

CHINA MARKET INTELLIGENCE

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China's Growing Investment in Africa

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Chinese investment in Africa represents a small—3 to 4 percent in 2011—but growing piece of total Chinese outward foreign direct investment (OFDI) worldwide. Africa is the third largest recipient of Chinese OFDI behind Asia and Europe, totaling nearly \$90 billion.

P:01 Driven by a desire to secure natural resources and tap new markets, PRC state-owned enterprises (SOEs) have made large investments throughout Africa. Today, China not only recognizes Africa as a source of energy and natural resources but also as a rapidly expanding market for Chinese goods. Moreover, Africa represents an additional destination for Chinese manufacturing to move offshore as profit margins on the mainland deteriorate and the PRC government promotes policies seeking to move the Chinese economy up the value chain. Key destinations for Chinese investment include South Africa, Nigeria, and Algeria in sectors such as energy, transportation, and metals.

While private Chinese firms are becoming increasingly active globally, SOEs make up the lion's share of OFDI in Africa. This is largely a result of the maturity and size of SOEs, which provide them with greater capacity to seize opportunities in more volatile environments. Leading state-owned firms include China National Offshore Oil Company (CNOOC), China National Petroleum Corporation (CNPC), China Petroleum & Chemical Corporation (Sinopec), and China National Machinery Industry Corp (Sinomach).

Investment drivers

China's investment in Africa can be traced both to specific policies as well as market drivers, particularly securing access to strategic resources. On the policy side, the Chinese government's "going out" policy, outlined in its 10th Five-Year Plan (FYP, 2001-05), has been a key driver of Chinese SOE investment in Africa. This policy was reaffirmed in the latest 12th FYP (2011-15), which calls for accelerating China's "going-out" strategy in three parts: expand outward investment further; emphasize the equal importance of FDI in China and Chinese outward investment; and transform China's international trade and outward investment models. This policy encourages Chinese firms to do business abroad while making Chinese firms more competitive by acquiring strategic assets, securing access to natural resources, and establishing new markets for Chinese exports.

Special economic zones (SEZs)

Through the 12th FYP and "going out" policy, the PRC government has supported

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Chinese enterprises in establishing a number of pilot SEZs throughout Africa. While not outlined in the 12th FYP, the PRC government has regularly made pledges of state-sponsored "economic cooperation" with Africa. These zones, developed by both Chinese SOEs and private firms, are intended to help China's own restructuring, allowing less competitive and labor-intensive industries, such as textiles, leather goods, and building materials to move offshore.

Today, there are currently six zones under construction or completed, two of which are 100 percent Chinese-owned. The PRC Ministry of Commerce is the lead governmental agency in this endeavor, allowing zone developers to apply for subsidies of up to 30 percent of zone planning and construction costs through the Trade and Economic Cooperation Zone Development Fund. Moreover, Chinese firms moving to these zones could be reimbursed for up to 50 percent of moving costs and could receive export and import tax rebates on Chinese construction materials. While these zones are mainly developed by Chinese firms, foreign enterprises are also welcome to establish operations in these zones. Below are three examples of established SEZs, and

the broad industry niche each zone supports:

- **Zambia: Chambishi & Lusaka subzones**, focusing on copper/cobalt processing and garments, food, appliances, tobacco, and electronics.
- **Mauritius: Jinfei**, focusing on manufacturing (mainly textile, machinery, high-tech), and services (mostly tourism, finance, education).
- **Egypt: Suez**, focusing on textiles and garments, petroleum equipment, automobile assembly, electronics assembly.

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