depository institutions	2,345	2,479	c	c	b	b
Finance and insurance	8,124	5,141	3,318	3,243	-4,881	-60.1
Professional, scientific, and technical services	649	760	1,234	1,451	802	123.6
Holding companies	6,270	6,701	7,533	6,958	688	11.0
Other industries	1,618	1,380	c	c	b	b

Source: "U.S. Trade and Investment with Sub-Saharan Africa: Recent Developments," 185.

58 Guangzhe Chen, Michael Geiger, and Minghui Fu, "Manufacturing FDI in Sub-Saharan Africa: Trends, Determinants, And Impact," (July 19, 2015):3, accessed April 13, 2019. http://documents.worldbank.org/curated/en/791181468189550746/pdf/97836-REPLACEMENT-FILE.pdf.
59 Yuan Sun, "The Next Factory of the World", 43.
60 "U.S. Trade and Investment with Sub-Saharan Africa: Recent Developments." United States International Trade Commission. (April 2018): 184, accessed June 5, 2019. https://www.usitc.gov/publications/332/pub4780.pdf.
61 Ibid., 183.
62 Chen, Geiger, and Fu, "Manufacturing FDI in Sub-Saharan Africa: Trends, Determinants, And Impact," 18.

Table 2: *U.S' FDI in African manufacturing in selected countries (2010-2016)*

	2010	2012	2014	2016	Absolute change 2010–16	% change 2010–16
	Million $					
South Africa	2,465	2,348	2,733	2,605	140	5.7
Nigeria	b	173	161	120	a	a
Kenya	80	50	52	52	-28	-35.0
Zambia	d	b	27	35	a	a
Mauritius	91	17	16	14	-77	-84.6
Senegal	b	11	12	12	a	a

Source: USDOC, BEA, Balance of Payments and Direct Investment Position Data (accessed December 4, 2017).
Note: FDI position (or stock) is a measure of cumulative investment over time.
[a] Absolute change and percentage change for 2010–16 are not provided because the 2010 values were not available.
[b] Data suppressed to avoid disclosure of individual company information.

Source: "U.S. Trade and Investment with Sub-Saharan Africa: Recent Developments." 189.

The above trends explain why China has become the first job creator in Africa in 2016, tripling the number of jobs created by the U.S., the largest investor on the continent[63]. The above findings also not only reveal that Chinese investment in Africa has diversified in terms of country of destination, but also, that it is very heterogenous in terms of sectoral structure. Moreover, this work shows that China's FDI in Africa is moving into sectors different to the extractive ones and that it is more growth-oriented than is often portrayed. Africa fits into China's global strategy "not simply for its natural resources, but for opportunities in trade, construction, industry: *business*"[64]. This indicates that there is potential for Chinese investment to further generate jobs and development on the continent in the foreseeable future.

The above empirical analysis relies on MOFCOM OFDI flow data, one of the most reliable sources of Chinese OFDI which is also used in UNCTAD's World Investment Report. However, MOFCOMO OFDI flow data only tracks projects valued above $10 million and is, thus, likely to miss smaller projects which are predominately privately owned. Data extrapolated across eight African countries indicates that the number of Chinese companies in Africa is potentially two and nine times higher than the number actually tracked by the MOFCOM. The aggregate importance of these untracked investments can only be evaluated by country by country analyses and is hence extremely difficult to calculate. However, a McKinsey field research speculates that the aggregate value of these smaller 'missing' projects may equal that of SOEs[65]. It is hence

[63] "EY's Attractiveness Program Africa," Ernst & Young. (May 2017):19, accessed April 21, 2019. https://ukgcc.com.gh/wp-content/uploads/2017/06/ey-africa-attractiveness-report.pdf.
[64] Brautigam, "The Dragon's Gift," 310.
[65] Irene Yuan Sun, Kartik Jayaram, and Omid Kassiri, "Dance of the Lions and Dragons: How Are Africa and China Engaging, and How Will the Partnership Evolve?" McKinsey & Company, (June 2017):27-28,

essential to examine the nature of smaller Chinese firms in African in order to gain an in depth understanding of the nature and characteristics of Chinese investments on the continent, as done in the following section.

3.2 Chinese firms in Africa

Chinese investment in Africa is often characterized as one dominated by big firms, the majority of which are government-led State-Owned Enterprises (SOEs). These companies have definitely been the major players in Africa in certain sectors such as mining and infrastructure, however, Chinese presence on the continent is much more diverse and complex than commonly understood. In many African economic sectors, the impressive emergence of China's enterprises was led by a significantly heterogeneous and dynamic cluster of primarily smaller private firms driven by profit motives, which indicates that Chinese investment on the continent is a more market-driven phenomenon than is often portrayed[66]. According to a McKinsey field research, over 10.000 previously uncounted Chinese firms are active in Africa 90% of which are privately owned[67] (Figure 8).

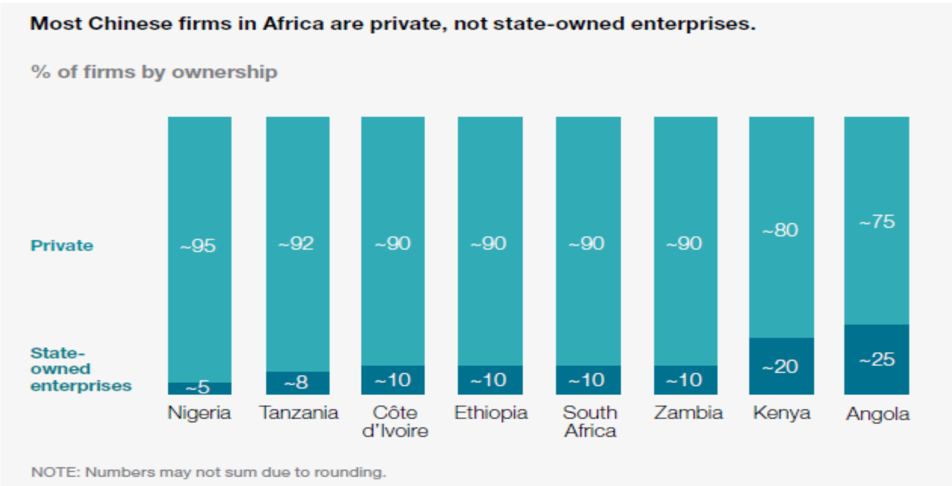


Figure 8: *Chinese firms in Africa*
Source: Yuan Sun, Jayaram, and Kassiri, "Dance of the Lions and Dragons," 29.

These firms operate across several economic sectors and they show a different sectoral distribution compared to, for instance, Chinese SOEs. While the latter are still mainly concentrated in construction and the extractive industry, the former primarily focus on

accessed April 23, 2019. file:///C:/Users/utente/Downloads/McKinsey Report - China Africa Full Issue (3).pdf.

66 Xiaofang Shen. "Private Chinese Investment in Africa: Myths and Realities," Development Policy Review © 2015 Overseas Development Institute 33 (1): 83-106. (2015):84, accessed April 12, 2019. https://onlinelibrary-wiley-com.uaccess.univie.ac.at/doi/epdf/10.1111/dpr.12093.

67 Yuan Sun, Jayaram, and Kassiri, "Dance of the Lions and Dragons," 28.

manufacturing. More precisely, 31% of these firms operate in manufacturing, 25% in services, 22% in trade, 15% in construction and real estate and a significant percentage operates across other sectors. Concerning manufacturing, the study estimates that Chinese companies are already producing 12% of Africa's total industrial output with an annual value of around $500 billion[68]. Moreover, according to the study, 89% of Chinese firms' employees are African, and, when considering the manufacturing sector, the percentage lies at 95%. It also concludes that Chinese firms in Africa are rather profitable, with a remarkable part of privately-owned companies exhibiting profit margins above 20% in 2015, which suggests that there are possibilities for new firms to enter the market and produce economic value[69].Further field studies show that the majority of Chinese entrepreneurs moving to Africa are attracted by the large commercial opportunities on the African continent and are making investments that clearly indicate a long-term commitment to the region as well as an optimistic entrepreneurial attitude[70].

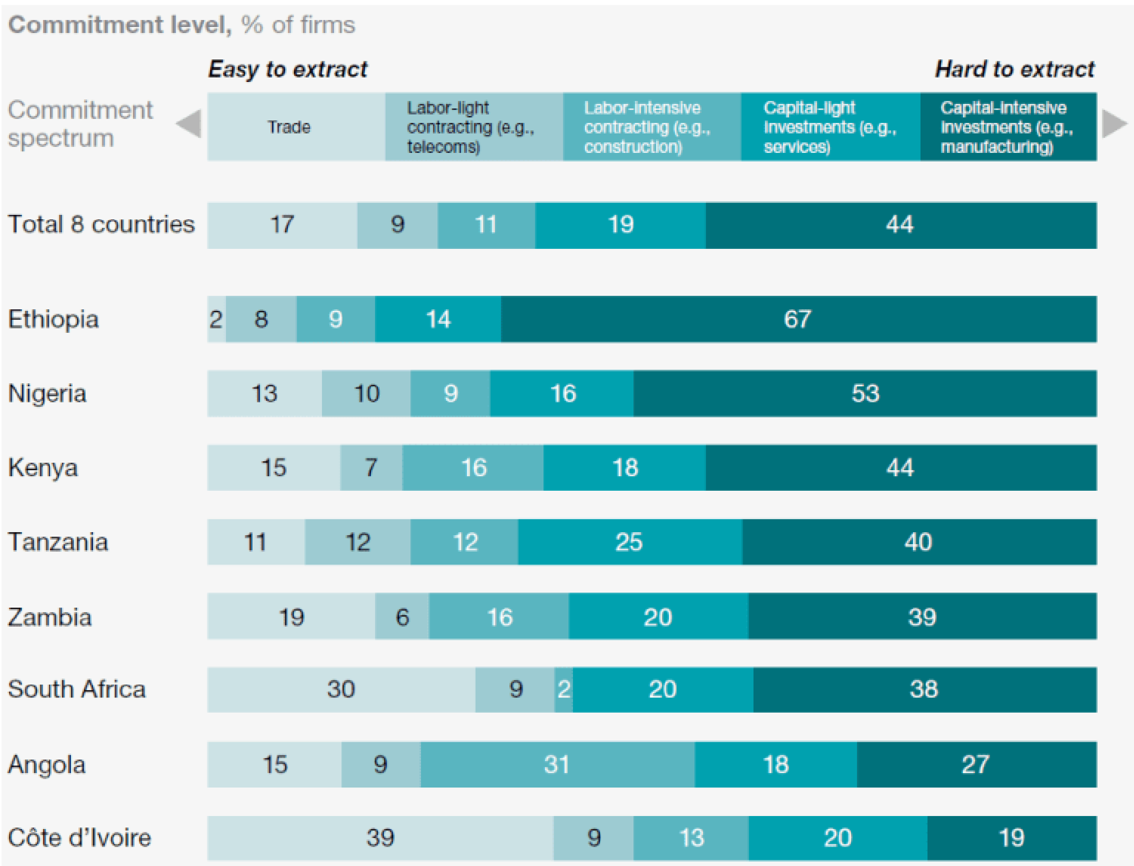


Figure 9: *Types of Chinese firms in Africa*
Source: *Yuan Sun, Jayaram, and Kassiri, "Dance of the Lions and Dragons," 36.*

---

[68] Yuan Sun, Jayaram, and Kassiri, "Dance of the Lions and Dragons, 29.
[69] Ibid., 31
[70] Jing GU "China's Private Enterprises in Africa and the Implications for African Development," European Journal of Development Research Special Issue, Vol. 24, No. 1, (2009):16 accessed April 23, 2019. http://asiandrivers.open.ac.uk/Chinas%20Private%20Enterprises%20in%20Africa_GU.pdf

As a matter of fact, what can be seen from figure 9 is that an important number of Chinese firms have undergone capital-intensive investments, such as acquiring factories or buying manufacturing machineries. At the same time, the number of companies which are focused on trade or non-labour-intensive contracting investments, and obviously require lower investment and less commitment to the continent, is much smaller[71]. This attitude towards entrepreneurial risk is also reflected in Chinese firms' investment in Africa not being correlated with a measure of rule of law of the country of destination; conversely, Western investors tend to only target states with a good governance environment[72].

The above indicates that Chinese investment in Africa is more than a governmentally driven phenomenon. China's presence on the continent is, in fact, largely characterized by a significant number of diverse and dynamic private firms investing with profit motives and operating in the region with a long-term perspective. This reality further suggests that there are possibilities for Chinese investment to sustain African industrialisation. Whilst development is often defined in terms of ideas, programs and schemes, it should instead be understood as a long-term phenomenon of "incremental change and creativity under trying circumstances"[73]. Rather than a macro dynamic, true development is a micro process within firms and driven by the aspirations of ordinary people[74].
However, only acknowledging that Chinese investment in Africa is very diverse and dynamic and more growth and market seeking than often portrayed is not enough to fill the gap in understanding how Chinese FDI can contribute to the development of the African economies. Hence, the next section will be devoted to studying Chinese investment in the African manufacturing sector due to its transformational potential by raising the levels of employment and driving structural change in African economies.

3.3 Chinese investment in African Manufacturing

Examining the characteristics of Chinese investment in the African manufacturing sector and in which way it is linked to local economies is necessary to understand the potential of Chinese investment to work as catalyser of African local industries and to bring about development. As Kragelund points out, the capacity of foreign investment to contribute to an industrial transformation depends on four factors: "(a) the *investment motives* of the investing firms; (b) the *time horizon* of the investment; (c) the extent of *linkages to*

[71] Yuan Sun, Jayaram, and Kassiri, "Dance of the Lions and Dragons," 36.
[72] Chen, Dollar, and Tang, "Why Is China Investing in Africa? Evidence from the Firm Level," 1.
[73] Yuan Sun, "The Next Factory of the World", 177.
[74] Ibid., 174

other firms in the economy; and (d) the *capacity* of the local firms to absorb spillovers and face competition”[75]. Hence, only if China’s investment is long-term oriented and Chinese manufacturing companies complement African ones in a way that it improves African firms’ competitiveness, African countries can benefit from China’s FDI.
Relying on evidence from numerous fieldwork research, the work will offer a description of the features of Chinese manufacturing FDI in Africa also through an analysis and assessment of the above-mentioned four factors.

As shown in section 3.2, Chinese investment in African manufacturing is increasing. As an example, when looking at Ghana’s 340 Chinese investment projects, over 100 are in the manufacturing sector, while 66% of Chinese firms established in Ethiopia invested in the African manufacturing sector[76]. One of the main channels driving this type of investment are the industrial parks or special economic zones (SEZs) established by China in several African countries. They go back as far as 2006, when MOFCOM announced its intention to establish 50 overseas ‘economic and trade cooperation zones’, designed to attract FDI and encourage export-oriented industrialization. Of the 19 zones that were approved in 2007, 5 are located in Sub-Saharan Africa: a mining area in Zambia, a textile area in Mauritius, and three overseas zones that host numerous manufacturing activities of which one lies in Ethiopia and the other two in Nigeria[77]. Moreover, Chinese enterprises have created additional industrial zones, and other industrial parks are spreading across Africa, such as the new $139 million park in Senegal and Rwanda’s first ‘Special Economic Zone’, aiming at attracting Chinese manufacturing. However, the beginning of Chinese investment in African manufacturing lies in the 1960s, when various Shanghai and Hong Kong entrepreneurs decided to invest in Nigeria after it gained independence, later becoming dominating producers of plastic sandals, enamelware and building materials[78].

Chinese firms in Africa are very diverse, adopting a multiplicity of business models. Contrary to common perception, only few Chinese manufacturing companies ventured to Africa to seek raw materials to process and then sell to foreign markets. A significant

---

[75] GU, "China’s Private Enterprises in Africa and the Implications for African Development," 23.
[76] Tania Branigan, " China 'wants to Set up Factories in Africa'." 2009, accessed April 12, 2019 https://www.theguardian.com/world/2009/dec/04/china-manufacturing-factories-africa.
[77] Deborah Brautigam, Thomas Farole, and Tang Xiaoyang. "China’s Investment in African Special Economic Zones: Prospects, Challenges, and Opportunities." March 2010. Accessed April 29, 2019. http://documents.worldbank.org/curated/en/819771468261924447/pdf/536820BRI0EP50Box345623B001PUBLIC1.pdf.
[78] Deborah Brautigam, Tang Xiaoyang, and Ying Xia, "What Kinds of Chinese ‘Geese’ Are Flying to Africa? Evidence from Chinese Manufacturing Firms," Journal of African Economies Vol. 27 (2018): i31, accessed April 30, 2019. https://academic.oup.com/jae/article/27/suppl_1/i29/5075680.

group relocated to Africa to move their activity to a location where cost of labour was lower and global market access more favourable due to, for instance, the African Growth and Opportunity Act (AGOA) and the Everything But Arms (EBA), deals which guarantee preferential access to the U.S. and Europe respectively. Important examples are Chinese garment and shoe companies that transferred the production to Tanzania, Ethiopia or Lesotho. These include Huajian from China and New Wing from Hong Kong in Ethiopia and the Chinese corporate group J.D. United, which controls the garment company Tooku in Tanzania[79]. While most of Chinese companies are producing for local African markets and substituting for imports, this category of firms serves foreign markets.
Interestingly, for a remarkable amount of Chinese manufacturing firms, the move to Africa was a strategic entrepreneurial choice of risking their money in investment targeting African local markets. The majority of these firms are privately owned and are generally attracted to the African market for its potential and lower competition as compared to the Chinese one[80]. Interviewed about his experience in Africa in 2014, the deputy general manager of Hongyu Steel, a Tanzanian scrap metal recycling company, observed: "Looking back at China, this industry there has a lot of competition and the market is also quite saturated. So, there is a dire need to explore a new market. When you look at Africa's economic development in the past few years and its regional integration, you find the demand for this product and the market is developing quite fast"[81]. Finally, another category is composed of small-scale manufacturers clustering together in the same industry, often linked to each other or coming from the same Chinese region. For instance, in Tanzania, 10 out of the 12 Chinese plastic recycling and production firms are from the South-Eastern province Fujian[82].

The above findings suggest that the story of Chinese entrepreneurs in Africa is a story of diversity. Taking advantage of cheap labour is not the sole driver of Chinese entrepreneurs' decision to move to the African continent, as is often assumed. Rather a significant variety of factors, ranging from the macroeconomic incentives to individual motivations, have been guiding this move. This diversity is not only reflected in the different business models adopted by these companies, but also, in the variety of goods produced by Chinese-owned factories including shoes, textiles and clothing, bags, medical salt water, pharmaceuticals, beverages, ceramics and construction materials[83].

---

[79]Geda, Senbet, and Simbanegavi, "The Illusive Quest for Structural Transformation in Africa," 10.
[80] Brautigam, Xiaoyang, and Xia, "What Kinds of Chinese 'Geese' Are Flying to Africa? Evidence from Chinese Manufacturing Firms," i43.
[81] Ibid., i44
[82]. Geda, Senbet, and Simbanegavi, "The Illusive Quest for Structural Transformation in Africa," 10.
[83] Yuan Sun, "The Next Factory of the World", 51.

The multiplicity of these entrepreneurial interests and models definitely have consequences for African economies, both in terms of employment and development perspective. Labour intensive factories provide numerous jobs for local workers; yet, as they are vulnerable to macroeconomic dynamics, such as exchange rate fluctuations, these jobs are not very resistant to economic slowdowns and thus quite unstable. On the other hand, capital intensive firms, despite hiring fewer people, are more likely to survive economic downturns due to their higher fixed costs and hence guarantee a more long-term presence and employment in the region. Export oriented factories benefit from their larger market and are likely to generate significant economic value, however, they are also faced with additional risks, such as new trade agreements, unexpected protectionist policies or cycles in global demand[84]. The dynamism and diversity of Chinese manufacturing business models translate both in challenges and opportunities for Africa. On the one hand, there is no universal policy that could lead to an increase of local participation in the manufacturing sector as industry develops heterogeneously. It is hence crucial that African policy makers develop a deep understanding of the distinct characteristics of each emerging industrial business model and promote tailored policies that respond to the specific needs of the specific type of manufacturing that is feasible within their country. On the other hand, while growth will probably not be even across African countries, the heterogeneity of the industrial sector will actually deliver resilience to the entire industry[85], “making it far less likely that a single macroeconomic event or contextual shock could wipe out the entire sector”[86]. This should ensure the African manufacturing sector to grow and endure.

Concerning jobs and skill diffusion, evidence shows that Chinese enterprises overwhelmingly employ local workers. A study conducted on 1.000 Chinese companies in Africa reveals that 89% of workers were African and created a total amount of over 300.000 jobs[87], indicating a great potential for job creation. For instance, the Twyford ceramic tile factory, a Chinese joint venture operating in Africa, has already created 1500 jobs for locals since 2016, the year in which it was established[88]. This translates into significant diffusion of skills to locals, and the introduction of entrepreneurial culture to young Africans, the majority of whom likely had never been previously employed in factories. A high number of Chinese firms is in fact committed to invest in training programs for their local employees. For instance, Aviation Industry Corporation of China,

---

[84] Yuan Sun, “The Next Factory of the World”, 54.
[85] Ibid., 65
[86] Ibid., 51
[87] Yuan Sun, Jayaram, and Kassiri, "Dance of the Lions and Dragons,”40.
[88] Ibid., 6-7

a Chinese SOE based in Kenya has largely invested in technical education, even contributing to the launch of the Africa Tech Challenge, a competition designed to transfer technical expertise such mobile app development[89]. However, fieldwork research finds that skills diffusion is occurring mainly through local working training, while there exist few cases of joint ventures between African and Chinese entrepreneurs to date. Moreover, most of the training offered is directed at the workforce and only few companies are investing in managerial training, which suggests that jobs created by Chinese companies tend to be of poor quality. As a matter of fact, McKinsey estimates that the share of African managers at Chinese-owned firms only amounts to 44%[90]. Increasing this number and sustaining the diffusion of a managerial and performance culture would facilitate the empowerment of a new generation of African business managers.

Concerning technological transfer, research shows that the ability to import technology is a primary motive for Chinese factory owners to move to Africa and that around one-third of Chinese firms in Africa have already introduced a new technology on the continent. For instance, in 2015, Huawei's Mobile Money platform, a 4G telecommunications technology, has been adopted by Kenya-based mobile telecommunications operator Safaricom in order to improve its mobile payment service M-Pesa, which today provides cell mobile banking services to millions of Africans[91]. However, evidence also indicates that, although Chinese companies significantly buy their inputs locally, they often do not cooperate with these suppliers to improve quality. Most of technology transfer occurs because of external factors, like higher competition or establishment of quality standards, rather than through backward or forward linkages[92]. Nevertheless, cooperation between Chinese and African manufacturing firms is significantly increasing. The CEO of a South African producer and distributor of electro-mechanical equipment, when interviewed about their experience with Chinese suppliers, noted: “Our Chinese supplier is willing to take the risk and to do research and development for the specific parts that we need, then transfer the technology to us in order to build a long-term partnership. Suppliers in Europe are unlikely to do so, and they tend to be far more concerned about their patents”[93].

Increasing economic flows between Africa and China certainly translates into high pressure on local companies. This raises the key question as to whether African firms

[89] Yuan Sun, Jayaram, and Kassiri, "Dance of the Lions and Dragons," 40.
[90] Ibid., 42
[91] Ibid.
[92] Brautigam et al., "Chinese Investment in Africa: How Much Do We Know?", 17.
[93] Yuan Sun, Jayaram, and Kassiri, "Dance of the Lions and Dragons,"46.

are being wiped out or are instead responding to the increasing competition and, as a result, growing in the market. The evidence is rather mixed. There are certainly cases of African companies that have come under pressure, with some of them having been driven out due to the Chinese competition. For instance, there has been tremendous pressure on South African steel producers as a result of increasing penetration of imports from China. In 2016, although the South African government increased tariffs on Chinese steel by 10%, two of the main South African steel producers, namely Evraz Highveld Steel and Vanadium Limited, were forced to close down, causing the loss of over 2.000 jobs[94]. In addition to that, some studies indicate that Chinese companies currently do not even buy half of their supply from African local suppliers. However, this might be caused by local suppliers not being able to meet Chinese companies' price and quality specification and could hence reflect a sectoral problem. As one African government officials has observed, this issue is not related to Chinese companies but rather to local suppliers not maximizing their capabilities[95].
On the other hand, recent research demonstrates that the above described distortions caused by Chinese presence on the continent have been diminishing over time, probably due to the increasing flow of FDI from China especially in manufacturing and infrastructure.[96]. This signals that Chinese investment might be triggering a process of 'creative destruction' in some African economies which is well reflected in the Ethiopian shoe industry. There, due to Chinese products entering the market, less efficient manufacturers were crowded out while others invested and innovated in order to survive. Specifically, the Ethiopian researcher Tegegne ebre-Egziabher, who investigated how Ethiopian microenterprises and small and medium-sized firms were responding to Chinese competition, concluded that 82% of selected firms became competitive against imports from China by innovating and upgrading, after an initial period of adjustment. This process was partly facilitated by Chinese firms transferring technology to local firms and, in turn, helped them increase their productivity[97]. Currently, the leather industry in Ethiopia is booming. This might indicate that, although China's growing engagement in Africa is likely to have an impact on the way the African manufacturing sector is structured, its effects will not wipe out African local entrepreneurs but will rather be more subtle and diverse.

The above results show that Chinese manufacturing firms are an important and growing reality in Africa. They also demonstrate the existence of a positive complimentary effect

[94] Yuan Sun, Jayaram, and Kassiri, "Dance of the Lions and Dragons," 46-47.
[95] Yuan Sun, Jayaram, and Kassiri, "Dance of the Lions and Dragons," 47.
[96] Brautigam et al., "Chinese Investment in Africa: How Much Do We Know?", 15.
[97] Brautigam, "The Dragon's Gift," 213-214.

between Chinese and African local firms, which, in some cases, has already led to a positive impact on local industries.
However, for China's investment to work as catalyser of African industrialisation and to become an important contributor to the structural transformation of the continent, the positive trend needs to be further sustained and understood and certain issues, such as labour and environmental violations, need to be addressed. According to McKinsey, cases of major labour and environmental violations are more frequent among Chinese companies than among firms of other nationalities. Moreover, a study by the Johns Hopkins China-Africa Research Initiative concludes that only around 50% of Chinese companies in Kenya had contracts of employment for all their workers, in contrast to 100% of U.S.' ones[98]. In order for the investment cooperation between China and Africa to deliver sustainable development to the continent, both partners need to take initiative and address the above issues. In addition to that, African policy makers should promote policies to further attract FDI in productive economic sector, both from China and other investor countries. Finally, tailored public policies need to be enacted that facilitate and encourage local participation in the manufacturing sector in a sustainable way. Only if African entrepreneurs participate in the sector and take advantage of China's presence in the economy, will they be able to grow in the market and position themselves in global value chains.

At present, there are both political and economic signs indicating that Chinese investment flows into African manufacturing will continue in the future. For instance, at the September 2018 Forum on China Africa Cooperation in Beijing, China officially committed to supporting African industrial development. Moreover, according to the Overseas Development Institute (ODI), the manufacturing potential in Sub-Saharan Africa is much higher than assumed. As a matter of fact, manufacturing production increased by over 100% between 2005 and 2014, rising from $73billion to $157 billion[99]. Given these considerations, the next chapter will discuss the prospects of Chinese-African investment cooperation. In particular, it will investigate the opportunities and challenges that China and Africa are likely to face under China's New Normal, FOCAC, BRI, and Africa's Agenda 2063 with regards to their investment partnership.

[98] Yuan Sun, Jayaram, and Kassiri, "Dance of the Lions and Dragons," 47.
[99]Anzetse Were. "Manufacturing in Africa Is Growing Faster than Assumed." (May 2, 2016), accessed May 1, 2019. https://anzetsewere.wordpress.com/2016/05/02/manufacturing-in-africa-is-growing-faster-than-assumed/.

4. Prospects of China-Africa Investment Cooperation

After more than three decades of double-digit economic growth following the implementation of the 1978 ‘Open Door’ policy based on high investment, an export-oriented economy, and energy-intensive manufacturing, China has experienced an economic slowdown during recent years. Owing to the economy having reached maturity in terms of skills acquisition, increasing wages, productivity levels, and production capacity, China’s traditional export industries have started to witness lower growth calling for the need of restructuring the entire economic system. As a response, Beijing is pursuing a new economic strategy - ‘the New Normal’ - aimed at further sustaining the economic development of the country while taking into account the changing socio-economic circumstances. China’s new development model envisages important economic structural changes capable of ensuring still-significant but lower economic growth (at an annual rate of around 7% over the next five years) at higher quality with respect to social distribution and environmental impacts. Its main policies are the following: gradually replacing investment in heavy industries with domestic consumption as the main driver of growth, with a particular focus on services; the upgrade of Chinese industry from simple to innovation-driven manufacturing so that it can achieve higher productivity and climb up the global value chain; the reduction of urban, rural and regional socio-economic inequalities; the promotion of environmentally sustainable policies in order to tackle high pollution levels and reduce environmental damages[100]. As part of this strategy, in late 2013, President Xi Jinping announced the Belt and Road Initiative, which provides a means for China to accommodate its economic development needs through the revival of the old Silk Road across Asia, Europe, and Africa. The initiative also unveils China’s political will to take on a global leadership position in a context in which Western countries are increasingly turning inward. Beijing’s political commitment is clearly reflected in the creation of new development institutions primarily designed to allocate resources to development finance. Since 2014, China has launched the 100$ billion Asian Infrastructure Investment Bank and the $40 billion Silk Road Fund and, together with the other BRICS countries, has established the $100 billion New Development Bank[101]. These moves have already been considered “the biggest rebalancing in global development finance since the establishment of the International

[100] Fergus Green and Nicholas Stern, "China’s “new Normal”: Structural Change, Better Growth, and Peak Emissions," (2015):3, accessed May 28, 2019. http://www.lse.ac.uk/GranthamInstitute/wp-content/uploads/2015/06/Chinas_new_normal_green_stern_June_2015.pdf.
[101] Yuan Sun, “The Next Factory of the World”, 174.

Monetary Fund and the World Bank at Bretton Woods in 1944"[102]. Hence, along with these initiatives, China's New Normal will not only affect China's internal structure, but will also have repercussions on broader international dynamics, such as, without a doubt, investment cooperation between China and Africa.

The investment environment in Africa has improved considerably over the last three decades resulting in increasing foreign investment, with a significant part stemming from China. In addition to a growing flow of FDI to Africa, the China-Africa investment partnership has been further supported by the establishment of political mechanisms, such as the FOCAC. Within this context and in the effort to sustain economic development on the continent, African leaders adopted the AU Agenda 2063 in 2013, a 50-year development plan envisaged to ultimately build an integrated, prosperous and united Africa. The agenda identifies seven primary aspirations, 18 goals and 44 priority areas, further specified in 161 different national level goals[103]. It also places a strong emphasis on industrialisation, as it is considered key to the achievement of the ultimate vision of an integrated, prosperous and united continent based on the ideals of Pan Africanism. In order to achieve industrialisation, the Agenda identifies areas such as value chain upgrade, job creation, infrastructure and integration as the ones having to be prioritized, among others[104]

It has been argued that China's new Normal, FOCAC and BRI might have inextricable links with these priority goals and could hence offer opportunities for Africa to industrialize (Figure 10). However, with this being uncertain, it is the aim of this section to analyse the validity of this theory, taking into account both opportunities and challenges. To this end, the following chapter will present some insights on how China's New Normal can be a factor in further boosting China's FDI into African manufacturing sector and thus help African economies to increase employment as well as to develop more value-adding activities. Moreover, it will discuss how FOCAC and BRI might serve as institutional bridges for the realization of African integration and infrastructure[105].

[102] Yuan Sun, "The Next Factory of the World", 174.
[103] Zhang and Kangombe, "Chinese Investment in Africa: How the New Normal Can Leverage Agenda 2063 for Sustainable Economic Co-operation,"63.
[104] Abdoulkadre Ado and Ellis L.C. Osabutey, "Africa–China Cooperation: Potential Shared Interests and Strategic Partnerships?", AIB Insights Vol 18 No 4. (2018): 21, accessed May 27, 2019. https://documents.aib.msu.edu/publications/insights/v18n4/v18n4_Article5.pdf.
[105] Ibid.

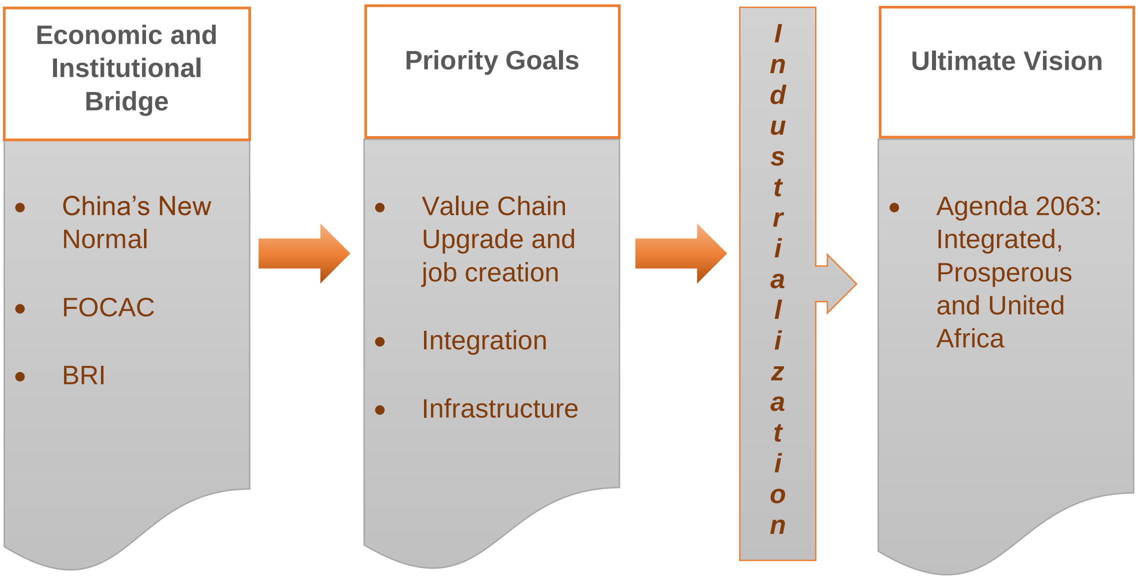


Figure 10: *Economic and Institutional Bridge between China and Africa*

Source: Adapted from Ado and Osabutey, "Africa–China Cooperation: Potential Shared Interests and Strategic Partnerships?", 21.

4.1 China's New Normal and the flying geese theory

While one might intuitively conclude that China' s economic slowdown will reduce its investment on the African continent, there is reason to believe that rather than hindering the flow of Chinese investment in manufacturing in Africa, China's New Normal will actually stimulate the relocation of factories to the continent. Lower returns on capital internally and increasing competition will push Chinese firms to invest offshore as their profits decrease[106]. In addition, China's population is ageing at a faster rate than that of most other countries primarily due to the effects of the one-child policy. As a consequence, China's labour pool has rapidly declined and, in turn, labour costs have increased sharply over last years: "since 2001, manufacturing hourly wages have increased by 12 percent each year"[107]. In October 2012, during the Eighteenth Party Congress, the Chinese government set a target of raising per capita income by 100% by 2020. Moreover, the Chinese Yuan continuing appreciating, China's per capita annual income is rapidly approaching the $12,700 income threshold as indicator for high income countries[108]. Many economists have already agreed that China's economy is crossing the Lewis turning point, that is, due to industrial wages rising extremely fast, China is

[106] Yuan Sun, "The Next Factory of the World", 171.
[107] Ibid., 92.
[108] Justin Yifu Lin, "China's Rise and Opportunity for Structural Transformation in Africa," Journal of African Economies, Vol. 27, AERC Supplement 1, (2018): i24, accessed June 1, 2019. https://academic-oup-com.uaccess.univie.ac.at/jae/article/27/suppl_1/i15/5075678.

very close to losing the competitive advantage of having cheap labour. Furthermore, energy prices increased between 2004 and 2014, with electricity prices having risen by 66% and the cost of natural gas having more than doubled over this period. The consequence is clear: more and more Chinese manufacturing firms will soon be forced to offshore to other countries. Contrary to service-based advanced economies such as the United States, Europe and Japan that, after decades of moving their industrial production to developing countries, remain with very little manufacturing to offshore, China has an urgent structural need to relocate its manufacturing industry[109]. China will have to take a path similar to that of earlier East Asian successful economies – Japan in the 1960 and the Asian Tigers in the late twentieth - and upgrade its industry while transferring its labour-intensive factories to economies with lower cost of labour. The latter, in turn, have the chance to benefit enormously from this structural shift in global economy and pave the way to their own industrial development [110].

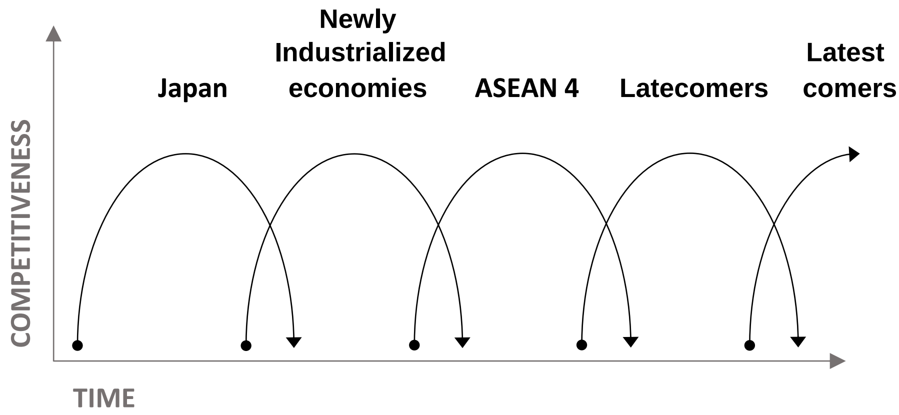
It is estimated that by changing the structure of its economy, China will unlock nearly 100 million labour-intensive manufacturing jobs[111], and a big part of which seem to already be moving to Africa. As a matter of fact, this surge of jobs from China matches Africa's present demographic momentum, offering great employment and development possibilities to the continent. Almost one-third of sub-Saharan African population is between 10 and 24 years old and most of young Africans are unemployed. What is more, according to United Nations' predictions, "the sub-Saharan African population will double from roughly 1 billion in 2015 to more than two billion by 2050"[112], indicating that Africa has the potential to absorb the shift of China's manufacturing and become the next link in the multinational chain of manufacturing. In the academic environment, this phenomenon of structural shift in the global economy has been defined as the *flying geese theory* – a 20th century Japanese economic theory describing the country's impressive economy growth[113]. Investigating the process of rapid industrialization of East Asian Countries in the twentieth century, the theory argues that "manufacturing firms act like flying geese, migrating from country to country and from product to product as costs and demand change"[114]. As a move of Japanese entrepreneurs generated a wave of Taiwanese entrepreneurs who, in turn, generated a wave of Chinese ones, this chain reaction is likely to now extend all the way to Africa and spawn a generation of entrepreneurs there (Figure 11). Moreover, this theory not only illustrates the move of

---

[109] Yuan Sun, "The Next Factory of the World", 43.
[110] Lin, "China's Rise and Opportunity for Structural Transformation in Africa," i24
[111] Signé, "The Potential of Manufacturing and Industrialization in Africa Trends, Opportunities, and Strategies," 2.
[112] Yuan Sun, "The Next Factory of the World", 93.
[113] Ibid., 25.
[114] Ibid., 26.

factories from country to country, but also a mechanism of value chain upgrade within each country. As competition intensifies in an economy with the wave of new firms and margins becoming thinner, innovation among entrepreneurs increases and more sophisticated products enter the market[115] (Figure 11).

Industry: Garment manufacturing migrates from country to country as products costs and demands change



Newly Industrialized economies: Hong Kong, Singapore, South Korea, Taiwan
ASEAN 4: Indonesia, Malaysia, the Philippines, Thailand
Latecomers: Lesotho, Vietnam, others
Latest comers: Bangladesh, Ethiopia, others

Country: Japan's succession to more technologically advanced products

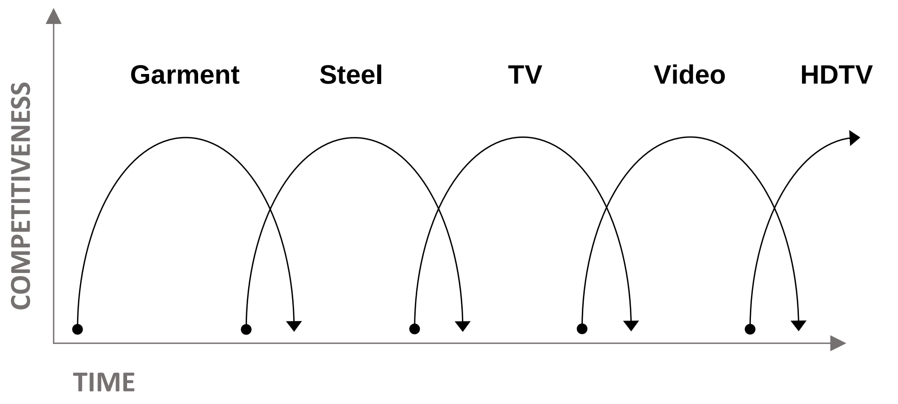


Figure 11: *The flying geese theory*
Source: *Adapted from Yuan Sun, "The Next Factory of the World," 27.*

The above causes the country to develop value-adding activities, to diversify its economy and to move towards industrialisation. Moreover, past experiences in America, Asia and Europe show that as firms concentrate in a developing economy, locals will eventually

[115] Yuan Sun, "The Next Factory of the World", 26.

acquire ownership and become the country's new industrial class. This is more likely to happen if African governments start to implement policies that favour local ownership in manufacturing. Moving in this direction, some African countries, perhaps most remarkably Ethiopia, are promoting policies whereby only local firms can borrow funds from country-level development banks[116].

In order for the above Flying-Geese Process to be achieved, Africa needs to capitalize on its cooperation with China. Firstly, governments must create incentives to further attract FDI from China as well as from other countries and assist local firms in entering the market in order to increase local production. Furthermore, African policy makers should prioritise Chinese investments that add value to economic activities and are hence linked to a long-term development perspective. On the contrary, they should monitor and possibly avoid China's low value-added and environmentally non-sustainable projects[117]. Africa can take advantage of China's urge to reform its economic development model which delivered domestic social inequalities and environmental damages. As international scrutiny grows and normative constraints deepen, so does China's own sense of social responsibility. As a matter of fact, Chinese SOEs and banks are already moving towards more sustainable practices and adopting Corporate Social Responsibility business models. Moreover, certain countries, primarily the United States, are being successful in countering certain business practices of Chinese enterprises through the World Trade Organisation[118]. However, the majority of smaller Chinese private firms operating in Africa will be more likely to maintain a business-as-usual approach and bypass these regulatory and international mechanisms, posing political and economic security risks to the continent. Here lies the challenge and responsibility for African policy makers to develop and implement effective regulatory frameworks that can ensure sustainable development to African economies[119]. This could be achieved more effectively through the creation of a long-term cooperation mechanism between China and Africa that sets quality environmental, social and governance standards. Such a mechanism could, for example, be built on the basis of The Common Africa Position on the Post-2015 Development Agenda, which was launched after the adoption of the

---

116 Yuan Sun, "The Next Factory of the World", 112-113.
117 Ado and Osabutey, "Africa–China Cooperation: Potential Shared Interests and Strategic Partnerships?", 21.
118 "Comparing U.S. and Chinese Business Models in Africa," Wilson Center Africa Program, (2016), accessed June 3, 2019. https://www.wilsoncenter.org/event/comparing-us-and-chinese-business-models-africa.
119 Giles Mohan, "China in Africa: Impacts and Prospects for Accountable Development." Oxford Scholarship Online. (2014): 28, accessed June 4, 2019. https://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780198722564.001.0001/acprof-9780198722564-chapter-11?print=pdf.

Sustainable Development Goals (SDGs) and presents Africa’s future development strategy [120].

4.2 FOCAC and Agenda 2063

In order to achieve a united, prosperous, and integrated continent, The Agenda 2063 envisages the following initiatives: (a) AfCFTA, (b) Integrated High Speed Train Network, (c) African Commodity Strategy, and (d) Continental Financial Institutions. FOCAC, inaugurated in 2000 and, taking place every 3 years, provides a strong political instrument for the development of investment cooperation between China and Africa and supports the channelling of Chinese investment into the above-mentioned initiatives[121]. With the action Plan of the 2015 FOCAC Johannesburg Summit industrialisation was set as a priority goal of China-Africa partnership. To this end, China established a China-Africa Production Capacity Cooperation Fund to accelerate China-Africa industrial partnering, providing an initial fund of $10 billion, and increased the China-Africa Development Fund from US$ 5billion to $10 billion. In addition, China concluded industrial capacity cooperation accords with seven countries, namely Congo, Egypt, Ethiopia, Mozambique, Nigeria, Sudan and Zimbabwe, that launched infrastructure projects connected to the development of economic corridors and/or industrial areas[122]. At the last FOCAC meeting in Beijing, Xi Jinping announced to expand China´s imports from Africa, especially of non-resource products in order to favour African industrial upgrade and ameliorate trade imbalance. Furthermore, he pledged to invest $60 billion in financial support to the continent over the next three years. The Chinese President pointed out that an important portion of these funds will be allocated to Africa’s infrastructure construction. African policy makers have thus the opportunity to tie these funds to the Agenda 2063, which prioritizes infrastructure construction as a means to achieve regional integration and continental connectivity. Since the establishment of FOCAC, China has also waived significant portions of debt of many African countries and has relieved hundreds of African products of custom duties, creating important benefits for African economies. Additionally, China is supporting peace-keeping operations in Africa within this framework, strengthening Sino-African political and diplomatic ties. FOCAC constitutes a solid multilateral forum which is not only reinforcing Sino-Africa relations, but is also providing them with higher bargaining power vis-à-vis

---

[120] Zhang and Kangombe, "Chinese Investment in Africa: How the New Normal Can Leverage Agenda 2063 for Sustainable Economic Co-operation," 79.
[121] Ado and Osabutey, "Africa–China Cooperation: Potential Shared Interests and Strategic Partnerships?", 21.
[122] Zhang and Kangombe, "Chinese Investment in Africa: How the New Normal Can Leverage Agenda 2063 for Sustainable Economic Co-operation," 74.

the West and other nations[123]. However, in order to benefit from this framework and to avoid political frictions, Africa needs to develop profound expertise in conducting negotiations as well as in strategic thinking. As a matter of fact, while there seems to be some institutional convergence with Western powers around certain issues such as greener investment and social infrastructure, the Chinese model of development is too dissimilar and influential to, for instance, swiftly start championing human rights. This means that if African states start using the 'China development model' to ideologically oppose Western initiatives, significant political tensions will be likely to emerge between China, the West and African countries, likely leading to negative repercussions on African development[124].

4.3 BRI and Agenda 2063

China's Belt and Road Initiative is an ambitious connectivity scheme designed to invest in infrastructure projects, such as railways, ports and power grids in central, west and southern Asia, as well as in Europe and in Africa. Africa is predicted to play an important role in BRI, presenting not just opportunities but also risks for the continent. BRI offers Africa the chance to finally tackle its infrastructure deficit, which is estimated to stand at $170 billion per year, and hence meet the Agenda 2063's priority goal of infrastructure development. African countries can use the BRI framework as a long-term platform to negotiate more Chinese FDI and address the continent's needs. For instance, African policy makers can coordinate BRI's investment towards the achievement of the AfCFTA, moving closer to the ultimate goal of an interconnected Africa with increased movement of people, products and services across the continent. Kenya's Standard Gauge Railway is a key BRI project which moves in this direction. Still under construction, it will connect East Africa's major port situated in Mombasa to Kenya's capital, Nairobi, drastically reducing transport costs and boosting connectivity in the region. Moreover, the BRI presents Africa with the possibility of further opening the continent up for the relocation of Chinese private sector there, offering important opportunities in terms of employment, income growth and development of the African manufacturing sector[125].

However, the above opportunities are paired with risks. One primary concern is that BRI will further indebt African governments, raising the problem of debt sustainability. As IMF's director Christine Lagarde pointed out at a BRI conference in China, although

[123] Ado and Osabutey, "Africa–China Cooperation: Potential Shared Interests and Strategic Partnerships?", 21-22.
[124] Mohan, "China in Africa: Impacts and Prospects for Accountable Development." 29.
[125] Anzetse Were "Opportunities and Risks to Manage in BRI for Africa." (April 1, 2019), accessed June 4, 2019. https://anzetsewere.wordpress.com/2019/04/01/opportunities-and-risks-to-manage-in-bri-for-africa/.

China's investment has the potential to advance infrastructure on the continent, imprudent borrowing of funds and misused money might lead to failed projects and, in the long-term, to unsustainable balance of payments problems. Further concern comes from the allegation that China is deliberately over-lending money for unprofitable projects with the ultimate aim of leveraging debts to obtain concessions from borrowing countries and thereby advancing a geostrategic mechanism of debt-trap diplomacy. However, to date, there is little evidence indicating that Beijing is indeed coordinating a foreign policy strategy aimed at luring developing countries into a debt trap. In fact, there is only one case sustaining this allegation, precisely, when China took over Sri Lanka's Hambantota Port and acquired ownership rights for thousands of acres of land around it for a period of 99 years[126]. Rather than the alleged Beijing debt diplomacy strategy, the real challenge for African countries with regards to Chinese investment on the continent will be to avoid the emergence of crony diplomacy or crony capitalism, often observed in East Asia's economic past. Beijing's strong support for its Belt and Road Initiative has led to it negligently encouraging often economically incautious projects which, coupled with a lack of alternative infrastructure investment initiatives coming from the West, is already leading to cronyism and rent-seeking practices among Chinese investors.

Easy funding from Chinese banks for activities under the BRI umbrella is encouraging Chinese companies' attitude to invest for the sake of investing rather than according to a sustainable business plan. As a consequence, less attention is dedicated to securing the success of projects, and investors, in the attempt to maximize their profits, will likely fail to respect best business practices. Beijing should better monitor practices of Chinese firms operating in Africa, proactively focusing on poor management and corruption problems[127]. Moreover, while most of the BRI projects have so far been financed through loans, Beijing should encourage equity investments from China in order to move the financial risk away from borrowing countries and their taxpayers towards Chinese stockholders.

The Chinese government does not seem to be incognisant of the above risks related to companies' attitude towards investment. The 2018 Beijing FOCAC revealed a more cautious and calculating China with regards to its engagement in Africa. Firstly, China appears to support a shift in its financing methods from loans towards equity investment

[126] Deborah Brautigam, "Misdiagnosing the Chinese Infrastructure Push." The American Interest. (April 4, 2019). Accessed June 6, 2019. https://www.the-american-interest.com/2019/04/04/misdiagnosing-the-chinese-infrastructure-push/.

[127] Mark Akpaninyie, "China's 'Debt Diplomacy' Is a Misnomer. Call It 'Crony Diplomacy.'." The Diplomat. (March 12, 2019), accessed May 30, 2019. https://thediplomat.com/2019/03/chinas-debt-diplomacy-is-a-misnomer-call-it-crony-diplomacy/.

by different groups of investors[128]. Moreover, Chinese President Xi Jinping warned that Chinese money will not be provided for ‘vanity projects’, indicating that banks will analyse projects’ proposals more rigorously[129]. At the second Belt and Road Forum, Chinese government announced that it will not help finance the still needed $3.68 billion in loans and grants for the last stage of Standard Gauge Railway, as major infrastructure financial criteria were not fulfilled. China has specified that there are some critical issues with corruption and financial accountability that Kenya must resolve before further debt is conferred. On the one hand, this signals a change in China’s approach to financing as well as that China’s engagement in the country is not business-as-usual. On the other hand, it indicates that in order for the African continent to benefit from the BRI, a better management of public funds will be required from sides of African governments[130].

---

[128] Yun Sun. "China’s Changing Approach to Africa." Brookings. February 4, 2019, accessed June 6, 2019. https://www.brookings.edu/blog/africa-in-focus/2019/02/04/chinas-changing-approach-to-africa/.
[129] Deborah Brautigam, "Misdiagnosing the Chinese Infrastructure Push." The American Interest. (April 4, 2019). Accessed June 6, 2019. https://www.the-american-interest.com/2019/04/04/misdiagnosing-the-chinese-infrastructure-push/.
[130] Anzetse Were, “Smart move by China on the Standard Gauge Railway financing”, (May 6 2019), accessed June 5 2019, https://anzetsewere.wordpress.com/2019/05/06/smart-move-by-china-on-the-standard-gauge-railway-financing/

5. Ethiopia – a Case Study

Since the fall of the Derg regime in 1991, an amicable relationship between Ethiopia and China has grown, creating a solid political grounding for the relation to further develop both politically and economically.

On the one hand, Ethiopia is seeking to attract FDI from China as a core element of the second Growth and Transformation Plan (GTP II, 2015-2020) and the Ethiopian Industrial Development Strategic Plan (EIDSP 2013-2025). Both plans are designed to bring about structural transformation in the country through the development of light manufacturing activities, and to turn Ethiopia into a middle-income country by 2025[131].

On the other hand, China sees Ethiopia as a perfect partner for delocalizing its manufacturing sector as well as for advancing connectivity between Asia and the African continent within the BRI framework.

5.1 Political Context: a long-standing partnership

The first political approach between the countries dates back to the 1950s, to the occasion of the Afro-Asian conference in Bandung, which aimed to foster Sino-African economic and cultural relations and to create a political movement countering any form of neo-colonialism. However, bilateral relations soured during the 1960s when China supported the Eritrean Liberation Front (ELF) in the Eritrean conflict. Nevertheless, a significant diplomatic rapprochement occurred in 1970, with China promising to halt any support to the ELF. Bilateral relations deteriorated once again past the 1974 military coup, which initiated the Derg regime (1974-1991), actively backed by the Soviet Union. Despite these political strains, Sino-Ethiopian relations continued to exist throughout the entire period of the regime, with the two countries even concluding some economic and technological cooperation accords[132].

In 1991, following the fall of the Derg regime and the rise to power of Meles Zenawi, leader of the Ethiopian People's Revolutionary Democratic Front (EPRDF), bilateral relations started to intensify, marked by frequent high-level political visits to each other's countries. While the regime was initially supported by the U.S. and promoted an

---

[131] Ding Fei, "Work, Employment, and Training Through Africa-China Cooperation Zones: Evidence from the Eastern Industrial Zone in Ethiopia," China Africa Research Initiative. (September 2018): 8, accessed June 6, 2019.
https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5b9a9dcd575d1f3c474af67f/1536859598690/Ding+Fei+_+Working+Paper+_+V2.pdf

[132] Francoise Nicolas, "Chinese Investors in Ethiopia: The Perfect Match?" Ifri. (March 2017): 8, accessed June 5, 2019.
https://www.ifri.org/sites/default/files/atoms/files/nicolas_chinese_investors_ethiopia_2017.pdf.

economic liberalisation of the market, the EPRDF decided to reshape its foreign policy after a long political debate in 1995, moving closer to Russia and China, with a particular interest in understanding and learning about Chinese ‘socialist market economy’. Following an official visit of the Prime Minister Meles to China in October 1995, the two countries concluded an agreement on Trade, Economic and Technical Cooperation, which paved the way to the establishment of a Joint Economic Commission in 1998. Since then, Sino-Ethiopian ties have continued to grow and, with the creation of the FOCAC at the turn of the century, China’s presence in the country has become even more prominent[133]. As a symbol of the growing relationship, at the first FOCAC in Beijing in 2000, Addis Ababa was selected as the host city of the second forum in 2003.

Following the disputed 2005 Ethiopian elections, which resulted in the deterioration of relations with traditional western partners, the diplomatic, political, and economic partnership with China further evolved. The recent inclusion of Ethiopia in the BRI, which was welcomed by Billene Seyoum, Spokesperson for Ethiopian Prime Minister Abiy Ahmed, as the “natural progression of the growing ties between the two countries”[134], will certainly further accelerate the relationship between Ethiopia and China.

5.2 Economic Relationship

The Federal Democratic Republic of Ethiopia, formerly known as Abyssinia, is the second most populated country in Africa after Nigeria, with 109 million inhabitants in 2019. Ethiopia is categorized as a low-income country but, owing to its demographics and recent impressive economic performance, is likely to become one of the first middle-income African economies. The World Bank ranked the country as the fastest growing economy in the world in 2017. Paradoxically, Ethiopia is also one of Africa’s poorest countries, with a per capita income of only $783[135]. In order to sustain the growth of the economy and transform the largely agrarian country, the Ethiopian government has promoted a series of policy initiatives which culminated in the launch of a deliberate policy of industrialisation in 2010. The strategy aims to bring about structural transformation in the country through manufacturing-led industrialisation and prioritizes FDI as the instrument to achieve it. It seeks to attract investments predominately in the following sectors: textile and apparel, leather and leather products, agro-processing,

133 Jean Pierre Cabestan, "China and Ethiopia: Authoritarian Affinities and Economic Cooperation," China Perspectives. (December 7, 2012): 54, accessed June 2, 2019, file:///C:/Users/utente/Downloads/chinaperspectives-6041%20(1).pdf

134 "Interview: BRI to Further Boost Comprehensive Ethiopia-China Ties: Official." Xinhuanet. June 11, 2019. http://www.xinhuanet.com/english/2019-04/22/c_137999185.htm.

135 "The World Bank In Ethiopia." The World Bank. April 12, 2019. Accessed June 8, 2019. https://www.worldbank.org/en/country/ethiopia/overview.

pharmaceuticals and chemicals. The priority is to shift the country’s resources from the agricultural sector towards new tradable activities in manufacturing in order to facilitate production diversification and to create a much higher number of jobs for young and semi-skilled Ethiopian workers[136]. Manufacturing is hence expected to be the engine of the structural transformation of the economy. The aim is to increase its share to 17% of GDP by 2025, from 4% today[137].

According to the World Investment Report 2018, Ethiopia is the second largest African recipient of FDI after Egypt, accounting for $3.6 billion of FDI in 2017. This corresponds to nearly half of the amount absorbed by the whole of East Africa, the fastest-growing region on the continent[138]. This data is remarkable considering that Ethiopia, a landlocked country with scarce natural resources, used to lag behind other African economies as investment recipient for a long time.

With regards to China, Ethiopia is one of its main recipients of OFDI on the continent[139]. Figure 12 shows that the flow of China’s FDI to Ethiopia increased from not even 1$ million in 2003 to $282,2 million in 2016. It then decreased to $181,08 million in 2017 due to political turmoil in the country. However, Chinese firms promised further investments in Ethiopian manufacturing after the country lifted the state of emergency during the second half of the year[140]. In terms of stock, China’s level of direct investment in the country increased from only $4,78 million in 2003 to almost $2 billion in 2017 (Figure 13).

---

136 Francoise Nicolas, "Chinese Investors in Ethiopia: The Perfect Match?", 10.
137 Fei, "Work, Employment, and Training Through Africa-China Cooperation Zones: Evidence from the Eastern Industrial Zone in Ethiopia," 8.
138 “World Investment Report 2018”, (2018):41,accessed April 18, 2019, https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf.
139 Francoise Nicolas, "Chinese Investors in Ethiopia: The Perfect Match?", 17.
140 “World Investment Report 2018”, (2018):41, accessed April 18, 2019, https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf.

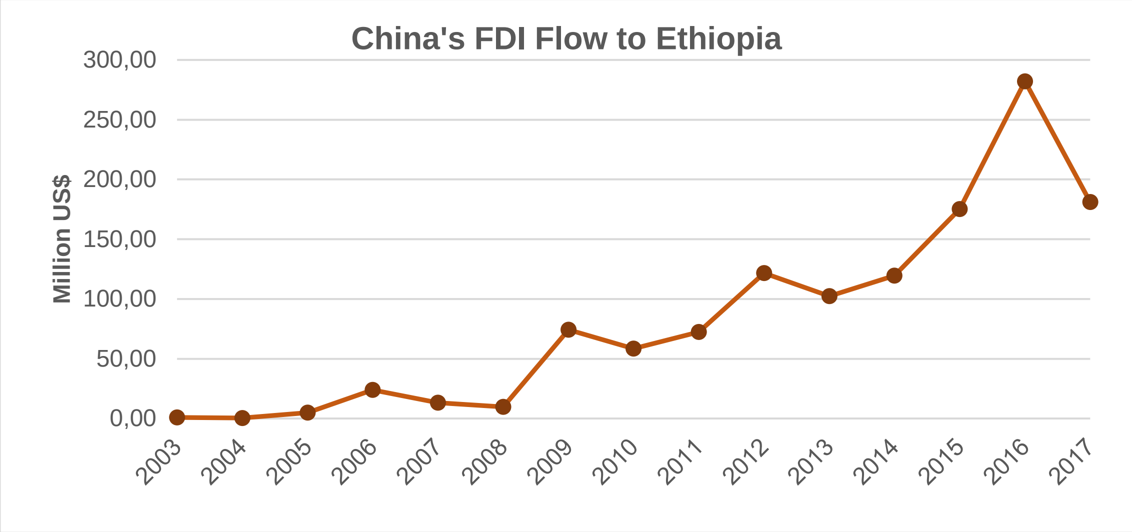


Figure 12: *China's FDI flow to Ethiopia*
Source**:** Data from Johns Hopkins University SAIS China-Africa Research Initiative

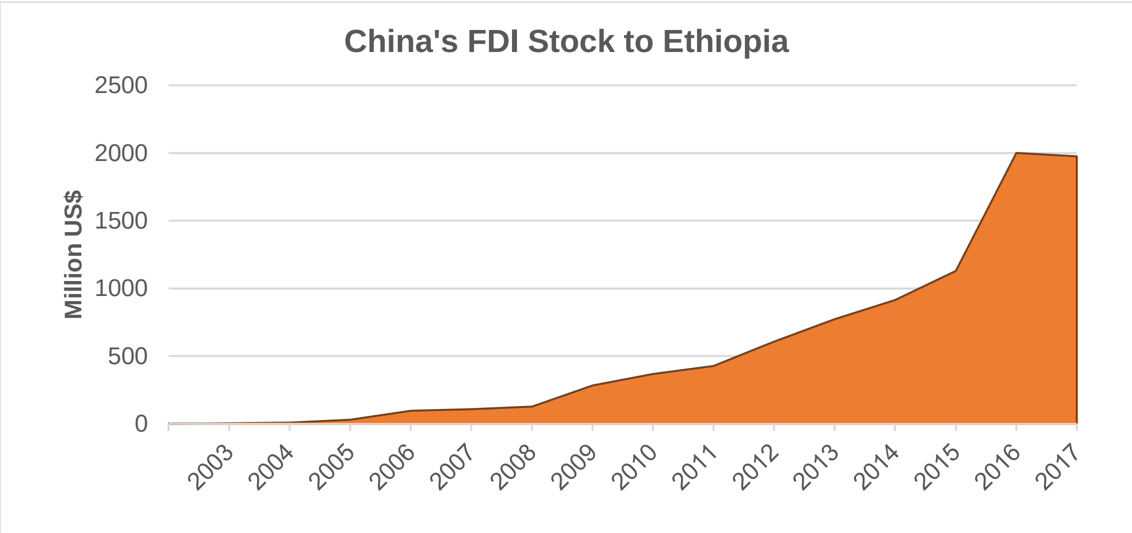


Figure 13: *China's FDI stock to Ethiopia*
Source**:** Data from Johns Hopkins University SAIS China-Africa Research Initiative

What is more, China is today by far the primary investor in the country. According to the Ethiopian Investment Commission (EIC), over the period between 1992-2016, China's contribution of FDI to the country has been much larger compared to that of other investors, both with respect to number of projects (23.6%) and to capital invested (21.6%) (Figure 14). To compare, U.S' FDI stock in Ethiopia accounted for only $11 million in 2012; an extremely low amount when considering the $607 million of Chinese investment stock in the country that year[141]. Chinese investors seem less risk averse and more willing to seize business opportunities in the country. For instance, in 2016, the

[141] "Bilateral FDI Statistics." UNCTAD. (April 2014), accessed June 4, 2019. https://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx

British GlaxoSmithKline, one of the ten world's biggest pharmaceutical firms, declined the offer of building a drug production factory in Ethiopia due to the country's market being too small and backward. Around the same time, the Chinese Human-well Healthcare Group, a Chinese producer of drugs, decided to set up a pharmaceutical factory in the country. The general manager listed the company's international growth mission, Ethiopia's large population and the government's commitment to improve the health care system as reasons behind the decision to invest there[142].

As shown in table 3, China's FDI has also contributed to the creation of 18.5% of permanent and 17% of temporary employment, corresponding to approximately 53.000 permanent jobs and 52.000 temporary ones respectively. China thus only ranks second after Britain in terms of employment creation. Moreover, according to a World Bank survey in 2012, 87% of permanent workers hired by Chinese firms in Ethiopia were African and their average monthly salary was ETB 1445 (US$ 85), which is higher than the earnings received in local companies[143].

Table 3: *Top 5 foreign direct investors in Ethiopia (1992-2016)*

Value	Number of projects	Permanent employment	Temporary employment
China (21.6)	China (23.6)	Britain (28.6)	Britain (33.2)
Saudi Arabia (18.8)	India (9.0)	China (18.5)	China (17.0)
Turkey (8.3)	USA (7.0)	Saudi Arabia (6.9)	Saudi Arabia (9.3)
India (6.3)	Turkey (4.4)	Turkey (5.1)	India (7.2)
Britain/Netherlands (5.3)	Saudi Arabia (3.5)	India (4.8)	Turkey (2.9)
Memorandum items:			
Total value (in thousand birrs)	Total number of projects	Total permanent employment	Total temporary employment
93,541,582	2,547	287,664	306,641

Source: Francoise Nicolas, "Chinese Investors in Ethiopia: The Perfect Match?" 18.

The EIC has found that about 70% of Chinese FDI in Ethiopia is in the manufacturing sector, followed by infrastructure construction and real estate, and renting and business

142 Yuan Sun, "The Next Factory of the World", 166-67
143 "Chinese FDI in Ethiopia A World Bank Survey." The World Bank. (November 2012): 12, accessed June 4, 2019.
http://documents.worldbank.org/curated/en/151961468038140377/pdf/NonAsciiFileName0.pdf.

activities, which account for 22% and 5% respectively[144]. Concerning infrastructure, Chinese companies are carrying out approximately the 70% of the road construction in the country. The Addis Ababa rail system and the 753 km Djibouti-Addis Ababa railway line – which provides Ethiopia with better access to the sea and is anticipated to highly benefit the socio-economic development of the country - have also been financed by a consortium of Chinese banks and have been constructed by the China Railway Engineering Corporation[145]. Moreover, as can be seen from figure 14, the bulk of Chinese firms in Ethiopia are privately owned. Only 13% are state-owned by China and 15% are Chinese-Ethiopian private joint-ventures.

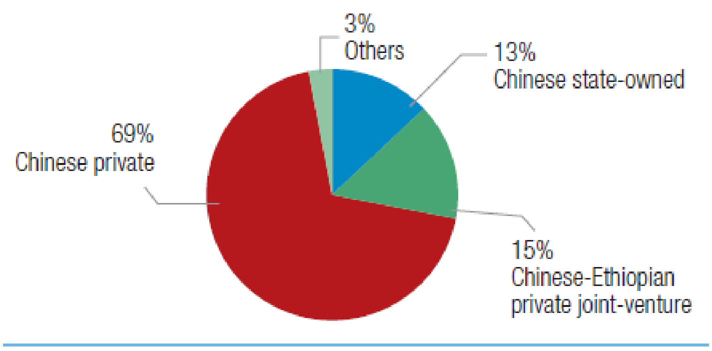


Figure 14: *Ownership types of Chinese firms in Ethiopia*
Source: "Chinese FDI in Ethiopia A World Bank Survey.", 11.

The determinants of China's increasing presence in Ethiopian manufacturing consists of a number of factors. China needs to restructure its industrial sector due to increasing wages in costal China. With the average cost of the Ethiopian labour force being less than a quarter of that in coastal China, Chinese companies have the opportunity to relocate their activity to the country and remain competitive on the global market[146]. Another reason for Chinese firms to move to Ethiopia is the country's improved infrastructure system as well as its positive economic performance during recent years. Moreover, the duty-free access to the U.S and EU markets, via the AGOA and EBA deals respectively, constitutes a key factor in Chinese investors' choice of Ethiopia as destination for their investment. Finally, a major driving force behind Chinese investment to Ethiopia is the presence of Special Economic Zones (SEZs) in the country, whose main characteristics will be analysed in the next section.

[144] Francoise Nicolas, "Chinese Investors in Ethiopia: The Perfect Match?" 18.
[145] Ibid., 24-25.
[146] Malancha Chakrabarty, "Ethiopia–China Economic Relations: A Classic Win–Win Situation? "World Review of Political Economy Vol.7 No.2. (2016):241, accessed June 7, 2019,file:///C:/Users/utente/Downloads/WRPE7.2%20(2).pdf

5.3 Special Economic Zones in Ethiopia

SEZs have become an integral part of the Ethiopian development agenda and also represent a major element of China's experimental economic reforms, having largely contributed to its impressive economic growth. Both Ethiopian central ministers and regional governments support SEZs for the development of targeted industrial sectors, including garment, footwear and leather, and agro-processing. The Industrial Parks Development Corporation was created in 2014 by the council of Ministers in order to support and supervise the development of large, medium and light SEZs[147]. Moreover, the Ethiopian Investment Commission has introduced incentives that establish tax reductions and logistic assistance to potential investors in Ethiopian manufacturing. Apart from the above initiatives, the federal government is supporting the improvement of infrastructure and is countering corruption as well as accelerating customs and logistic services in the country. While SEZs are primarily under the jurisdiction of the Industrial Parks Development Corporation, international contractors are actually building them. By the end of 2016, 19 SEZs were either already operating, under construction, or in the planning phase in Ethiopia, and 4 Chinese companies had already been awarded the construction mandate or were in the tender process for more than nine SEZs[148]. In the next section, we will move on to examining the privately-run Eastern Industrial Zone (EIZ), a fully Chinese-controlled SEZs and to assessing its impact on the development of the Ethiopian economy.

5.4 The Eastern Industrial Zone

The EIZ, located about 32 Kilometres south of Addis Ababa and situated along the highway to the Djibouti port, was the first privately-run SEZs in Ethiopia and was approved by MOFCOM as one of China's official SEZs initiatives overseas in 2015. A consortium of three private Chinese enterprises won the bidding in 2007, however, the project was halted in 2008 owing to the Global Financial Crisis. After being resumed in 2010, thanks to the funding of the Export-Import Bank of China, the construction of the project accelerated over the following years[149]. The EIZ, whose extension is still under construction, is considered as a key project for the achievement of national industrialisation and poverty eradication by the Ethiopian government. Despite initial

147 Fei, "Work, Employment, and Training Through Africa-China Cooperation Zones: Evidence from the Eastern Industrial Zone in Ethiopia," 8.
148 Ibid., 9-10.
149 Fei, "Work, Employment, and Training Through Africa-China Cooperation Zones: Evidence from the Eastern Industrial Zone in Ethiopia," 10.

difficulties, the EIZ, as of 2016, attracted 64 companies, of which 31 are already operating on the site, hiring around 15,000 workers. While most of these companies are Chinese, the EIZ is starting to also attract firms from other countries. The enterprises currently operational in the area work in a wide range of activities, including textiles, garments, footwear, construction materials, automotive, electrical materials and food processing. They are predominantly small, private manufacturing enterprises, employing mainly Ethiopian workers[150].

According to field observations on the local workforce in the EIZ, the majority of workers are young adults between 16 and 28 years of age. Moreover, for 80% of the workers, their current position in the EIZ represents their first job, indicating that EIZ is largely contributing to the local employment of young Ethiopians. Working conditions are rather positive, with employees in construction or industrial material and in the production of textiles or footwear working eight hours and ten hours per day respectively[151]. Yet, some employees work seven days a week. Workers in the EIZ earn a monthly wage ranging between 1200 birr ($53) and 2200 birr ($97), which is above the national average salary of $49 per month. Nevertheless, workers seem to consider the salary insufficient to cover their household expenses, also due to the fact that members of their families often live off their earnings[152]. In terms of training and skill transfers, Chinese managers seem willing to help locals to become more qualified. The majority of Chinese companies offer formal training programs to their Ethiopian employees. Moreover, workers are generally satisfied with the amount and quality of trainings offered and consider their job as contributing to their skills development. Yet, training provisions change depending on the sector, with export-oriented companies investing much more in their employees as compared to firms selling in the local market (Figure 15). This is due to high-quality standards being required for products going to European and U.S. markets. For instance, Huajian International Shoe City is not only training its employees, but is also promoting training programs in China for Ethiopian technicians. Interestingly, this company has recently decided to establish the so-called ‘Huajian International Light Industry City’, a private SEZs not making part of the MOFCOM strategy. The zone is projected to turn Ethiopia into a global shoe and light manufacturing hub and is predicted to be able to create 100,000 jobs[153].

[150] Ibid., 11.
[151] Ibid., 16.
[152] Ibid., 19.

[153] Francoise Nicolas, "Chinese Investors in Ethiopia: The Perfect Match?" 23

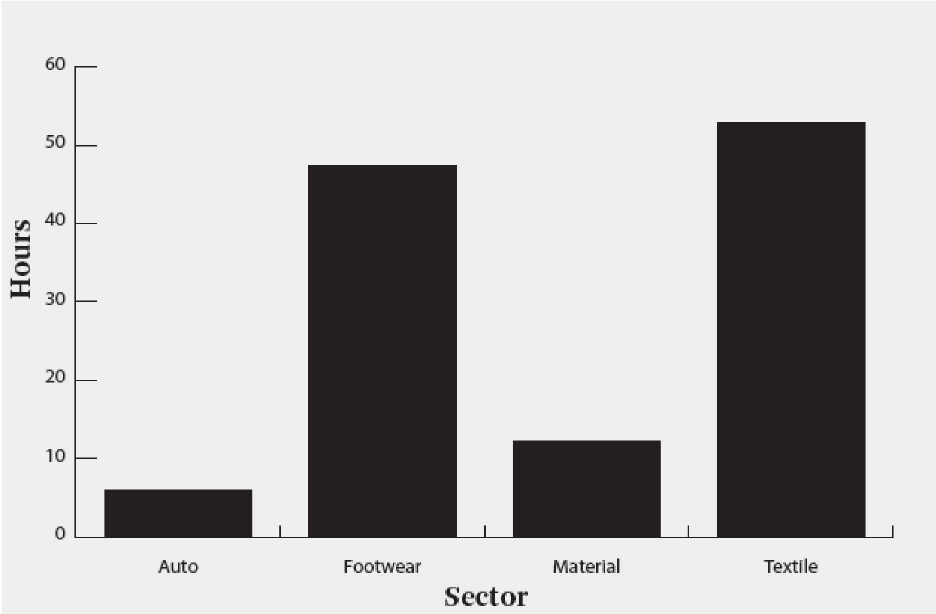


Figure 15: *total average training hours by sector (before starting the job)*
Source: *Fei, "Work, Employment, and Training Through Africa-China Cooperation Zones: Evidence from the Eastern Industrial Zone in Ethiopia," 20.*

With regards to EIZ's capacity to establish backward and forward linkages with local businesses, the picture which is emerging to date is less positive. Concerning backward linkages, 61% of the supplies used by Chinese firms in the EIZ still came from abroad in 2012. The reason behind this stems from different factors. Firstly, some Chinese companies are still operating in machinery or construction equipment industries, which offer fewer opportunities for the emergence of backward linkages. Moreover, raw materials or intermediate products are often not available in the local economy; this further increases the tendency of Chinese companies to use their own networks to source inputs. Nevertheless, the recent surge of Chinese producers in the textile and garments industry gives promising signals. Experience shows that clustering effects are more likely to be achieved in these sectors, indicating that there is potential for deeper backward linkages with the local economy. This is particularly true in Ethiopia due to the country having an important tradition for cotton production as well as spinning, weaving, and knitting. With regards to forward linkages, the main impediment comes from the poor connectivity within the country. The Ethiopian government has, however, expressed its intention to improve the country's infrastructure. This, coupled with recent Chinese investments in the construction sector, might boost connectivity in the country and facilitate the creation of forward linkages between foreign and local enterprises[154].

[154] Francoise Nicolas, "Chinese Investors in Ethiopia: The Perfect Match?" 29-30

5.5 Outlook

Ethiopia is classified today as one of the fastest growing economies in the world. Its economy has experienced an impressive growth averaging 10.3% per year from 2006/2007 to 2016/2017, almost doubling the regional average of 5.4%. According to the World Bank, industry and services made the highest contribution to growth in 2017/18, while the importance of agriculture decreased compared to previous years. Figure 16 illustrates the share of the Gross Domestic Product (GDP) of different economic sectors from 2007 to 2017. While the share of GDP in services was relatively stable, it can clearly be seen that the dependence on agriculture has decreased significantly over this period, with its share of GDP diminishing by about 10% points over the period. In contrast to that, while the share of the industrial sector represented only 11.59% of the GDP in 2007, it makes up almost 23% of the GDP in 2017, suggesting that the Ethiopian economy is diversifying and that the industrial sector my become the primary driver of the economy (Figure 16)[155].

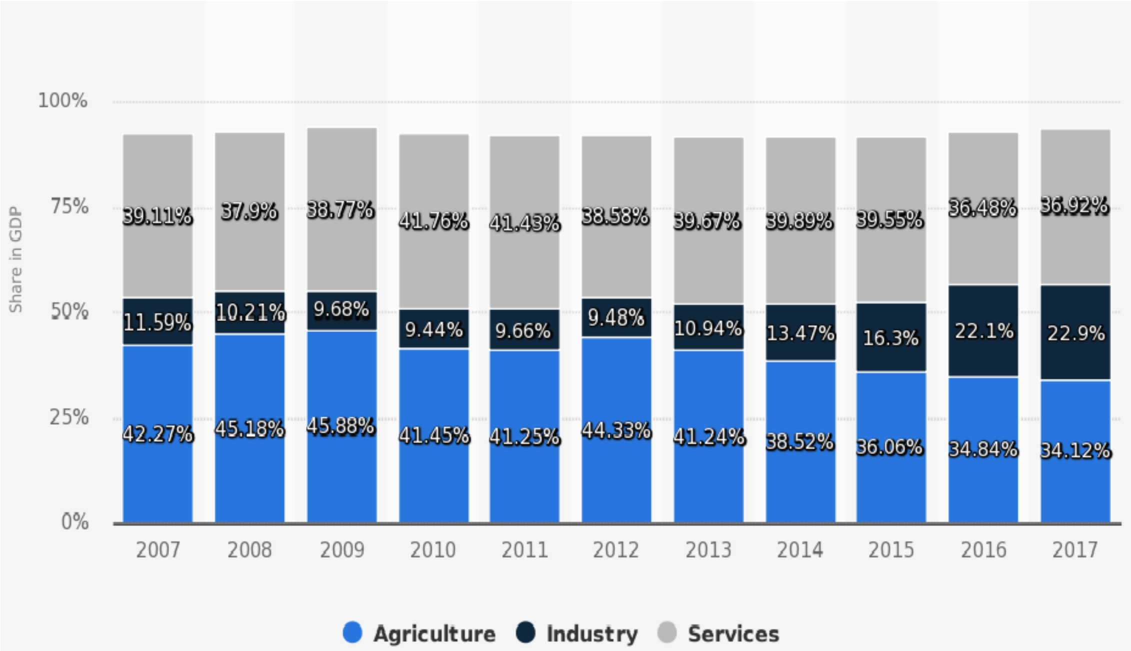


Figure 16: *Ethiopia's distribution of GDP across economic sectors from 2007 to 2017*
Source: "Ethiopia: Share of Economic Sectors in the Gross Domestic Product (GDP) from 2007 to 2017," Statista. (2019), accessed June 1, 2019. https://www.statista.com/statistics/455149/share-of-economic-sectors-in-the-gdp-in-ethiopia/.

[155] "The World Bank In Ethiopia." The World Bank. April 12, 2019. Accessed June 8, 2019. https://www.worldbank.org/en/country/ethiopia/overview

However, it seems that the contribution of manufacturing to economic growth remains low. The table below presents some key development indicators for Ethiopia for the years 1990, 2000, 2010 and 2017.

Table 4: *Selected key development indicators for Ethiopia*

	1990	2000	2010	2017
Population growth (annual %)	3.4	2.9	2.6	2.5
Life expectancy at birth, total (years)	47.1	51.9	61.6	65.9
GDP (current US$)	12,175,166,763.3	8,242,392,103.7	29,933,790,334.3	80,561,496,133.9
GDP growth (annual %)	2.7	6.1	12.6	10.2
Agriculture, forestry, and fishing, value added (% of GDP)	49.5	44.7	41.4	34.0
Industry (including construction), value added (% of GDP)	9.3	11.4	9.4	22.9
Time required to start a business (days)	..	..	20.0	33.0
Manufacturing, value added (% of GDP)	3.22	5.605	3.974	5.587
Foreign direct investment, net inflows (BoP, current US$)	..	134,640,000.0	288,271,568.3	4,017,159,564.7
Net official development assistance and official aid received (current US$)	1,009,250,000.0	687,800,000.0	3,455,160,000.0	4,117,500,000.0

Source: "The World Bank In Ethiopia."

The Industry Value Added has more than doubled between 2010 and 2019. While accounting for 9.4% in 2010, it reached almost 23% of GDP in 2017. Manufacturing Value Added has remained at 4% to 5% of GDP since 1990, experiencing, however, a slight increase over recent years. The share of manufactured exports is not significant yet either, constituting less than 13% of total exports in 2017[156]. The explanation behind the remarkable growth in industry lies in the construction sector having significantly grown in recent years rather than in the expansion of manufacturing. Although Ethiopia is today one of Africa's fastest-growing, its manufacturing sector is still far from being the main driver of growth, indicating that Ethiopia has not yet succeeded in achieving the target of structural transformation of the economy.

[156] Arkebe Oqubay, "The Structure and Performance of the Ethiopian Manufacturing Sector." African Development Bank Group, (June 2018):4, accessed June 3, 2019. https://www.tralac.org/images/docs/13204/the-structure-and-performance-of-the-ethiopian-manufacturing-sector-afdb-wps-299-june-2018.pdf.

Despite the above results, there are signs suggesting that Ethiopia's commitment to economic transformation might be starting to bear fruits. FDI flow to Ethiopia increased from only $222 million in 2007 to $3.6 billion in 2017. Even more importantly, as shown in figure 17, the manufacturing sector attracted more than 80% of the FDI inflow over this period.

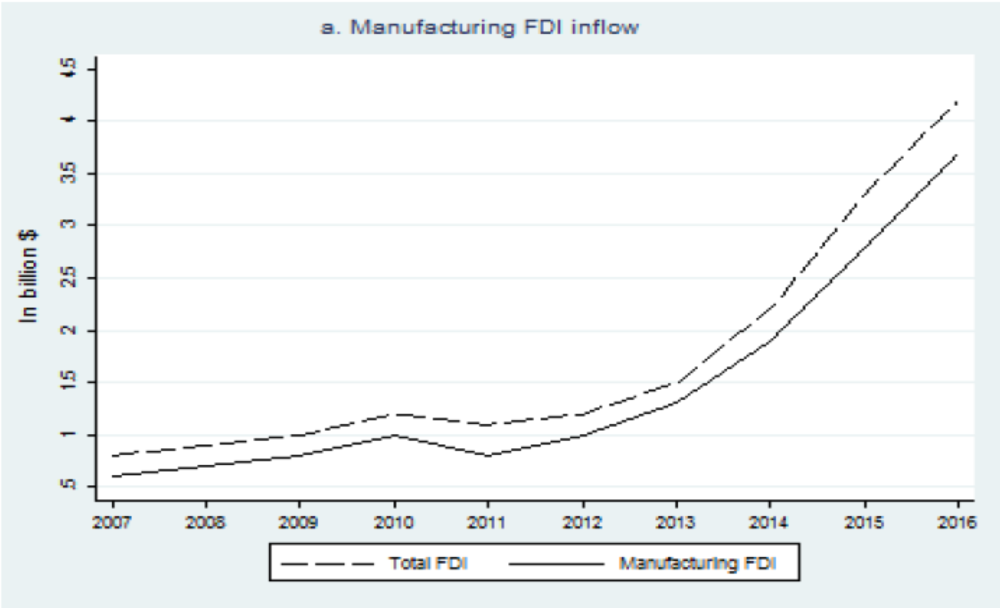


Figure 17: *total FDI and manufacturing FDI inflow, 2007-2017 (US$)*
Source: Oqubay, "The Structure and Performance of the Ethiopian Manufacturing Sector." 16.

Around 70% of Chinese firms in Ethiopia are operating in manufacturing. In the export-oriented apparel and textiles sector, the relative importance of foreign firms has increased in recent years, contributing to about 70% and 60% of exports and employment respectively[157]. Moreover, there are indications that the country is on the way to become a competitive global exporter of labour-intensive products. For example, the value of Ethiopian footwear exports has experienced a growth of 38% per year between 2004 and 2014, and the value of exported apparel products has risen at an annual rate of 22% during the same period (Figure 18). Furthermore, under the African Growth and Opportunity Act (AGOA), which offers tariff-free access to the U.S. market, leather shoe exports from Ethiopia has grown. Yet, the targeted volume of exports to the U.S. set in the first GTP plan was far from being met[158]. The recent establishment of the Chinese International Light Industry City provides Ethiopia with the opportunity to better

[157] Oqubay, "The Structure and Performance of the Ethiopian Manufacturing Sector." 16.
[158] "Lions on the move II: realizing the potential of Africa's economies," McKinsey & Company, (September 2016): 78-79, accessed June 2, 2019. https://www.mckinsey.com/featured-insights/middle-east-and-africa/lions-on-the-move-realizing-the-potential-of-africas-economies.

capitalise on this U.S.-initiative. Similarly, the growing Chinese investment in infrastructure may prove to be decisive in the process of structural transformation of Ethiopia. For instance, the recently constructed railway line connecting Addis Ababa to Djibouti will certainly boost the transport of goods to and from the Port of Djibouti, highly improving the business environment in the country. Infrastructure may thus take a decisive role in unlocking the manufacturing potential of the country.

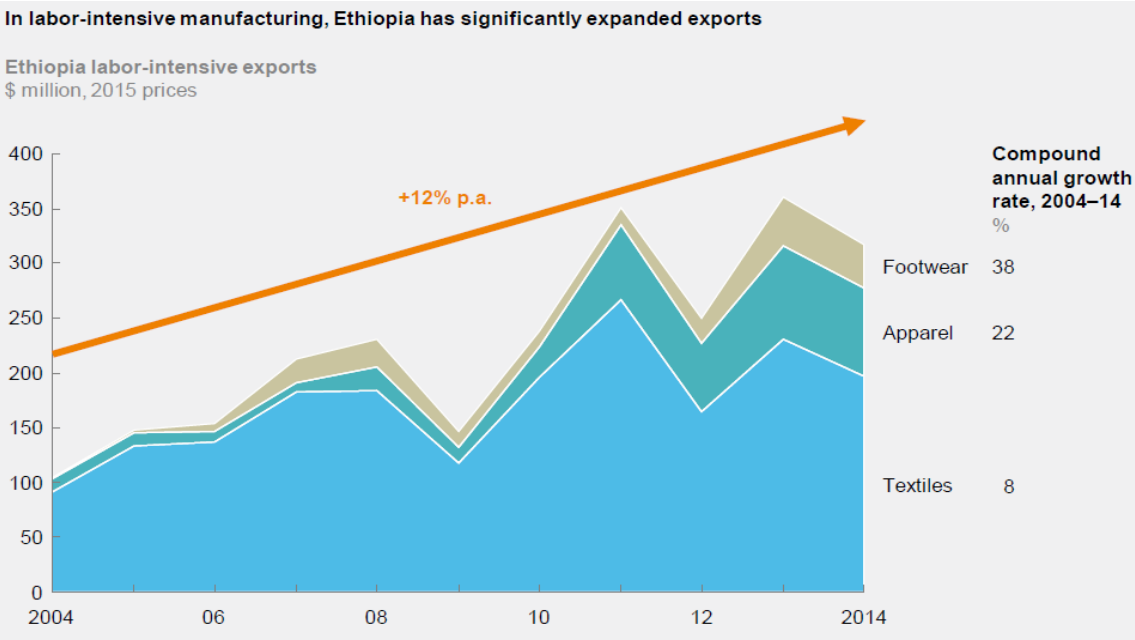


Figure 18: *Ethiopia's exports of labour-intensive goods*
Source: "Lions on the move II: realizing the potential of Africa's economies," 78.

The above analysis suggests that China is playing an important role in Ethiopia. By setting up industrial areas, carrying out the construction of key infrastructure projects and encouraging Chinese companies to relocate their manufacturing production there, China has contributed to the impressive economic performance of Ethiopia. However, the findings also indicate that China's FDI capacity to propel a manufacturing-led structural transformation of the Ethiopian economy, that Ethiopia is waiting for, seems to be limited at this stage. Nevertheless, there are promising signs that the Ethiopian manufacturing sector might substantially grow, showing transformative dynamics.

6. Conclusion

The analysis of the MOFCOM OFDI flow data undertaken in this thesis yields a picture of Chinese economic engagement and Foreign Direct Investment on the African continent that has, so far, not been well mirrored in the common narratives about China's presence in Africa. The work finds that Chinese investment on the continent is actually more diverse, long-term and growth-oriented than is often portrayed, further advancing the argument that China's presence in Africa can contribute to the highly needed industrialisation on the continent.

Despite growing Chinese engagement in Africa, this research reveals that China is still far from being the major contributor of FDI on the continent, with the U.S., the United Kingdoms and France still holding the biggest direct investment stakes. However, contrary to that of traditional investors, China's investment in Africa has recently experienced a rapid increase and is likely to be growing at a much faster pace during upcoming years than that of other FDI's contributors. While China's FDI appears to still have a significant presence in African resource-rich countries, the analysis found that China is increasingly investing in other African nations, which are often resource-poor or landlocked, yet have high economic growth and diversity. The correlation between Chinese investment and African countries' endowment of natural resources seems hence to be less pronounced than is often portrayed. To further support this, the research discloses that Chinese FDI in the African extractive sector is decreasing, with instead infrastructure construction and manufacturing playing an increasingly significant role. This result is even more remarkable if compared to the patterns of FDI to Africa coming from traditional investors, first and foremost the U.S.. American investment in the African mining sector has increased over the last years, while U'S.' FDI in African infrastructure and manufacturing has been steadily declining resulting in being less significant compared to that of China. Thus, it appears that, compared to the U.S., China is more involved in those economic sectors which have the potential to contribute to the industrialisation and development of the continent, due to having a higher employment multiplier and a greater structural transformational potential.

Concerning the manufacturing sector, this research not only finds that there is a growing trend of Chinese FDI in African manufacturing, but also, that Chinese manufacturing firms in Africa are already very diverse and well-established, showing some positive growth-synergies with local African firms. Despite certain important issues having to be addressed with regards to Chinese companies operating in Africa, such as major labour and environmental violations, it appears that Chinese manufacturing firms are, in certain cases, having a positive impact on the development of local African economies, especially in terms of job creation, and skills and technological diffusion across domestic firms. However, as the case study on Ethiopia shows, the alleged capacity of Chinese FDI to drive a manufacturing-led structural transformation of the continent, which can ultimately deliver long-term and sustained economic development, seems to be limited, at least up until today. Nevertheless, there are promising political as well as socio-economic signs that the investment cooperation between China and Africa can be further strengthened and that the above can be achieved. FOCAC and BRI certainly present opportunities to further advance the Sino-African partnership and to ensure a positive outcome of their current and future relationship. Similarly, the confluence of increasing wages in China, the imminent relocation of Chinese manufacturing firms abroad and Africa's demographic momentum provides Africa with the possibility to become a manufacturing powerhouse and hence achieve long-term economic development. However, in order for this potential to be leveraged, African policy-makers are required to play an enabling role by promoting sound policies that attract further FDI in adding-value activities and to assist and deepen local participation in the related sectors. Firstly, "if Chinese investments in manufacturing Africa are to spark an industrial revolution, African entrepreneurs must get a piece of the pie as industry develops"[159]. Secondly, only if African countries can successfully enact tailored and pragmatic policies, the pending shift of 100 million manufacturing jobs from China can move to Africa, making it possible to imagine that African economies can industrialise and develop as strenuously as the United States did in the 19th century, as Japan did in the early 20th century, and as the Asian Tigers did in the late 20th century. Under these circumstances, "Chinese investment gives rise to a tantalizing possibility: that Africa can industrialise in the coming generation"[160].

This thesis unveils a second important reality: not only is China already among the major foreign players in Africa, but it is also advancing a model of globalisation and an approach to development which appears appealing to African countries as an alternative to the Wester one.

Western governments generally see the continent for its poverty. They have promoted a one size fits all solution as main instruments to achieve development on the continent

[159] Yuan Sun, "The Next Factory of the World", 64.
[160] Ibid., front flap.

that prioritizes official development assistance and economic liberalisation reforms conditioned on better governance. China seems to instead be seeing Africa from a very different perspective, namely as a potential future commercial partner. Investment in productive sectors and infrastructure construction appear to be the key elements resulting from this view, indicating that China's engagement on the continent is growth-oriented and with having a long-term perspective. Contrary to the west, good governance is not seen as a viable development strategy; it is considered to be a result of, rather than a pre-condition for economic development. What is more, China seems to see Africa as a business partner with strong economic potential; Chinese investment is, in fact, increasingly diversifying across all economic sectors and China is building strong commercial ties within the whole continent.

Regardless of the potential impact of this approach on the development of the African continent, China's engagement in Africa may have also have geo-political effects. The risk is that China's presence on the African continent will become dominant and so influential that Western powers become players of waning relevance there. By building and financing infrastructure, setting up industrial zones and by relocating the manufacturing production in Africa, China might end up playing a major role across all levels of the African economy; from production, over logistics to the final distribution. If Western powers want to grasp the real nature of China's competition in Africa, they must start to recognize China as a legitimate actor on the African continent. Rather than confronting it and challenging its development strategy, they should try to gain a more realistic appraisal of its engagement with Africa. Only by doing so they can better position themselves in the changing African development context and have more leverage to denounce those elements of China's approach, such us violation of human rights and of the environment, that actually need to be scrutinized and challenged. Unfortunately, the new 2018 Africa strategy of the U.S. appears to be moving in a different direction. Firstly, it seems to prioritize militarization and stability of the continent over economic cooperation with it. Secondly, it identifies China as the biggest threat to the U.S. in Africa with Chinese business practices being defined as 'corrupt' and 'predatory' and Chinese engagement in Africa being seen as one that "is deliberately and aggressively targeting its investments to gain a competitive advantage over the United States"[161]. This approach is likely to further polarize the debate about Western and Chinese development paradigms and, by doing so, is risking to push African countries even closer to China. As a matter of fact, according to a survey conducted in Africa in 2015 concerning foreign

---

[161] Cornelia Tremann. "The New US Africa Strategy Is Not about Africa. It's about China," theinterpreter. (December 20, 2018), accessed June 1, 2019, https://www.lowyinstitute.org/the-interpreter/new-us-africa-strategy-not-about-africa-it-s-about-china.

investors on the continent, the Chinese development model is considered either as popular as or even more popular than the U.S.' one in three out of five African regions[162]. Rather than trying to impede China's advancement in Africa and seeing it solely as a move of rivalry, the U.S should acknowledge that other influential actors are already operating on the continent and thus focus on its relations with African economies rather than on Sino-African relations.

[162] "AD122: China's Growing Presence in Africa Wins Largely Positive Popular Reviews." Afrobarometer. (2019). Accessed June 5, 2019. https://afrobarometer.org/publications/ad122-chinas-growing-presence-africa-wins-largely-positive-popular-reviews.

Bibliography

Acemoglu, Daron, and James A. Robinson. "Why Foreign Aid Fails – and How to Really Help Africa." The Spectator. April 22, 2017. Accessed April 12, 2019. https://blogs.spectator.co.uk/2017/04/9824422/.

"AD122: China's Growing Presence in Africa Wins Largely Positive Popular Reviews." Afrobarometer. (2019). Accessed June 5, 2019. https://afrobarometer.org/publications/ad122-chinas-growing-presence-africa-wins-largely-positive-popular-reviews.

Ado, Abdoulkadre, and Ellis L.C. Osabutey, "Africa–China Cooperation: Potential Shared Interests and Strategic Partnerships?", AIB Insights Vol 18 No 4. (2018): 20-23, accessed May 27, 2019. https://documents.aib.msu.edu/publications/insights/v18n4/v18n4_Article5.pdf.

Akpaninyie, Mark. "China's 'Debt Diplomacy' Is a Misnomer. Call It 'Crony Diplomacy.'." The Diplomat. (March 12, 2019). Accessed May 30, 2019. https://thediplomat.com/2019/03/chinas-debt-diplomacy-is-a-misnomer-call-it-crony-diplomacy/.

"Bilateral FDI Statistics." UNCTAD. (April 2014), accessed June 4, 2019. https://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx

Branigan, Tania. "China 'wants to Set up Factories in Africa'." (2009). Accessed April 12, 2019. https://www.theguardian.com/world/2009/dec/04/china-manufacturing-factories-africa.

Brautigam, Deborah. "China in Africa: What Can Western Donors Learn?" Norwegian Investment Fund for Developing Countries. 2011. Accessed April 8, 2019. https://www.norfund.no/getfile.php/133986-1484571456/Bilder/Publications/Norfund_China_in_Africa.pdf.

Brautigam, Deborah. "Misdiagnosing the Chinese Infrastructure Push." The American Interest. (April 4, 2019). Accessed June 6, 2019. https://www.the-american-interest.com/2019/04/04/misdiagnosing-the-chinese-infrastructure-push/.

Brautigam, Deborah, Tang Xiaoyang, and Ying Xia. "What Kinds of Chinese 'Geese' Are Flying to Africa? Evidence from Chinese Manufacturing Firms." Journal of African Economies Vol. 27 (2018): I29–i51. Accessed April 30, 2019. https://academic.oup.com/jae/article/27/suppl_1/i29/5075680.

Brautigam, Deborah, "The Dragon's Gift," Oxford University Press (2011).

Brautigam, Deborah, Thomas Farole, and Tang Xiaoyang. "China's Investment in African Special Economic Zones: Prospects, Challenges, and Opportunities." March 2010. Accessed April 29, 2019. http://documents.worldbank.org/curated/en/819771468261924447/pdf/536820BRI0EP50Box345623B001PUBLIC1.pdf.

Brautigam, Deborah, Xinshen Diao, Margaret McMillan, and Jed Silver. "Chinese Investment in Africa: How Much Do We Know?" 2017. Accessed February 1, 2019.https://pedl.cepr.org/sites/default/files/PEDL_Synthesis_Papers_Piece_No._2.pdf

Brown, Heather. "Chinese Investment in Africa: New Model for Economic Development or Business as Usual?". (September 13, 2018). Accessed April 7, 2019. https://doc-research.org/2018/09/chinas-approach-to-africa/.

Cabestan, Jean Pierre. "China and Ethiopia: Authoritarian Affinities and Economic Cooperation."
China Perspectives. (December 7, 2012): 53-62. Accessed June 2, 2019. file:///C:/Users/utente/Downloads/chinaperspectives-6041%20(1).pdf

Chakrabarty, Malancha. "Ethiopia–China Economic Relations: A Classic Win–Win Situation?" World Review of Political Economy Vol. 7 No. 2. (2016). Accessed June 7, 2019. file:///C:/Users/utente/Downloads/WRPE7.2%20(2).pdf

Chen, Guangzhe, Michael Geiger, and Minghui Fu. "Manufacturing FDI in Sub-Saharan Africa: Trends, Determinants, And Impact." July 19, 2015. Accessed April 13, 2019. http://documents.worldbank.org/curated/en/791181468189550746/pdf/97836-REPLACEMENT-FILE.pdf.

Chen, Wenjie, David Dollar, and Heiwai Tang. "Why Is China Investing in Africa? Evidence from the Firm Level." (September 30, 2016). Accessed April 20, 2019. https://www.brookings.edu/wp-content/uploads/2016/06/Why-is-China-investing-in-Africa.pdf.

"Chinese FDI in Ethiopia: A World Bank Survey." The World Bank. November 2012. Accessed June 4, 2019. http://documents.worldbank.org/curated/en/151961468038140377/pdf/NonAsciiFileName0.pdf.

"Comparing U.S. and Chinese Business Models in Africa." Wilson Center Africa Program. (2016). Accessed June 3, 2019. https://www.wilsoncenter.org/event/comparing-us-and-chinese-business-models-africa.

Duarde, Margarida, and Diego Restuccia. "The Role of the Structural Transformation in Aggregate Productivity." The Quarterly Journal of Economics, Vol. 125, No. 1 (Feb., 2010): 129-173. Accessed April 13, 2019. https://www.jstor.org/stable/pdf/40506279.pdf.

Edinger, Hannah, and Jean Pierre Labuschagne. "If You Want to Prosper, Consider Building Roads." Deloitte Insights. (March 22, 2019). Accessed April 1, 2019. https://www2.deloitte.com/insights/us/en/industry/public-sector/china-investment-africa-infrastructure-development.html.

"EY's Attractiveness Program Africa." Ernst & Young. May 2017. Accessed April 21, 2019. https://ukgcc.com.gh/wp-content/uploads/2017/06/ey-africa-attractiveness-report.pdf.

Fei, Ding. "Work, Employment, and Training Through Africa-China Cooperation Zones: Evidence from the Eastern Industrial Zone in Ethiopia," China Africa Research Initiative. (September 2018). Accessed June 6, 2019. https://static1.squarespace.com/static/5652847de4b033f56d2bdc29/t/5b9a9dcd575d1f3c474af67f/1536859598690/Ding+Fei+_+Working+Paper+_+V2.pdf

Fox, Louise, Alun Thomas, and Cleary Haines. "Structural Transformation in Employment and Productivity What Can Africa Hope For" 2017. Accessed February 25, 2019. file:///C:/Users/utente/Downloads/44710-afrdp.pdf.

Geda, Alemayehu, Lemma W. Senbet, and Witness Simbanegavi. "The Illusive Quest for Structural Transformation in Africa: Will China Make a Difference?" Journal of African Economies, Vol.27, N.1 (2018): 4-14. Accessed February 12, 2019. https://academic.oup.com/jae/articleabstract/27/suppl_1/i4/5075679?redirectedFrom=fulltext.

Giles, Chris. "Ethiopia Is Now Africa's Fastest Growing Economy." CNN. April 24, 2018. Accessed February 22, 2019. https://edition.cnn.com/2018/04/24/africa/africa-largest-economy/index.html.

Green, Fergus, and Nicholas Stern. "China's "new Normal": Structural Change, Better Growth, and Peak Emissions." (2015). Accessed May 28, 2019. http://www.lse.ac.uk/GranthamInstitute/wp-content/uploads/2015/06/Chinas_new_normal_green_stern_June_2015.pdf.

Guadagno, Francesca. "The Determinants of Industrialization in Developing Countries, 1960-2005,"n.d. Accessed April 15, 2019. http://www.aomevents.com/media/files/ISS 2012/ISS Session 9/Guadagno.pdf. GU, Jing. "China's Private Enterprises in Africa and the Implications for African Development." European Journal of Development Research Special Issue, Vol. 24, No. 1, (2009). Accessed April 23, 2019. http://asiandrivers.open.ac.uk/Chinas%20Private%20Enterprises%20in%20Africa_GU.pdf

Haraguchi, Nobuya, Charles Fang Chin Cheng, and Eveline Smeets. "The Importance of Manufacturing in Economic Development: Has This Changed?" (2016). Accessed April 12, 2019. https://www.unido.org/sites/default/files/2017-02/the_importance_of_manufacturing_in_economic_development_0.pdf.

"Interview: BRI to Further Boost Comprehensive Ethiopia-China Ties: Official." Xinhuanet. June 11, 2019. http://www.xinhuanet.com/english/2019-04/22/c_137999185.htm.

Keho, Yaya. "Manufacturing and Economic Growth in ECOWAS Countries: A Test of Kaldor's First Law." Modern Economy, (September 2018): 897-906. https://file.scirp.org/pdf/ME_2018051016401161.pdf.

Kolstad, Ivar, and Arne Wiig. "Better the Devil You Know? Chinese Foreign Direct Investment in Africa." 2011. Accessed February 23, 2019. https://wwwtandfonlinecom.uaccess.univie.ac.at/doi/pdf/10.1080/1536710X.2011.555259?needAccess=true.

"Launch of the Economic Report on Africa 2017: "Urbanization and Industrialization for Africa's Transformation"." Permanent Observer Mission of the AFRICAN UNION to the United Nations. Accessed April 20, 2019. https://www.un.org/en/africa/osaa/pdf/events/20171208/Statment-ECAEco-report-Africa.pdf.

"Least Developing Countries Economic Analysis and Policy Division." Development Policy & Analysis Division, United Nations. Accessed April 17, 2019. https://www.un.org/development/desa/dpad/least-developed-country-category.html.

Lin, Justin Yifu. "China's Rise and Opportunity for Structural Transformation in Africa." Journal of African Economies Vol. 27, AERC Supplement 1, (2018): I15–i28. Accessed June 1, 2019. https://academic-oup-com.uaccess.univie.ac.at/jae/article/27/suppl_1/i15/5075678.

"Lions on the move II: realizing the potential of Africa's economies." McKinsey & Company. (September 2016). Accessed June 2, 2019. https://www.mckinsey.com/featured-insights/middle-east-and-africa/lions-on-the-move-realizing-the-potential-of-africas-economies.

Marsh, Jenni. "Employed by China." CNN. 2016. Accessed February 18, 2019. https://edition.cnn.com/interactive/2018/08/world/china-africa-ethiopia-manufacturing-jobs-intl/.

Martorano, Bruno, Marco Sanfilippo, and Nobuya Haraguchi. "What Factors Drive Successful Industrialization? Evidence and Implications for Developing Countries." United Nations Industrial Development Organization. 2017. Accessed April 10, 2019. https://www.unido.org/api/opentext/documents/download/9920891/unido-file-9920891.

Mohan, Giles. "China in Africa: Impacts and Prospects for Accountable Development." Oxford Scholarship Online. (2014). Accessed June 4, 2019. https://www.oxfordscholarship.com/view/10.1093/acprof:oso/9780198722564.001.0001/acprof-9780198722564-chapter-11?print=pdf.

Nicolas, Francoise. "Chinese Investors in Ethiopia: The Perfect Match?" Ifri. (March 2017). Accessed June 5, 2019 https://www.ifri.org/sites/default/files/atoms/files/nicolas_chinese_investors_ethiopia_2017.pdf.

Nwabia, Chima Henry. “China: Africa’s New Economic Partner or Coloniser? A Case Study of Nigeria-China Relations.” (2018). Accessed February 24, 2019. file:///C:/Users/utente/Downloads/Hiina_+kas+Aafrika+uus+majanduspartner+v%C3%B5i+kolonisaator_+Nigeeria-Hiina+suhete+juhtum%20(3).pdf

Oqubay, Arkebe. "The Structure and Performance of the Ethiopian Manufacturing Sector." African Development Bank Group (June 2018). Accessed June 3, 2019. https://www.tralac.org/images/docs/13204/the-structure-and-performance-of-the-ethiopian-manufacturing-sector-afdb-wps-299-june-2018.pdf.

Qobo, Mzukisi, and Garth Le Pere. "The Role of China in Africa’s Industrialization: The Challenge of Building Global Value Chains." Journal of Contemporary China V. 27, N. 110(October 28, 2017): 208-223.Accessed April 22, 2019. https://www.tandfonline.com/doi/full/10.1080/10670564.2018.1389016?scroll=top&needAccess=true.

Rodrik, Dani. "Goodbye Washington Consensus, Hello Washington Confusion? A Review of the World Bank's "Economic Growth in the 1990s: Learning from a Decade of Reform," (2006):973-987. Accessed February15,2019. https://www.jstor.org/stable/pdf/30032391.pdf?refreqid=excelsior:6268818e3f61f0b43086e7c067a8bf2f.

Schneidman, Witney, and Landry Signé. "The Trump Administration’s Africa Strategy: Primacy or Partnership?" Brookings. (December 20, 2018). Accessed June 5, 2019. https://www.brookings.edu/blog/africa-in-focus/2018/12/20/the-trump-administrations-africa-strategy-primacy-or-partnership/.

Shen, Xiaofang. "Private Chinese Investment in Africa: Myths and Realities." Development Policy Review © 2015 Overseas Development Institute 33 (1), (2015):83-106. Accessed April 12, 2019. https://onlinelibrary-wiley-com.uaccess.univie.ac.at/doi/epdf/10.1111/dpr.12093.

Signé, Landry. "The Potential of Manufacturing and Industrialization in Africa Trends, Opportunities, and Strategies." African Growth Initiative at Brookings. (September 2018). Accessed April 9, 2019. https://www.brookings.edu/wp-content/uploads/2018/09/Manufacturing-and-Industrialization-in-Africa-Signe-20180921.pdf.

Sun Yuan, Irene. “The Next Factory of the World”, Harvard Business Review Press (2017): 21.

Sun, Yun. "China’s Changing Approach to Africa." Brookings. (February 4, 2019). Accessed June 6, 2019. https://www.brookings.edu/blog/africa-in-focus/2019/02/04/chinas-changing-approach-to-africa/.

Szirmai, Adam. "Industrialisation as an Engine of Growth in Developing Countries, 1950–2005." Structural Change and Economic Dynamics (2012): 406–420. Accessed April 13, 2019. https://www.sciencedirect.com/science/article/pii/S0954349X1100018X.

"The State of African Cities 2018 The Geography of African Investment." United Nations Human Settlements Programme (UN-Habitat), 2018. (2018). Accessed April 9, 2019. https://unhabitat.org/books/the-state-of-african-cities-2018-the-geography-of-african-investment/.

"The World Bank in Ethiopia." The World Bank. April 12, 2019. Accessed June 8, 2019. https://www.worldbank.org/en/country/ethiopia/overview.

Tremann, Cornelia. "The New US Africa Strategy Is Not about Africa. It's about China." Theinterpreter. (December 20, 2018). Accessed June 1, 2019. https://www.lowyinstitute.org/the-interpreter/new-us-africa-strategy-not-about-africa-it-s-about-china.

"U.S. Trade and Investment with Sub-Saharan Africa: Recent Developments." United States International Trade Commission. (April 2018). Accessed June 5, 2019. https://www.usitc.gov/publications/332/pub4780.pdf.

Were, Anzetse. "Manufacturing in Africa Is Growing Faster than Assumed." May 2, 2016. Accessed May 1, 2019. https://anzetsewere.wordpress.com/2016/05/02/manufacturing-in-africa-is-growing-faster-than-assumed/.

Were, Anzetse. "Opportunities and Risks to Manage in BRI for Africa." (April 1, 2019). Accessed June 4, 2019. https://anzetsewere.wordpress.com/2019/04/01/opportunities-and-risks-to-manage-in-bri-for-africa/.

Were, Anzetse, "Smart move by China on the Standard Gauge Railway financing", (May 6 2019). Accessed June 5 2019. https://anzetsewere.wordpress.com/2019/05/06/smart-move-by-china-on-the-standard-gauge-railway-financing/

"World Investment Report 2018". (2018) Accessed April, 18, 2019. https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf.

World Development Report 1991. "The Challenge of Development." (1991). Accessed February 22, 2019. https://openknowledge.worldbank.org/bitstream/handle/10986/5974/WDR%201991%20-%20English.pdf?sequence=1&isAllowed=y

Yin-Wong, Cheung, Jakob de Haan, Xingwang Qian, and Shu Yu. "China's Outward Direct Investment in Africa." Review of International Economies Vol. 20, No. 2 (2012): 201-220.

Yuan Sun, Irene, Kartik Jayaram, and Omid Kassiri. "Dance of the Lions and Dragons: How Are Africa and China Engaging, and How Will the Partnership Evolve?" McKinsey & Company. (June 2017). Accessed April 23, 2019. file:///C:/Users/utente/Downloads/McKinsey Report - China Africa Full Issue (3).pdf.

Zhang, Qiaowen, and Anna Kangombe. "Chinese Investment in Africa: How the New Normal Can Leverage Agenda 2063 for Sustainable Economic Co-operation." AFRICAN EAST-ASIAN AFFAIRS THE CHINA MONITOR. (3 December 2016). Accessed April 9, 2019. file:///C:/Users/utente/Downloads/177-403-2-PB%20(2).pdf

List of Figures

List of Tables