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Evaluating the Chinese Economic Engagements in Africa, Case Study of the Special Economic Zones and Foreign Direct Investments

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Abstract :
The purpose of this article is to discuss and evaluate the Chinese presence in Africa, by focusing on the Chinese special economic zones established in deferent region throughout the continent, and the foreign direct investment and project engagements with most of the African governments, the results shows that one of the primary means of international capital flow between China and Africa FDI has grown rapidly. It plays a substantial role in economic development, especially in developing countries; however, the Chinese SPEs is playing a considerable role in spurring the economic performance in the local economies.
Keywords: China, Africa, Foreign Direct Investment, Special Economic Zones
JEL classification: F15, F21

Résumé:
Le but de cet article est de discuter et d'évaluer la présence chinoise en Afrique, en se concentrant sur les zones économiques spéciales chinoises établies dans différentes régions à travers le continent, et les investissements directs étrangers et les engagements de projets avec la plupart des gouvernements africains, les résultats montrent que l'un des principaux moyens de flux de capitaux internationaux entre la Chine et l'Afrique Les IDE ont augmenté rapidement. Elle joue un rôle substantiel dans le développement économique; cependant, les SPE chinoises jouent un rôle considérable dans la stimulation de la performance économique des économies locales.
Mots clés : Chine, Afrique, Investissement direct étranger, Zones économiques spéciales
JEL classification: F15, F21

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1. Introduction.

Since the end of the Chinese civil war in 1947, Africa has been a key component of China's foreign policy. The People's Republic of China (PRC), which sponsored various African liberation movements during the Cold War, has had its foreign minister make their inaugural trip to an African nation every year but one since 1950.

The goal of China's Belt and Road Initiative (BRI), which was introduced by Xi Jinping in 2013, is to revitalize the former East African coast silk trade route. Since many other African nations also looked to the BRI for opportunities, the initiative's breadth and ambition swiftly grew, contrary to what should theoretically have happened when Chinese funding was confined to East Africa.
With the help of Chinese loans, whose quantity, nature, and source were frequently ambiguous, a significant number of iconic infrastructure projects were created throughout Asia and Africa as part of the BRI. Over this time, some African nations were severely vulnerable to Chinese financing.

Between 2014 and 2020, former foreign minister Wang Yi traveled to 48 different African nations, and leader Xi Jinping made 10 trips to the continent. In January 2023, the African Union and five other African nations were visited by China's new foreign minister, Qin Gang.

One of the first things Chinese President Xi Jinping pledged at the 8th Forum on China-Africa Cooperation (FOCAC), which began from 29 to 30 November 2021, in Dakar, Senegal, was the donation of one billion doses of China's Covid-19 vaccines to Africa. 400 million doses are expected to be generated on the continent, according to Xi.
Author and researcher Helmut Asche noted that while the declaration can be considered as part of China's efforts to improve its reputation, there is nothing to be gained by criticizing those efforts (Asche, 2008).

The economic connection between China and Africa entered a new phase with the creation of the forum on China-Africa cooperation.

In This paper we will identify the new trend in Sino-African economic ties through foreign direct investment and special economic zones.

The two-phase roundtable conference in September 2018 saw the adoption of the Beijing Declaration: Toward an Even Stronger China-Africa Community with a Shared Future and the FOCAC Beijing Action Plan (2019-2021), which would open up new avenues and places for China-Africa cooperation.
President Xi specifically committed more than $60 billion in money and aid, which garners considerable attention across the globe.

2. Chinese Special Economic Zone in Africa

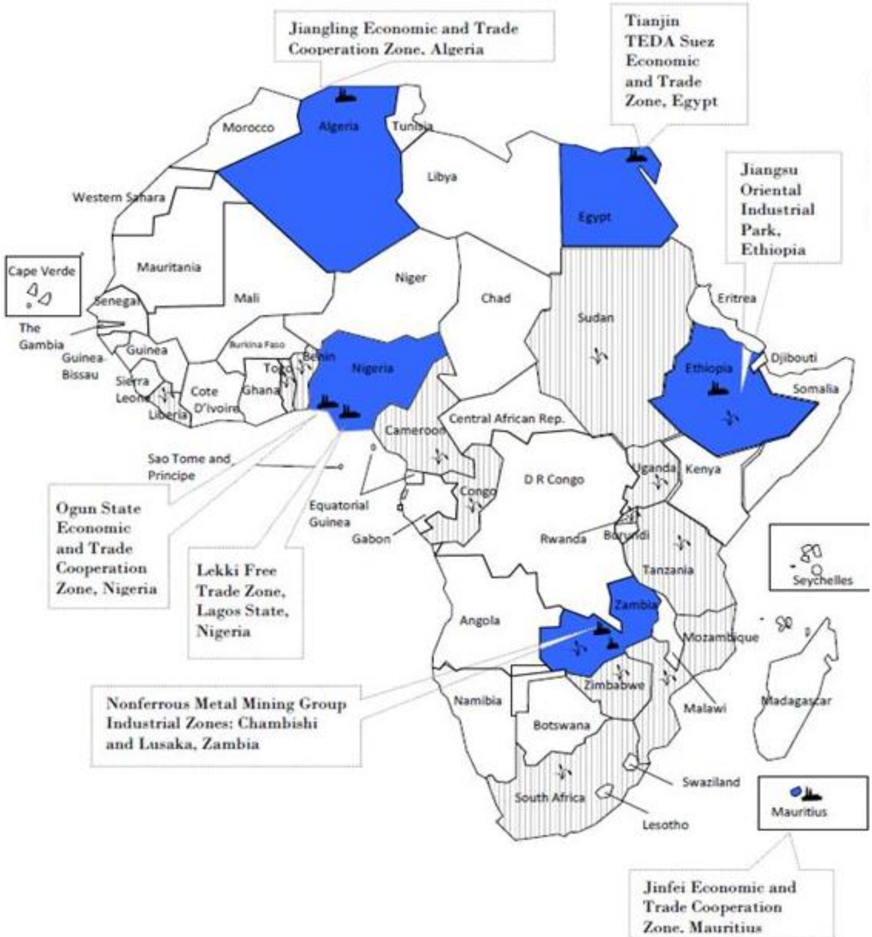
A Special Economic Zone (SEZ) is an area of the country with more lenient economic regulations than the rest of the country, which is to say that businesses have an advantage there (Wang, 2013).
Such regions are typically established by governments to draw in foreign investment.

In order to achieve this, it implements policies that allow businesses to dramatically lower their operating, financing, and investment expenses when compared to a "traditional" economic environment.
Incentives may take the form of tax breaks (such as the establishment of a free trade zone exempt from customs and taxes) or direct installation assistance (eg introduction of investment allowance or supply of land and premises at a reduced price) (Farole, 2011).

Among the first special economic zones, those established in the People's Republic of China during the early 1980s under the leadership of Deng Xiaoping are the most well-known.
Shenzhen, a once-basic house town that is now a city of more than 10 million, is the Chinese SEZ that has had the most success in China.

SEZs in China saw significant growth in 1991 and accounted for 20% of the country's international commerce (Yuan, Guo, & Yuan, 2010).

Fig 1. Chinese Special Economic Zone in Africa by Country



Source: Tang, X. (2021). Co-evolutionary pragmatism: Approaches and impacts of China-Africa economic cooperation. Cambridge University Press.

Seven Chinese Special Economic Zones (SEZs) have been created and announced so far in Zambia, Mauritius, Nigeria, Egypt, Ethiopia, Uganda, Tanzania, and other countries. China's investment in these regions—proposed by other foreign investors—is intended to finance high added value industries, skills, and technologies (Zeng, 2015).

SEZs not only offer a more open environment for conducting business, but also include considerable expenditures in infrastructure, particularly in local transportation and energy production as well as in the connections between man ports and regional markets.

Table 1. Chinese Special Economic Zones in Africa

SEZ's name	Committed	Chinese SOEs	Description
Zambia-China economic and trade cooperation zone/Chambishi multi-facility economic zone	$1.5b	China Non-Ferrous Metals Corporation (CNMC)	Mineral processing and related value-added industries, food processing, light industries, assembly plants, real estate
EgyptSuez Economic and Trade Cooperation Zone	$280m	Tianjin Economic-Technological Development Area (TEDA) Investment Holdings	Petroleum equipment, electrical appliance, textile, automobile manufacturers, logistics
Ethiopia Eastern Industrial Park	$100m	Qiyuan Group, Jianglian and Yangyang Asset Management	Construction materials, steel products (plates and pipes), home appliances, garment, leather processing, and automobile assembly
Mauritius Jinfei Economic and Trade Cooperation Zone	$750m	Shanxi province Tianli Group, Shanxi Coking Coal Group and Taiyuan Iron and Steel Company	Manufacturing and services, solar energy, pharmaceuticals, medical equipment, and processing of seafood and steel products, as well as housing, hotels, and real estate

Nigeria Lekki Free Trade Zone	$370m	China Civil Engineering Construction Corporation (CCECC)	Transportation equipment, textile and light industry, home appliances and communication, warehousing, export processing, living and business
Nigeria Ogun-Guangdong Free Trade Zone	$500m	Guangdong Xinguang International Group, China-Africa Investment Ltd., Chinese CCNC Group,	Light manufacturing, including construction materials and ceramics, ironware, furniture, wood processing, medicine, small home appliances, computer, lighting, and paper
Algeria-China Jiangling Free Trade Zone	$556m	Jiangling Automobile Group, Zhongding International Group	Automobiles and construction materials

Source: Deborah Bräutigam and Tang Xiaoyang (Bräutigam, 2011) available at : http://www.american.edu/sis/faculty/upload/Brautigam-Chinese-Investment-in.pdf

These zones serve as the foundation of China's recently unveiled plan of engagement with Africa for "shared benefit."

Chinese developers, African governments, and the Chinese government are all involved in the pilot zones. The main players during the development stage have been Chinese businesses. Sometimes African governments work with the Chinese company, as is the case in Nigeria. The Chinese government has offered various forms of support to the Chinese businesses that started the pilot projects and were awarded the official tenders, despite the fact that it plays no direct part in their development.

These economic zones have offered a window into the difficulties of turning African dreams for industrialization into realities for more than 15 years.

Chinese businesses have been pushed to collaborate with regional economies through governmental frameworks and incentives.

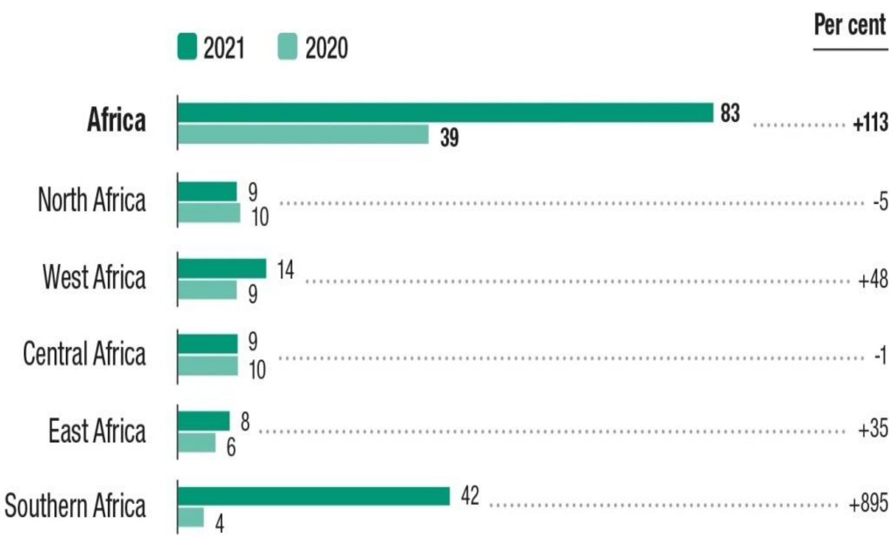
African support for industrial parks is still robust despite varying results.

African Special Economic Zones require positive collaborations, robust African governance, and high-quality data to support both Chinese and African government choices in order to be viable.

3. Chinese FDI outflow to Africa:

According to UNCTAD's World Investment Report 2022, foreign direct investment (FDI) to African countries reached a record $83 billion in 2021. This was more than twice as much as what was stated in 2020, when the COVID-19 epidemic had a significant negative impact on investment into the region. Despite the rapid expansion, just 5.2% of all FDI worldwide went to Africa, up from 4.1% in 2020 (Investment flows to Africa).

Fig 2. FDI inflows to the African continent and sub-regions, 2020-2021 (Billions of dollars)



Source: World Investment Report 2022

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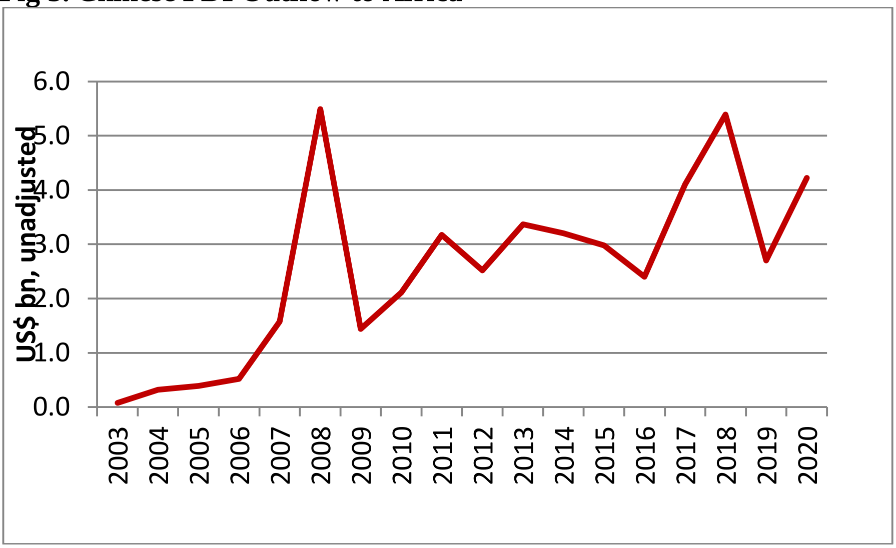
According to the graph below, Kenya, the Democratic Republic of the Congo, South Africa, Ethiopia, and Nigeria were the top 5 African countries receiving Chinese FDI in 2020.

While the US government has not reported FDI flows to nine African nations, including the DRC, to safeguard the commercial data of individual companies, they are Mauritius, Seychelles, Nigeria, Gabon, and Malawi for American investment.

As tax loopholes, Mauritius, Seychelles, and Malawi are probably not where US monetary flows end up.

Fig 3. Chinese FDI Outflow to Africa



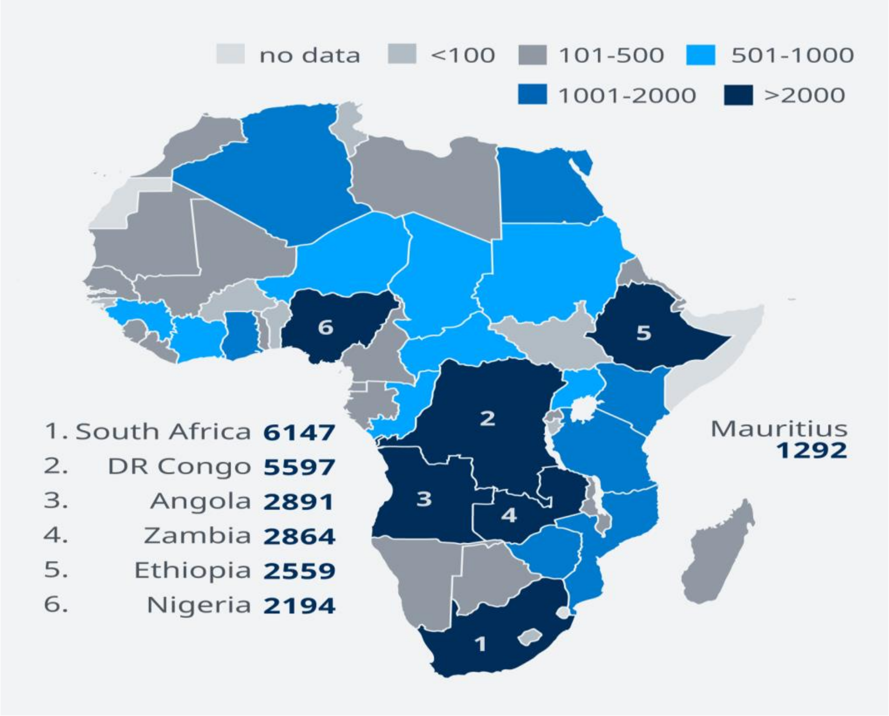
Source: China Africa Research Initiative, The Paul H. Nitze School of Advanced International Studies, Johns Hopkins University, available at http://www.sais-cari.org/chinese-investment-in-africa

Annual Chinese FDI flows to Africa, usually referred to in official Chinese publications as OFDI (Overseas Foreign Direct Investment), have been gradually rising since 2003.Transfers increased dramatically from US$ 75 million in 2003 to US$ 4.2 billion in 2020.

3.1. Chinese FDI in Africa by region.

Chinese influence has grown dramatically since the turn of the century, both in Africa and other regions of the world. The core of China's global aspiration is its state-owned businesses, which have made significant inroads into overseas markets. The list of significant Chinese corporations is rapidly expanding, if we assess it by the number of Chinese businesses listed in the Global 500 Forum. Due to Industrial and Commercial Bank of China's acquisition of 20% of Standard Bank of South Africa's shares in 2008, they reached their peak at US$ 5.5 billion (ICBC). 4.99 billion US dollars, up from 4.23 billion the year before, were directed from China to African nations in 2021 (Textor, 2022).

Fig 4. Chinese FDI Outflow to Africa by Region (in Millions of Dollars)



Source: China Africa Research Initiative, The Paul H. Nitze School of Advanced International Studies, Johns Hopkins University, available at http://www.sais-cari.org/chinese-investment-in-africa

34 mainland Chinese enterprises, between the 9th and the 499th place, were among the 500 largest companies in 2009. Three of the top 10 companies were among the 57 in 2011, which saw an improvement from the third to the 485th rank.

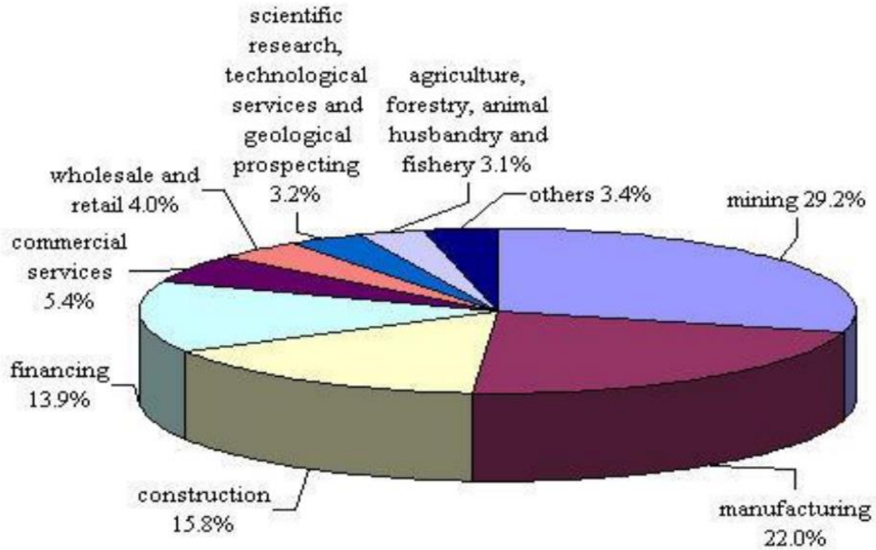
In terms of sub-regions as the map above shows, investment flows increased to Central Africa, East Africa, and West Africa while they stayed flat to North Africa and Southern Africa, respectively.

3.2. Chinese FDI Outflow to Africa by sector

Prior to 2001, 499 projects worth about 681 million dollars in foreign direct investment (FDI) from China were funded in Africa, (Panitchpakdi, 2007). This investment covered a period of more than 20 years, from 1979 to 2000 for a total of 499 projects. By number of projects and value, these investments were concentrated in the manufacturing sector, which was then followed by mining.

China's FDI stock abroad had multiplied throughout the country's economic sectors. Six industries specifically received more than $100 billion, with the Leasing and Business Services sector continuing to receive the biggest amount at $615.77 billion, or 34.1% of the total stock, followed by the Wholesale and Retail Trade sector at $226.43 billion, or 12.5% of the total. The third-placed industry, Information Transmission, Software and IT Services, received $218.9 billion, or 12.1% of the total, and is the one with the highest concentration of foreign direct investment by Chinese citizens (Benfratello, 2019).

Fig 5. Chinese FDI Outflow to Africa by Sector



Source:
http://www.iprcc.org/userfiles/file/2-Wu%20Fang-China-FDI%20to%20Africa-eng

The pie graph above shows the top five industries of China's outward FDI stock in Africa, which shows that the construction industry received the greatest share (29.8%), the mining sector came in second with 22.5%, the financial services sector came in third with 14%, and manufacturing and leasing and business services account for 13.2% and 5.3%, respectively.

The information points to a relatively concentrated but gradually growing investment industry in China, which is what the facts indicate.

4. Conclusion :

With the help of the Chinese government's "going out" strategy, China-African commercial and trade connections have accelerated since the end of the 1990s. Chinese investment in Africa has significantly expanded over the past ten years, and Chinese President

Xi Jinping has utilized the Forum on China-Africa Cooperation (FOCAC), which was founded in 2000, as a venue to make new commitments for strengthening economic ties with the African continent. More than 3,400 Chinese businesses have established themselves in Africa, making it a growing international investment target for Chinese companies. These businesses operate across a variety of industries.

The rapid expansion of China's investments in Africa has also given rise to numerous issues. Many media outlets have used the terms "new colonialism" and "debt trap" to cast doubt on the growth of China's FDI in Africa.

For China's and Africa's political and economic development, the Sino-African partnership is essential. Therefore, Chinese government and investors should more thoroughly and carefully study the impacts of their activities on the African market before beginning an investment project there. The necessity for energy resources to enable economic development has affected China's connections with African nations as well as its overall economic policy.

However, political factors have also been a significant factor. The Chinese government should keep encouraging domestic and foreign investors to develop their projects that are helpful to economic development and poverty reduction in African countries, despite the fact that there are still a number of criticisms of Chinese economic involvement in this resource-rich continent.

The "Going global policy" of the Chinese government, which helps Chinese businesses become global corporations by giving soft loans and other aid to foreign investment projects, in particular in emerging markets, supports the country's external FDI.
Enterprises with majority ownership by national, provincial, or municipal governments in China frequently serve as the engine for its overseas investments.

Although these businesses are technically owned by the public sector, they generally act as private sector organizations and typically aim to maximize profits while maintaining competitive compensation for managers and employees.

Further research should be done to determine how China's SEZ and FDI outflow affects the eradication of poverty in African nations. Furthermore, it should be highlighted that additional study is needed to confirm the results of this investigation and the conclusions drawn from it.

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