FOREIGN POLICY RESEARCH INSTITUTE | AFRICA PROGRAM

CORRELATES OF POLITICS & ECONOMICS:

HOW CHINESE INVESTMENT IN AFRICA CHANGES POLITICAL INFLUENCE

Carla Jones

Mengge Li

Hermann Ndofor

Author: Carla D. Jones, Mengge Li, Hermann Ndofor

Design: Natalia Kopytnik

March 2022

FOREIGN POLICY RESEARCH INSTITUTE | AFRICA PROGRAM

CORRELATES OF POLITICS & ECONOMICS:

HOW CHINESE INVESTMENT IN AFRICA CHANGES POLITICAL INFLUENCE

Carla D. Jones
Mengge Li
Hermann Ndofor

Abstract

This study investigates the impact of Chinese economic engagement in Africa (FDI and loans from China to African countries) on African countries' international political alignment as evidenced by voting patterns in the UN General Assembly. We find three seasons of Chinese policy in Africa. Pre 2008, Chinese economic engagement in Africa was driven primarily by economic considerations, market seeking for FDI and likely resource seeking for loans. During the Great Recession, China came to terms with its rise as an economic power and thus started leveraging its economic power in international relationships. During this season, both Chinese FDI and loans were no longer driven by economic considerations but rather by international relations which led to increased political alignment with recipient African countries. The final season captured the Xi Jinping era beginning 2013. During this season, Chines FDI had no effect on African countries' foreign policy alignment with China, but Chinese loans still had a significant positive effect. This likely reflects a movement away from FDI to less transparent bilateral loans as a means of utilizing Chinese economic power to influence foreign policy. During the entire period of the study, Chinese FDI to Africa resulted in reduced political alignment between African countries and the United States.

Introduction

China may have missed the European Scramble for Africa that characterized the turn of the last century, but it has been making up for this since the 1950s. The pace of this investment has increased in the past couple of decades. According to China's Ministry of Commerce, Chinese Foreign direct investment (FDI) in Africa grew at an average compound rate of 18% per year from 2004 to 2016. Other financial engagements by China in Africa dwarf their FDI investment. Financing of Chinese contracted projects in Africa has also been increasing and peaked in 2015 at $55 billion, almost twenty times the level of FDI.[1] Similarly, by 2016, China was the largest exporter to Africa accounting for 17.5% of African imports. By mid-2017, more than ten thousand Chinese-owned companies were operating in Africa.[2]

In addition to the Chinese investment in Africa, the number of loans that China -has made to African countries has also greatly increased. More than $153 billion was committed to the African public sector by Chinese financiers between 2000 and 2019, according to the China-Africa Research Initiative at Johns Hopkins School of Advanced International Studies (SAIS-CARI). Many of the loans made by China to African countries use the resource-backed lending model in which the borrower commits future earned revenues from its natural resource exports to pay loans secured from Chinese creditors. While Europe, North America, and Japan focus their lending on social sectors (e.g., health, population, education, and humanitarian aid), the focus of China's loans has been to the infrastructure sector, which includes industry, mining, construction, energy, communication, transportation, storage, and water supply and sanitation. In sum, China provides the largest volume of bilateral loans to Africa.[3] Clearly China's prominence in Africa, both as an investor and lender, is substantial and increasing. This has raised many questions regarding the motivations driving China's substantial

1 Monica Krukowska, "China's Economic Expansion in Africa–Selected Aspects," *International Business and Global Economy* 37, No. 1 (2018): 84–97.

2 Michael Bender, Peter Dahlström, and Paul Willmott, "Overview and Full Issue". *McKinsey Quarterly*, no. 1 (2017).

3 Zainab Usman, "What do we Know about Chinese Lending in Africa?" Carnegie Endowment for International Peace, June 02, 2021, https://carnegieendowment.org/2021/06/02/what-do-we-know-about-chinese-lending-in-africa-pub-84648.


ONGGUO RENMIN YINHANG
Cunghgoz Yinzmiz Yinzhangz
Angola
ZIMBABWE
HARARE
Mutare
Masvingo
Tete
Lusaka
Kitwe
Kasama
Save
Musina
Polokwane
(Pietersburg)
Pretoria
Nama-
land

Adobe Stock

presence.

Indeed, assertions regarding the motivations underlying China's engagement in Africa have generated controversy with headlines such as "China in Africa: Investment or Exploitation"[4] or "Clinton warns against 'new colonialism' in Africa."[5] More recently, then U.S. Secretary of State John Bolton characterized Chinese investment in Africa as predatory: "the strategic use of debt to hold states in Africa captive to Beijing's wishes and demands." These criticisms have only increased with China's belt and road initiative that encompasses several African countries. Supporters of Chinese investment in Africa have argued that these long-term investments foster greater independence of African countries because they do not have the 'paternalistic' or 'imperialistic' conditions often common with Western investments.[6]

Despite the prominence of the debate on Chinese economic footprint in Africa and the potential implications this may have on the future economic development and political stability of the continent, research on the drivers of Chinese economic involvement in Africa is scant and inconclusive. There are several reasons for the equivocal state of this research. First, earlier research on drivers of Chinese investment in Africa relied on traditional economic theories of internationalization, such as Dunning's eclectic theory.[7] Yet, these theories were formulated from observations of trade between developed economies. There is reasonable evidence, however, that economic interactions between emerging economies may rely less on traditional economic theories and more on institutional pressures.

Second, prior research assumed a homogenous China and—worse—a homogenous Africa. Stationary motivations underlying Chinese economic activity in Africa are unlikely. Motivations underlying Chinese overseas economic engagement in1975 are likely different from motivations underlying economic engagement in 2000 and especially in 2022! Similarly, African

4 Yassine Bouzaidi, Ali Moshin, and the Al Jazeera Staff, "The Year 2014 on Al Jazeera," *Al Jazeera English*, December 26, 2014, https://www.aljazeera.com/news/2014/12/26/the-year-2014-on-al-jazeera.

5 "Clinton Warns Against 'New Colonialism' in Africa," *Reuters*, June 11, 2011, https://www.reuters.com/article/us-clinton-africa/clinton-warns-against-new-colonialism-in-africa-idUSTRE75A0RI20110611.

6 Ching Kwan Lee, *The Specter of Global China: Politics, Labor, and Foreign Investment in Africa* (University of Chicago Press, 2018).

7 John H. Dunning, "Toward an Eclectic Theory of International Production: Some Empirical Tests," *Journal of International Business Studies* 11, no. 1 (1980): 9–31.

countries are neither homogenous nor stationary. The strength and quality of a country's institutions may mitigate the success of China in converting economic engagement into political alignment. Finally, research exploring Chinese economic involvement in Africa has focused only on foreign direct investment (FDI). However, overseas FDI is just one instrument in China's economic arsenal, and it is not the most lethal. China also uses loans to foster its international strategy. Between 2001 and 2019, China loaned about $153 billion to African countries. Between 2001 and 2019, China invested $44 billion in FDI. Indeed, overseas FDI dwarfs lending by a magnitude of more than three times. While FDI and loans are theoretically separable, the classification of investments as FDI or loans is unclear—especially since a vast majority of the overseas FDIs are funded by government-backed loans or initiated by state-owned enterprises.

From a theoretical perspective, Dunning's seminal eclectic theory of internationalization proposes that FDI activity will be driven by market-seeking, resource-seeking, or efficiency-seeking motivations.[8] Discussions and research regarding the drivers of Chinese overseas investments have centered on these motivations. Market-seeking FDI occurs when investments aim toward gaining access to markets, especially those with strong or higher growth rates. Firms seek to overcome trade barriers, access distribution networks, and exploit cost and investment factors.[9] Resource-seeking FDI aims to secure scarce raw materials and energy sources that are available in the host country at lower prices. These materials could also include technological resources, such as R&D capacity and infrastructure. Finally, efficiency-seeking FDI seeks comparatively lower cost locations for operations. Lower costs occur with location-specific advantages such as cheap labor that fueled FDI into China at the beginning of this century. Chinese FDI, however, is less likely to be driven by efficiency considerations given the abundance of cheap labor in China.[10]

While Dunning's eclectic theory of internationalization may explain overseas investments in general, idiosyncratic market imperfections peculiar to China may create permutations not covered by economic theory. For example, the prevalence of state-

8 Ibid.

9 Alan M. Rugman and Alain Verbeke "A Perspective on Regional and Global Strategies of Multinational Enterprises," *Journal of International Business Studies* 35, no. 1 (2004): 3–18.

10 Peter J. Buckley, "The Strategy of Multinational Enterprises in the Light of the Rise of China," *Scandinavian Journal of Management* 23, no. 2 (2007): 107–126.

owned enterprises, cheap capital for internationalization provided by the government, and centralized government economic planning may distort internationalization incentives.[11] Not surprisingly therefore, empirical investigations into determinants of Chinese overseas FDI, especially to Africa, have yielded inconsistent and sometimes contradictory findings. For example, although resource-seeking incentives are considered the driver of Chinese overseas FDI into Africa, empirical evidence in inconclusive. While Asiedu, Frynas, and Paulo find that natural resource endowments of African countries are a key driver of Chinese overseas FDI, Shan and colleagues do not find any significant effect of natural resource endowments on attracting Chinese FDI.[12]

Another possible explanation for the equivocal findings related to Dunning's factors for internationalization is that this theory was derived based on evidence from developed economies and may be less applicable to emerging economies because of the stronger role of the institutional environment. Indeed, institutional theory would propose that the home country's institutional environment dictates internationalization strategies. For the case of China, the central government, through its agents and state-owned enterprises, influences economic engagement through formal and informal means to be congruent with the central government's agenda. In other words, Chinese economic engagement would be more reflective of the government's foreign policy priorities than host country underlying economic factors.

11 Peter J. Buckley et al., "The Determinants of Chinese Outward Foreign Direct Investment," *Journal of International Business Studies* 38, no. 4 (2007): 499–518.

12 Elizabeth Asiedu, "Foreign Direct Investment in Africa: The Role of Natural Resources, Market Size, Government Policy, Institutions and Political Instability," *World Economy* 29, no. 1 (2006): 63–77; Jedrzej George Frynas and Manuel Paulo, "A New Scramble for African Oil? Historical, Political, and Business Perspectives," *African Affairs* 106, no. 423 (2007): 229–251; Shan et al., "Attracting Chinese FDI in Africa: The Role of Natural Resources, Market Size and Institutional Quality," *Critical Perspectives on International Business* 12, no. 2/3 (2018): 139–153.

International Political Alignment that Follows Economic Engagement

It is fair to state that the days are long gone when China was characterized as "bereft of friends," "a beacon to no one—and, indeed, an ally to no one."[13] China's rise as an economic power has been followed by its "emergence as an active player in the international arena."[14] China's investments in alternative aid flows do not align with the idea of aid in the strictest meaning of the term. These projects often include a grant element of at least 25% (or higher) and typically come in the form of export credits, military assistance, or commodity-backed loans (with generous forgiveness terms).[15] Further, China's increased international activism has been reflected in many foreign policy arenas including global climate talks, global economic and financial systems reform, and water diplomacy.[16] Central to China's foreign policy is the willingness to align and cooperate with other countries to build a multipolar international system that protects its interests in global politics.[17] This is seen in coordinated policy positions and joint diplomacy in, for example, BRICS (Brazil, Russia, India, China, and South Africa), BASIC (Brazil, South Africa, India, and China), and Shanghai Cooperation Organization (SCO).

The ability of China's increased power and influence to gravitate weaker economic partners toward greater foreign policy alignment can be captured by three essential factors: 1) deep and bilateral ties with weak or fragile states, 2) lack of unity among western countries—specifically when the U.S. and the E.U. do not agree, and 3) capacity to rally other countries within the context of multilateral decision making, that is, bloc voting magnifies a country's voice and succeeds in pushing a country's

13 Gerald Segal, "Does China Matter?" *Foreign Affairs* 78 no.5 (1999): 24–36.

14 Evan Medeiros and Taylor Fravel, "China's New Diplomacy," *Foreign Affairs* 82 no. 6, (2003): 22-35.

15 Axel Dreher et al., "Aid, China, and Growth: Evidence from a New Global Development Finance Dataset," (working paper #46, AidData, Williamsburg, VA, 2017); Axel Dreher, Peter Nunnenkamp, and Rainer Thiele, "Does U.S. Aid Buy U.N. General Assembly Votes? A Disaggregated Analysis," *Public Choice* 136 (2008): 139–164.

16 Hongzhou Zhang and Mingjiang Li, "China's Water Diplomacy in the Mekong: A Paradigm Shift and the Role of Yunnan Provincial Government," *Water International* 45, no. 4 (2020): 347–364.

17 Georg Strüver, "What Friends are Made of: Bilateral Linkages and Domestic Drivers of Foreign Policy Alignment with China," *Foreign Policy Analysis* 12, no. 2 (2016): 170–191.

2019 BRICS Summit. Alan Santos / PR

agenda forward.[18] These factors are especially important when a policy vote is determined by a consensus.

Economic engagement can therefore serve as leverage for transmission of influence by the stronger party. One area in which this influence is most apparent is in foreign policy alignment, especially as reflected in issues that pertain to the United Nations General Assembly. Foreign policy similarity or political alignment may be achieved by economic, diplomatic, or military linkages. Hirschman proposed that economic ties between asymmetric dyads would cause the smaller state to face a much higher cost from disruptions in the economic ties.[19] As a result, he argued, increased trade and trade dependence between states produce foreign policy convergence. The stronger the economic ties between states, the more costly the interruptions to the trade relationship. Cooper, for example, captured political acquiescence by examining the relationship between Germany and Eastern Europe, whereby Eastern Europe had greater pressure to maintain smooth trade relations via cooperation due to its dependence on Germany.[20]

18 Andrew Hart and Bruce Jones, "How Do Rising Powers Rise?" *Survival* 52, no. 6 (2010): 63–88.

19 Albert Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1945).

20 Richard Cooper, "Economic Interdependence and Foreign Policy in the Seventies," *World Politics* 24, no. 1 (1972): 159–81.

Xi Jinping Holds Talks with President Jacob Zuma of South Africa, 2015. (Embassy of the People's Republic of China in the United States of America)

The link between economic activity and political convergence is apparent with China. China's rise as an economic power includes multiple dimensions of power: the buyer, the seller, the investor, the development assistance provider, and the innovator.[21] Given the magnitude and reach of China, its trade and investment has spread across the world. China is in the best position to support states that are in the greatest need for development. These states are more likely to experience weak governance systems and need China's investments.[22] Leaders in need of investment fuel China's growing power as they facilitate valuable contracts to benefit their own country while helping to cultivate their own goodwill. China's presence as a buyer of natural resources, a source of foreign investment, and as an aid donor primly positions the country for prominent levels of foreign policy alignment.[23] As a result, economic relationships fueled by import and export exchange, trade, and direct investment allow the stronger party (China) influence over policy decisions of economically weaker partners.

21 David Lampton, *The Three Faces of Chinese Power: Might, Money, and Minds* (Berkeley: University of California Press, 2008).

22 Andrew Hart and Bruce Jones, "How Do Rising Powers Rise?" *Survival* 52, no. 6 (2010):63–88.

23 David Baldwin, *Economic Statecraft* (Princeton: Princeton University Press, 1985); Michael Mastanduno, "Economic Statecraft," in *Foreign Policy: Theories, Actors, Cases,* ed. Steve Smith (Oxford: Oxford University Press, 2008).


Adobe Stock

On a fundamental level, trade dependence increases the vulnerability for weaker states to respond to the stronger states' external demands, including unspoken or indirect demands. Direct and indirect demands may be accepted due to the fear of losing market access, unconstrained investments, or loans and other economic benefits; thus, the weaker state embraces accommodation of the foreign policy interests of the more powerful state.[24] Alignment with a stronger state allows weaker states to be considered as part of a larger collective when dealing with global policy issues, yielding additional benefits for the weaker state. Strüver finds alignment among countries that receive foreign aid disbursements and foreign policy alignment such that the average number of Chinese aid projects a country receives is highly correlated with foreign policy similarity.[25] Whether the goal of the trade relationship is to garner political allies, foreign policy consequences follow from trade.[26] Higher trade volumes among states, and the more salient the state's trade relationship with China, the greater the likelihood of convergence with that of China.

24 Axel Dreher et al., "Aid, China, and Growth: Evidence from a New Global Development Finance Dataset," *American Economic Journal: Economic Policy* 13, no. 2 (2021): 135–74.

25 Georg Strüver, "What Friends are Made of: Bilateral Linkages and Domestic Drivers of Foreign Policy Alignment with China," *Foreign Policy Analysis* 12, no. 2 (2016): 170–191.

26 Gustavo Flores-Macías and Sarah Kreps, "The Foreign Policy Consequences of Trade: China's Commercial Relations with Africa and Latin America," *The Journal of Politics* 75, no. 2 (2013): 357–371.

The Changing Nature of China and its Relationship with Africa

We examine how the drivers of Chinese economic engagement in Africa may have changed over time. Routine activity theory scholars argue that for an entity to gain influence over another, three preconditions must exist: 1) a well-resourced entity, 2) an entity in need of resources, and 3) the absence of a watchdog (surveillance). These three elements represent necessary and sufficient conditions that create an opportunity for a better resourced country to gain influence from activities that are considered normal. We argue that, historically, these conditions have not always been the case between China and Africa. Indeed, pre-Great Recession (circa 2008), Chinese economic engagement in Africa was driven by traditional economic factors, such as search for raw materials and market for products. The Great Recession precipitated the emergence of China as an economic power and brought to life the three preconditions for an entity to gain influence over the other. China's current diplomatic and economic engagement with Africa have far exceeded what took place in the 1980s and the 1990s. At the same time, China's diplomacy has been driven by the country's goals of diversifying its access to natural resources, expanding its access to markets in Africa (as a destination for Chinese goods), and garnering support for China's efforts to promote multilateralism.[27]

The transition from an emerging economy to an advanced economy is heavily influenced by a country's financial systems. China's unique and rapid transformation has been fueled by the evolution of private or state-owned banks and other entities. China's progress of privatization, encompassing the decline of state-owned enterprises, provided access for other forms of financing to take place.[28] A major influence strengthening China's financial system has been the People's Bank of China allowing the development of other banks to meet the financial

27 Evan Medeiros, *China's International Behavior: Activism, Opportunism, and Diversification* (Rand Corporation, 2009): 850.

28 Franklin Allen et al. "A Review of China's Financial System and Initiatives for the Future," *China's Emerging Financial Markets*, (2009): 3–72.

China's President Xi Jinping, Senegal's President Macky Sall, Congo's President Felix Antoine Tshisekedi, Egypt's President Abdel Fattah al-Sisi, South Africa's President Cyril Ramaphosa, United Nations (UN) Secretary General Antonio Guterres, Chairman of the African Union Commission Moussa Faki Mahamat and Comoros' President Azali Assoumani attend the opening of the forum Forum on China-Africa Cooperation, (FOCAC) via video link in Dakar, Senegal November 29, 2021. REUTERS/Cooper Inveen needs of the growing economy and population.[29] These banks worked to allocate credit throughout the economy. After the development of the additional four banks, three additional banks were established. These policy banks were directed to make loans and operate fully as commercial banks.

Beyond establishing financial institutions in China, other characteristics of the economy have aided the country's development. China has experienced rapid growth in its GDP, perhaps as a result to managing population size by limiting the number of children per family.[30] Additionally, China's exponential growth in exports has positioned the country as a large creditor. Finally, China's boom in international (currency) reserves positions the country as a major debtor. These positions along with joining the WTO and welcoming cash inflows signal China's desire to open its economy to international influence and, in turn, to influence international developments.[31]

China typically offers African countries a "complete package" of support including money, technical assistance, and influence on an international level resulting from association with China.[32] In some countries, China's investment is aligned to that of the Angola Model where loans to African countries are repaid in the form of natural resources instead of monetary resources.[33] One of the greatest perceived benefits of China's support to African countries is that it does not involve any interference in domestic affairs (contrary to support from Western countries).[34]

In addition to the growth in economic ties between China and Africa, diplomatic ties between China and several African countries have also changed over the years. For example, one of the international policy goals of China is to isolate Taiwan, thereby reducing support for Taiwan.[35] Linkages

29 Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, "Government Ownership of Banks," *The Journal of Finance* 57, no. 1 (2002): 265–301.

30 James R. Barth, Gerard Caprio, and Triphon Phumiwasana, "The Transformation of China from an Emerging Economy to a Global Powerhouse," in *China's Emerging Financial Markets* (Boston: Springer, 2009), 73–110.

31 Ibid.

32 Evan S. Medeiros, *China's International Behavior: Activism, Opportunism, and Diversification* (Santa Monica: RAND, 2009), 850.

33 T. Christensen, and James Swan, *U.S. Relations with the People's Republic of China* (2008).

34 Vivien Foster, et al., *Building Bridges: China's growing role as infrastructure financier for Sub-Saharan Africa* (The World Bank, 2008).

35 Evan S. Medeiros, *China's International Behavior: Activism, Opportunism, and Diversification* (Rand Corporation, 2009): 850.

Workers are seen on site during the construction of the Nairobi Expressway, undertaken by the China Road and Bridge Corporation (CRBC) on a public-private partnership (PPP) basis, along Uhuru Highway in Nairobi, Kenya October 20, 2021. REUTERS/Thomas Mukoya

between economic and diplomatic ties are evidenced by the shrinking number of African countries that have formal diplomatic relations with Taiwan. The number of African countries that maintain diplomatic relations with Taiwan has diminished resulting from the departure of Malawi, Chad, Senegal, and Liberia. Burkina Faso, Gambia, Sao Tome' and Principe, and Swaziland are the only remaining African countries that still maintain relations with Taiwan.[36]

As we seek to better understand the dyadic relationships associated with asymmetric relationships between host and source countries, we consider that economic investment may subsequently influence similarities among national preferences in international affairs. Political alignment represents the similarity in national preferences in international affairs based on national ideologies and orientations which are thought to be key in facilitating countries toward cohesive behavior.[37]

36 Ministry of Foreign Affairs of the People's Republic of China, "China Relations," accessed January 7, 2021, https://www.fmprc.gov.cn/mfa_eng/

37 Erik Gartzke "Kant We All Just get Along? Opportunity, Willingness, and the Origins of the Democratic Peace," *American Journal of Political Science* 42 (1998): 1–27.

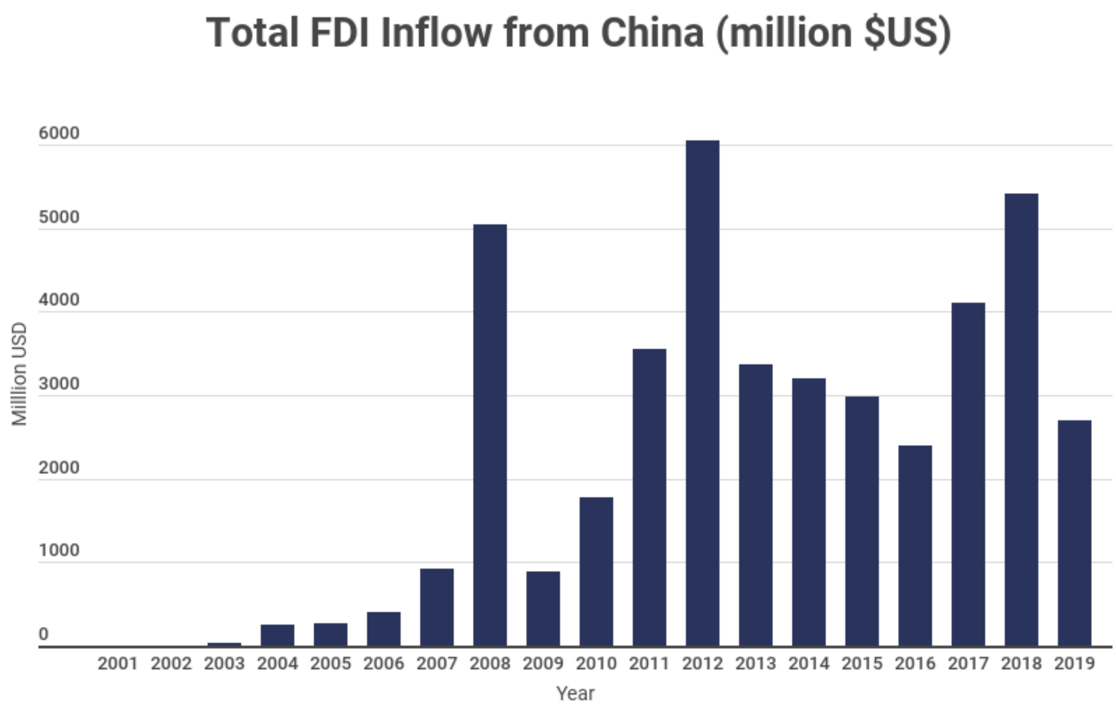
What Does the Evidence Show?

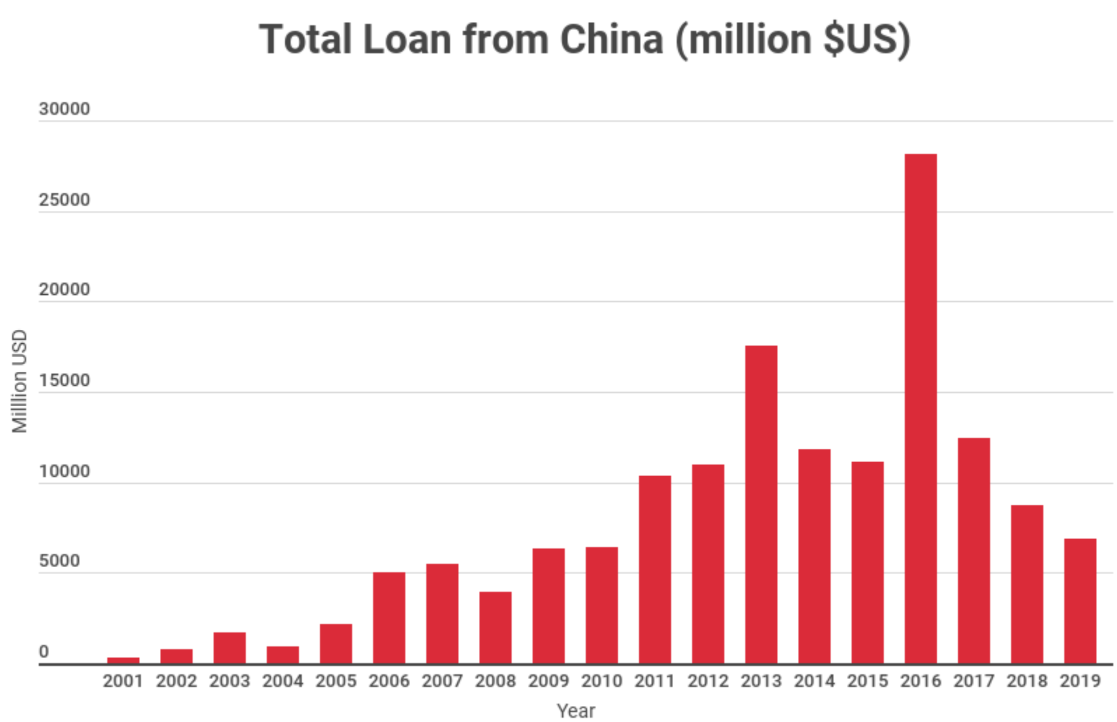
We examined Chinese economic engagement with all 54 African countries from 2001 to 2019. We collected data from multiple sources: United Nations (General Assembly votes, Bilateral FDI Statistics), World Bank (Africa Development Indicators, World Integrated Trade Solution), and SAIA-CARI at Johns Hopkins.

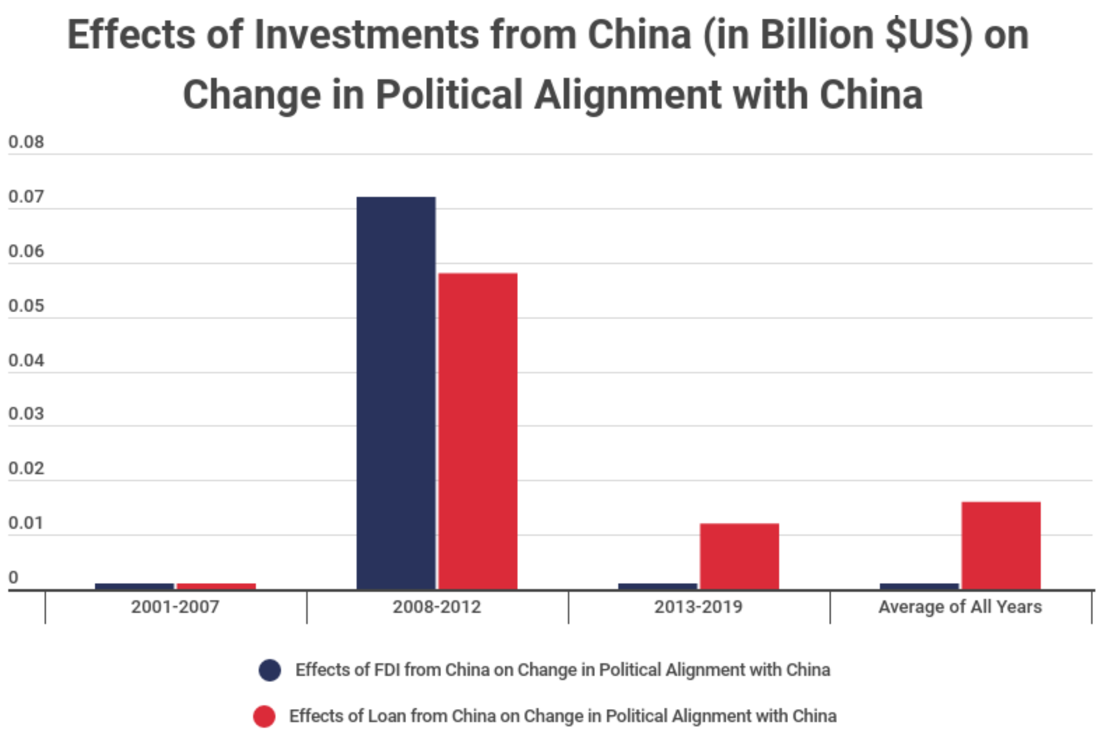
Our focus is the change in political alignment between each African country and China. Alignment is measured using yearly ideal points of all countries. The ideal point is an indicator of a nation's foreign policy preferences that is constructed from the United Nations General Assembly voting data. Specifically, the ideal points are generated using a statistical model to estimate one-dimensional national preference versus a default liberal order (calculated based on U.S.-led coalition).[38] The ideal points have a mean of 0 and a standard deviation of 1 with lower values indicating deviance from the U.S.-led liberal order and higher values indicating conformity to the U.S.-led liberal order. Ideal points are a more consistent measure of two countries' alignment on political preference than voting agreement percentage, which can move dramatically due to changes in agenda even when the underlying preferences do not change. Then, we calculate political alignment with China by calculating the absolute value of the difference between each African country's ideal point and China. We are only interested in the absolute difference (alignment or misalignment) not the direction of the difference (more liberal or conservative). The absolute difference reflects the misalignment, so we multiple it by −1 to reflect the alignment. Finally, we create a change in political alignment with China by subtracting the previous year's value from the current year's value. Therefore, our final variable reflects the yearly change in political alignment.

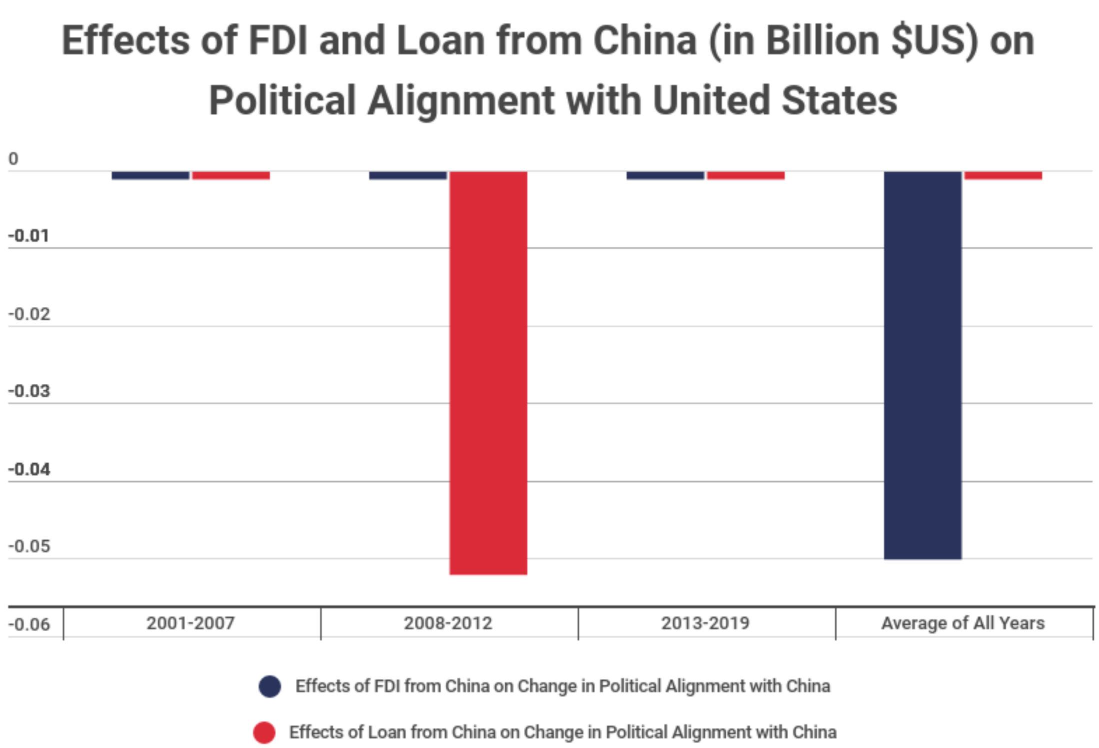
We also collected information on FDI and loans from China. We obtained bilateral FDI data from United Nations Conference on Trade and Development (UNCTAD)'s Bilateral FDI Statistics, which provides up-to-date and systematic FDI data for 206 economies around the world from 2001 to 2012. We

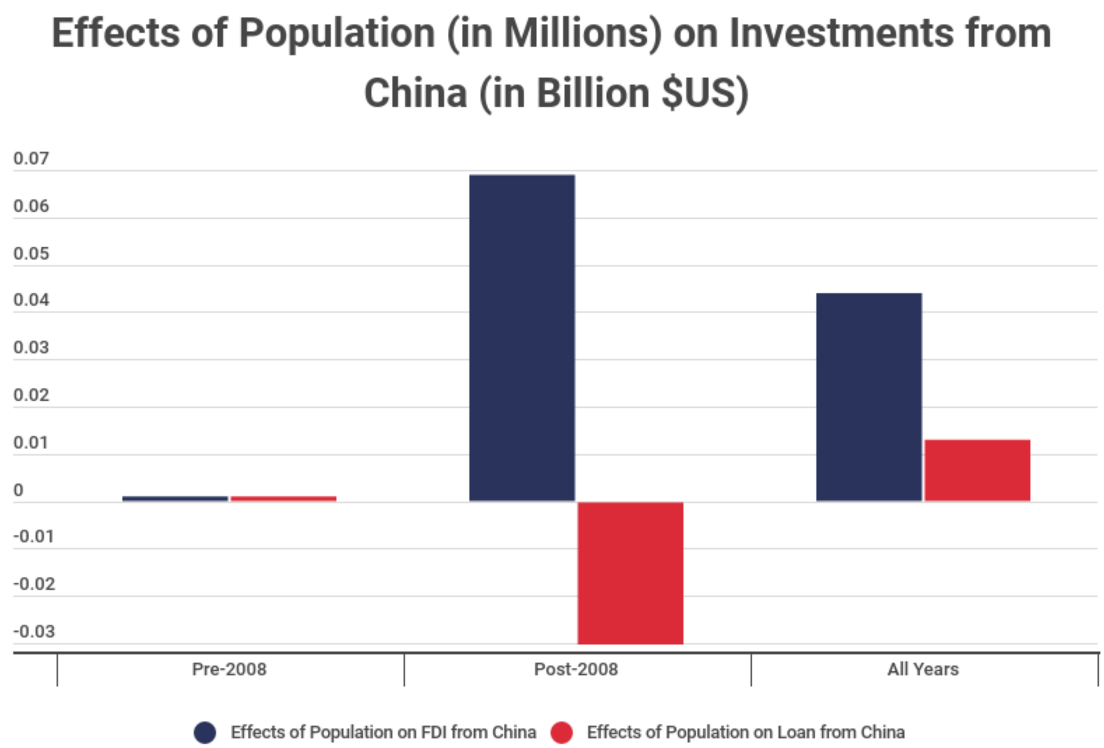
38 Michael Bailey, Anton Strezhnev, and Erik Voeten, "Estimating Dynamic State Preferences from United Nations Voting Data," *Journal of Conflict Resolution* 61 no. 2 (2017): 430–456.


Total FDI Inflow from China (million $US)
Million USD
6000
5000
4000
3000
2000
1000
0
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019
Year


Total Loan from China (million $US)
Million USD
30000
25000
20000
15000
10000
5000
0
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019
Year


Effects of Investments from China (in Billion $US) on Change in Political Alignment with China
0.08
0.07
0.06
0.05
0.04
0.03
0.02
0.01
0
2001-2007
2008-2012
2013-2019
Average of All Years
Effects of FDI from China on Change in Political Alignment with China
Effects of Loan from China on Change in Political Alignment with China

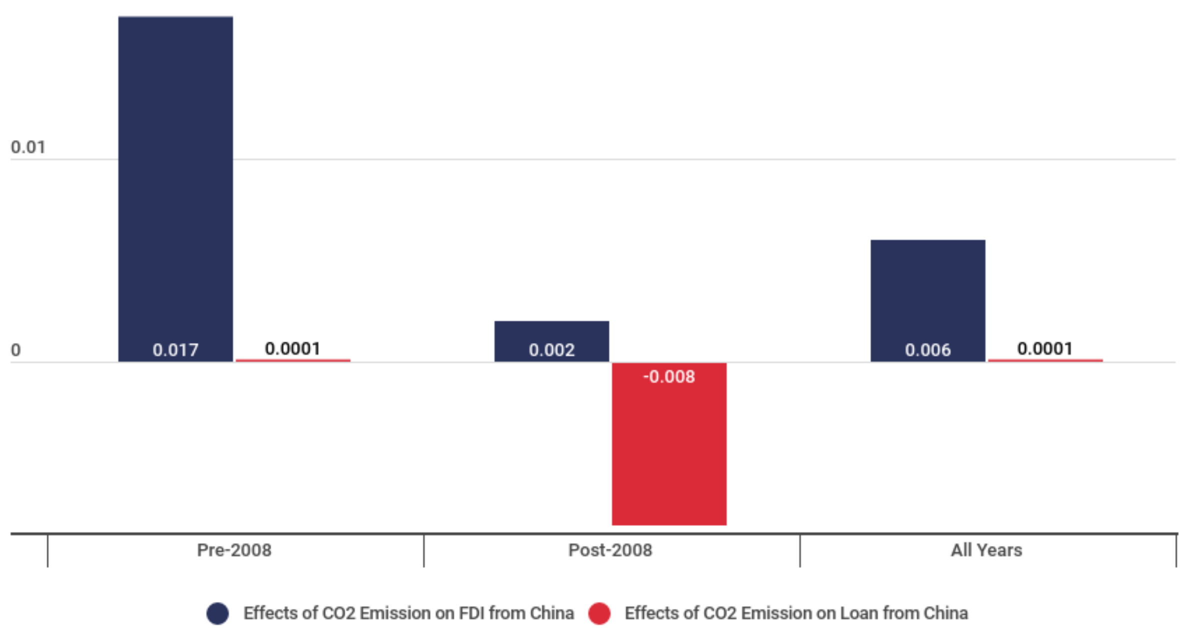

Effects of FDI and Loan from China (in Billion $US) on Political Alignment with United States
0
-0.01
-0.02
-0.03
-0.04
-0.05
-0.06
2001-2007
2008-2012
2013-2019
Average of All Years
Effects of FDI from China on Change in Political Alignment with China
Effects of Loan from China on Change in Political Alignment with China



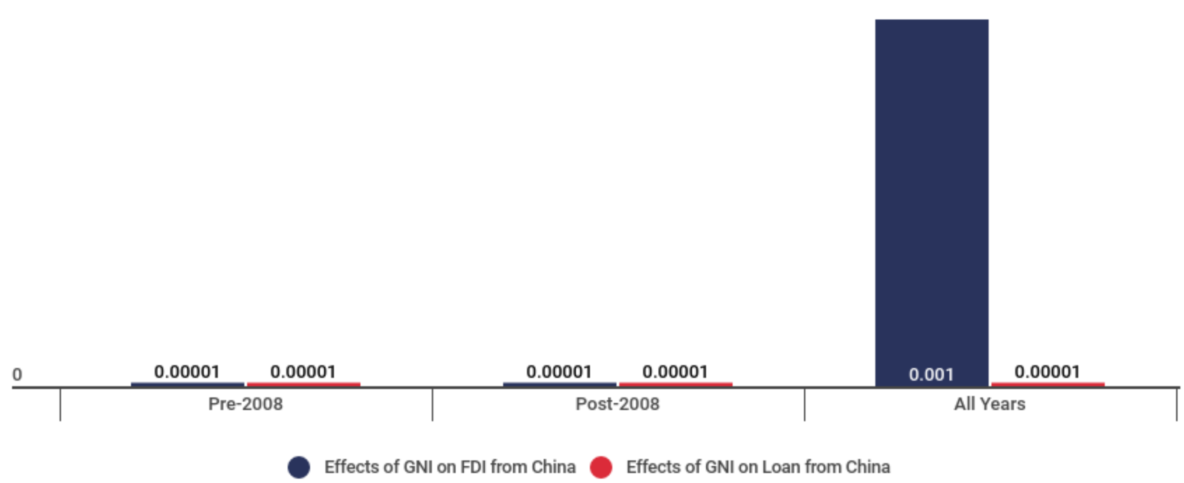
supplemented the UNCTAD's data with FDI data from SAIS-CARI. The loan data was obtained from the China-Africa Loan Database, which is also from SAIS-CARI. It is likely that economic investments from China exert their influence over several years. Thus, two-year moving averages are used as our main variable. We used the total FDI and loans from China as our primary independent variable. To test the robustness of economic engagement from China, we also ran separate analyses using FDI and loans.

We found Chinese investments are positively related to change in political alignment across all years examined (2001–2019). We then split the sample into three time periods: pre-2008 (to capture the timing of the Great Recession), 2008–2012 and post-2012 (to capture the election of President Xi Jinping. For FDI, we found that FDI had no effect on change in political alignment pre-2008, significantly influenced change in political alignment 2008–2012 and had no effect post-2012. Between 2008 to 2012, a one-billion-dollar FDI results in about 24% increase of average political alignment with China. Similarly, loans had no effect pre-2008, positive effects for 2008–2012, and positive effect post-2012. Between 2008 and 2012, a one-billion-dollar loan results in about 19% increase of average political alignment with China. Between 2013 to 2019, a one-billion-dollar loan results in about 4% increase of average political alignment with China. This confirms the post-2012 trend of China relying more on loans (with concealed terms) than more transparent FDI.

Effects of CO2 Emission (in Thousand Kilotons) on Investment from China (in Billion $US)



Effects of GNI (in Billion $US) on Investment from China (in Billion $US)

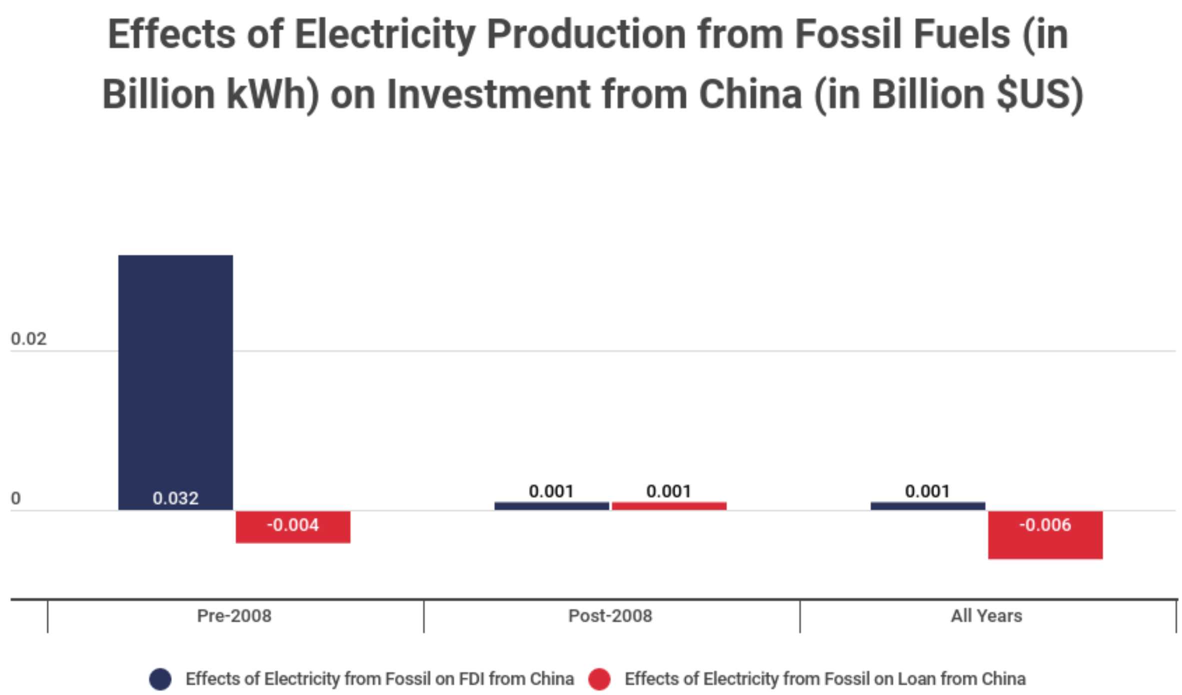


Chinese Economic Engagement and Political Alignment with U.S.

In additional supplementary analysis, we examined whether Chinese investment influences African countries' political alignment with the United States. That is, the alignment with China reflects greater global consensus on international issues or African countries with greater Chinese FDI are becoming less aligned with the U.S. while simultaneously aligning more with China. The results show that FDI from China has a significant negative effect indicating that FDI from China reduces African countries' political alignment with the U.S. This means the effect of Chinese FDI in Africa is not a reflection of increased global consensus on international issues, but rather it is a movement toward Chinese position on issues at the expense of the U.S. position on issues. Between 2001 and 2019, every one-billion dollars in FDI from China reduced the degree of political alignment with U.S. by about 2%.

Finally, we tested for alternative explanations for drivers of Chinese economic engagement: whether market-seeking or resource-seeking motivations drive China's FDI in African countries. For market-seeking motivations, we

included three indicators: *Population*, *CO2 emission*, and *GNI* (Gross National Income). For resource-seeking motivations, we used *electricity generated from fossil fuel* and *oil and gas production*. Regarding FDI from China, the results show that *population* has a positive effect on *FDI from China*, and the effect is stronger in post-2008 times. Similarly, *CO2 emission* has a positive effect on *FDI from China*, and the effect is stronger in pre-2008 times.



GNI has a positive effect on *FDI from China*, and the effect does not vary between pre- and post-2008 times. *Population* has a positive effect on L*oan from China*, but a negative effect in post-2008. *CO2 emission* has a negative effect in post-2008.

Second, we consider whether resource-seeking motivations explain Chinese economic engagement in Africa. We find that while the level of industrialization (measured by electricity generated from fossil fuels) has a positive relationship with FDI from China in pre-2008, it has a negative effect on loans.

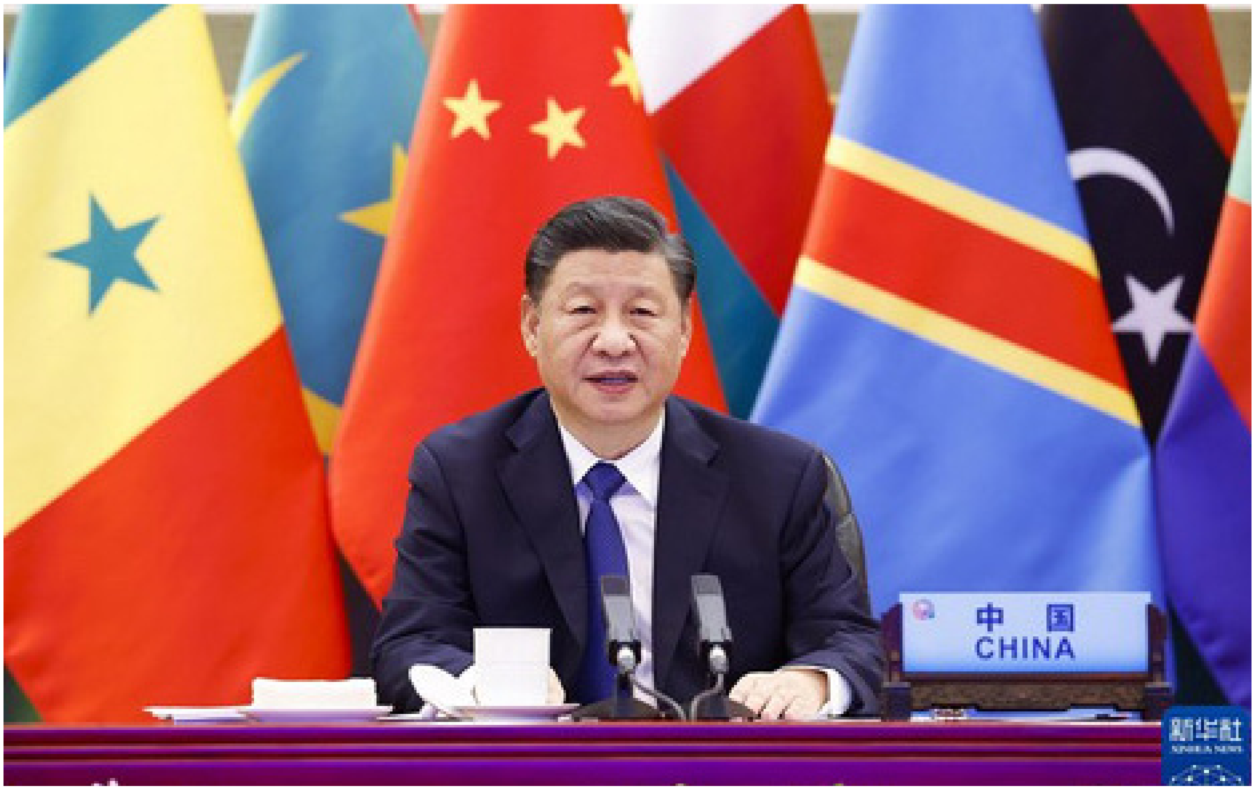
This implies that prior to the Great Recession, Chinese FDI to Africa was primarily market seeking as it focused on more industrialized countries, while loans went to less industrialized African countries. This all changed in 2008 with political motivations driving both FDI and loans. With the advent of the Xi Jinping era, emphasis has been on using loans (rather than more transparent FDI) to pursue Chinese foreign policy.

Conclusion

In this study, we investigated the relationship between economic engagement and political alignment between China and African countries. We specifically examined the impact FDI and loans from China have on international political alignment, evidenced by voting patterns in the UN General Assembly of partner African countries. Macropolitical considerations of economic engagements are not new. Most existing studies that examined the influence of FDI and loans, however, separated economic influences from political influences. The need to understand the impact of economic engagement guided us to consider a broader lens for the potential consequences of FDI and loans.

In general, we found Chinese FDI to be positively related to a change in political alignment across all years examined (2001–2019). Splitting the sample into three seasons of Chinese economic engagement: pre-2008 (to capture the timing of the Great Recession), 2008–2012 and post-2012 (to capture the tenure of President Xi Jinping). We found that FDI had no effect on change in political alignment pre-2008, significantly influenced change in political alignment 2008–2012 and had no effect post-2012. From 2008 through 2012, a one-billion-dollar FDI resulted in about 24% increase of average political alignment with China. Similarly, loans had no effect pre-2008, positive effect for 2008–2012, and positive effect post-2012. From 2008 to 2012, a one-billion-dollar loan resulted in about 19% increase in average political alignment with China. From 2013 through 2019, a one-billion-dollar loan resulted in about 4% increase in average political alignment with China. While Chinese economic engagement in Africa increased African countries' political alignment with China, it simultaneously reduced their alignment with the U.S. This means the effect of Chinese FDI in Africa is not a reflection of increased global consensus on international issues, but rather it is a movement toward China's position on issues at the expense of the U.S. position on issues. From 2001 through 2019, every one-billion dollars in FDI from China reduced the degree of political alignment with U.S. by about 2%.

The first implication of this study is that 'no strings attached' investment from China means no 'obvious' strings attached. China has stated that it does not want to interfere in Africa's internal



Xi Jinping Attends the Opening Ceremony of the Eighth Ministerial Conference of the Forum on China-Africa Cooperation and Delivers a Keynote Speech. (Ministry of Foreign Affairs of the People's Republic of China)

affairs.[39] This stated lack of interference does not necessarily paint a complete picture as there are some noneconomic expectations. President Xi of China, for example, requires participants at Beijing's summit to forgo diplomatic relations to Taiwan. Thus only a handful of African countries are left having diplomatic relations with Taiwan. As with most things in life, there just is 'no free lunch' with FDI and loans from China.

For the United States, the results of our study carries two key implications. Although Chinese FDI into Africa results in reduced political alignment by African countries with the United States, there is ample room to reverse that effect. Overall African economic engagement with China though increasing is still a small percentage of the continent's economic needs. For example, Sub-Saharan Africa imported $45 billion in goods from China in 2019, accounting for just under 18% of total imports. The United States, in contrast, accounted for $16 billion (or 6%) of Sub-Saharan African

39 "Scramble for Africa" *The Times,* September 4, 2018, https://www.thetimes.co.uk/article/scramble-for-africa-k5bcvt2sl.

imports for the same time period[40]. Both countries together accounted for less than 25% of Sub-Saharan African imports. The same percentages are reflected in FDI. There remains a lot of potential opportunity for the U.S. in Africa without necessary competing with China. U.S. economic engagement in Africa is restricted only by the will of U.S., not the financial engagement of China.

Time however is not on the side of U.S. Opportunities in Africa are shrinking and China is capturing the most lucrative markets and opportunities. Trade between China and Africa increased 35% from 2020 levels to an all-time high of $254 billion in 2021[41]. Furthermore, China's engagement in Africa is not evenly spread across the continent, but rather concentrated in the most advantageous markets – both in terms of resources and markets for finished goods. China's top five African trading partners accounted for over half (54%) of all trade between China and Africa and consisted of the three largest consumer markets in Africa (Nigeria, South Africa and Egypt) and two largest sources of extractives (Angola and DRC). Going forward, China is taking a stronger foothold in the continent, via its continual first mover advantage. As a result, the U.S. may find itself running out of time to be engaged with a continent slated to have more than a quarter of the world's population by 2050[42].

40 World Bank, "Trade Summary for Sub-Saharan Africa 2019," *World Integrated Trade Solution*, updated April 8, 2021, http://wits.worldbank.org/countrysnapshot/en/SSF.

41 Carlos Mureithi, "Trade between Africa and China reached an all-time high in 2021" *Quartz Africa,* February 8, 2022, https://qz.com/africa/2123474/china-africa-trade-reached-an-all-time-high-in-2021/.

42 United Nations Department of Economic and Social Affairs, Population Division, "World Population Prospect, 2019, Online Edition, Rev. 1," updated August 28, 2019, https://population.un.org/wpp/Download/Standard/Population/.

About the Authors

Dr. Carla D. Jones is a Templeton Fellow in the Africa Program at FPRI and an Associate Professor in the Management, Marketing & IS Department of the College of Business at Sam Houston State University. Her research interests focus on the influence of executives. She primarily examines how the leadership of a firm influences firm outcomes. More specifically, she studies how the board of directors and members of the C-Suite influence firm strategy and performance. Among these groups, several advancements have been initiated to improve governance and the link between executives and performance, such as increasing independence among board members and tying compensation incentives to stock performance. Her current projects examine heterogeneity among the leaders of an organization and its influence on group dynamics and group outcomes. Several of her projects examine how the dynamics among the upper echelon of an organization influence competitive dynamics and ultimately firm performance. Carla is also developing research projects to track how increasing cultural diversity impacts the ability of teams to work together to achieve success. A few of her current projects have been accepted at the Academy of Management Journal, the Journal of Management, and Entrepreneurship Theory & Practice.

Dr. Mengge Li is a Templeton Fellow in the Africa Program at FPRI and an Assistant Professor at University of Texas at El Paso, where he teaches international business and corporate strategy classes. He received a Ph.D. in Business Administration from University of Houston and a M.S. in Information Systems and Operations Management from University of Florida. His research interests are mainly in strategic management, and he has published in journals such as Journal of Management, Group & Organization Management, and Journal of Management & Governance. His current research examines the effects of leaders on interorganizational relationships and international business strategies.

Dr. Hermann A. Ndofor is a Templeton Fellow in the Africa Program at FPRI. He is currently a faculty member at the Kelley School of Business, Indiana University and Associate Editor for the Africa Journal of Management. He received a Ph.D. in Management from the University of Wisconsin- Milwaukee. Prior to joining the Kelley School of Business in 2015, he was on the faculty at the Mays Business School, Texas A&M.

FOREIGN POLICY RESEARCH INSTITUTE

A nation must think before it acts

ABOUT US

The Foreign Policy Research Institute (FPRI) is a non-partisan think tank based in Philadelphia. Its founding principle is that a nation must think before it acts. FPRI is dedicated to producing the highest quality scholarship and nonpartisan policy analysis focused on crucial foreign policy and national security challenges facing the United States. We educate those who make and influence policy, as well as the public at large, through the lens of history, geography, and culture.

OFFERING IDEAS

In an increasingly polarized world, we pride ourselves on our tradition of nonpartisan scholarship. We count among our ranks over 100 affiliated scholars located throughout the nation and the world who appear regularly in national and international media, testify on Capitol Hill, and are consulted by U.S. government agencies.

EDUCATING THE AMERICAN PUBLIC

FPRI was founded on the premise that an informed and educated citizenry is paramount for the U.S. to conduct a coherent foreign policy. Through in-depth research and extensive public programming, FPRI offers insights to help the public understand our volatile world.

CHAMPIONING CIVIC LITERACY

We believe that a robust civic education is a national imperative. FPRI aims to provide teachers with the tools they need in developing civic literacy, and works to enrich young people's understanding of the institutions and ideas that shape American political life and our role in the world.

www.fpri.org

FOREIGN POLICY RESEARCH INSTITUTE

The Foreign Policy Research Institute is dedicated to producing the highest quality scholarship and nonpartisan policy analysis focused on crucial foreign policy and national security challenges facing the United States. We educate those who make and influence policy, as well as the public at large, through the lens of history, geography, and culture.

Foreign Policy Research Institute

1528 Walnut Street, Suite 610
Philadelphia, PA 19102

215-732-3774 www.fpri.org

Follow us @FPRI