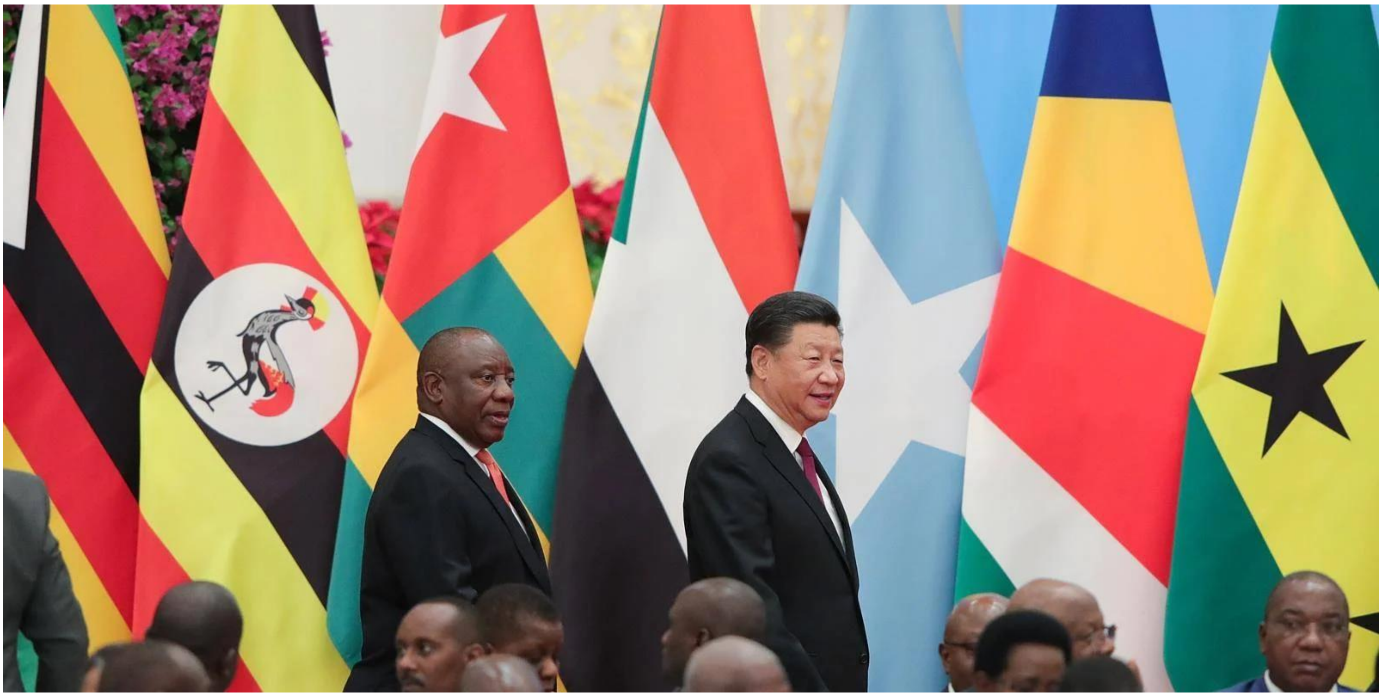
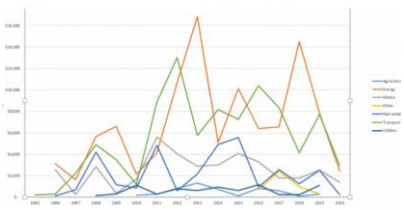


Why are China Investing so heavily in Africa?

China has been the largest equity investor into Africa since 2013. This is motivated by an abundance of natural resources, growing industry, a 30,500km coastline and rich agriculture with only 25% of arable land cultivated. Thus they have gained control and influence over most big businesses within Africa. The question is, will this FDI result in more wealth for the African people, or is it an example of modern day neo-colonialism.



Chinese investment by sector in Africa. Credit: Shirley Yu.

In part, Chinese FDI into Africa has been influenced by the infamous one child policy that has been present for decades. The product of this is stagnating birth rates and a population decreasing in size. Statisticians forecast the median age in China to reach 51 years old by 2050 as well as the population size decreasing below 1 billion. This juxtaposes the demographic climate in Africa, whereby the population of the continent is predicted to rise to around 2.5 billion. Subsequently due to more domestic workers reaching retirement age, incumbent Chinese firms may need to discover potential sources of labour to continue to promote economic success and longevity. Moreover China's growing GDP per capita ($11000) signifies that it is now a middle-income country: in comparison GDP per capita in sub-Saharan Africa was $1596 in 2019. Thus this represents a stark disparity in potential labour costs, incentivising Chinese firms to relocate to Africa and increase their production due to significantly higher profit margins. Additionally, there appear to be similarities with regards to the structure of African countries' populations and that of China: cumulatively, the size of Africa's middle class is around 350 million people, in comparison to 400 million in China, with rising demand for financial services, education and utilities such as energy entailing Chinese private firms to invest in these sectors to assist with the development of emerging economies through exports.

Impacts of FDI in Africa-Zambia

Given that China is more economically developed than countries in Africa, one may assume that this foreign direct investment would coincide with a multiplier effect, begetting widespread growth and economic prosperity among various industries across the continent, assisting it in its transition towards a state of economic superiority given the large output gaps currently present in various economies. Ideally, the construction of factories in countries such as Zambia would result in the creation of jobs available to those residing in local areas. There is also the notion that foreign producers could assist with the training of workers to become more skilful thus improving national output. Furthermore, capital could be sourced locally, as locals suppliers input resources such as sand, clay and wood increasing supply chain resiliency as firms would not be reliant on importing goods from other countries: through this trust could established with domestic producers, minimising potential disruption, which could hinder growth. The concept of the multiplier effect is driven by workers spending their newfound source in income locally, generating more profit for firms as well as tax revenue for governments, entailing increased investment and government spending: firms then increase their derived demand for labour as they feel the need to expand production and workers benefit further through the 'trickle-down' effect. However such desirable effects have not occurred in Zambia- an estimated $3 Billion entered the Zambian circular flow of income in 2020 from almost 1000 different Chinese companies. Yet a survey conducted by The London School of Economics suggested that only 27% of procurement (wood, stone, clay) is sourced from Zambian companies despite requiring minimal technology to source locally. Instead, the majority of inputs were either imported from China or purchased from other foreign companies based in Zambia. Thus, few transactions occur between local producers and Chinese TNC, stifling economic growth in Zambia. Furthermore, once these Chinese firms leave Zambia, they will have to abandon the factories, as they have not trained a local workforce to operate this complex machinery which was previously operated by the Chinese, with locals being offered lower skilled and lower paying jobs.
As a result, it is plausible to conclude that Chinese economic activity in Zambia is largely due to cost cutting measures thanks to the lower labour and land costs, and will be unlikely to result in any serious, long-term gains for the Zambian population.