CHINA'S SURGING OUTWARD INVESTMENT IN AFRICA

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Executive Summary

1. Since the early 2000's, China's outward foreign direct investment (OFDI) flows had expanded from US$2.86 billion in 2003 to US$68.81 billion in 2010. China accounted for 20.76% of all OFDI from developing countries in 2010, making it an increasingly important outward investor.

2. While the world's OFDI to Africa has generally declined, China's OFDI flows to Africa reached US$2.11 billion in 2010, a 46.8% increase from 2009. China's share in the world's total OFDI flows to Africa rose from 0.37% in 2003 to 3.84% in 2010. By end-2010, China's cumulative OFDI to Africa accounted for 23.5% of the world total, up from only 2.5% in 2003.

3. The rising demand for energy as a result of China's high economic growth has promoted China's resource-seeking OFDI to Africa. China's OFDI to Africa, primarily on resource-related industries, was initially led by SOEs, especially large energy companies.

4. With the increasing participation of Chinese private enterprises, China's OFDI to Africa has in recent years diversified and gone beyond the resource and energy sectors.

5. In addition to green field investment and mergers and acquisitions (M&A), China's OFDI to Africa has taken up other innovative modes such as cooperating on special economic zones.

6. While China's OFDI and related activities in Africa should be helpful in increasing export, generating employment and facilitating social economic development, in reality, the projects have not generated sufficient benefits to the local communities.

7. More specifically, some criticize the perceived strategy of China's "infrastructure construction in exchange for resource extraction" and are

concerned about Africa's growing reliance on China's economic aid. Some Western countries have also alerted Africa to China's alleged neocolonialism.

8. China's OFDI to Africa is likely to continue to grow in the future as China's rapid growth will prompt further resource-seeking OFDI. China's relative decline in comparative advantage in terms of low labor cost will also prompt manufacturing OFDI to Africa.

9. Emerging economies have grown to become increasingly important as both a source and host for OFDI in recent years. As a leading player in South-South cooperation, China is likely to continue boosting its OFDI to Africa.