

China's Outward Direct Investment in Africa

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Summary

In the last decade, China's investments in Africa have gone up quite substantially both in absolute terms and as a share of its total outward direct investment (ODI). According to the 2009 China Commerce Yearbook, China's ODI in Africa relative to its total ODI increased from 2.6% in 2003 to 9.8% in 2008. The substantial increase of China's ODI in Africa in the last few years has led to some debate. While some commentators laud China's growing engagement in Africa, others question the motives underlying these investment activities and their implications for Africa's political and economic development.

In the current exercise, we employ formal econometric techniques to investigate the determinants of China's ODI in Africa and shed some light on their implications. Both the officially approved ODI dataset and a relatively new OECD-IMF format ODI dataset are considered. China's ODI is found responding to the canonical economic determinants that include the market seeking motive, the risk factor, and the resources seeking motive. It is also affected by the intensity of trade ties and the presence of China's contracted projects. A host country's natural resources have an impact on China's decision on how much to invest in the country rather than on whether to invest in the country or not. China's drive for Africa's natural resources is mainly a recent phenomenon and, probably, became prominent after the "Going Global" policy adopted in 2002.