Chapter 24
Determinants of Inward Bound Foreign Direct Investment in Afirca and China:
FDI Determinants in Africa and China

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ABSTRACT

The contribution of the chapter is to compare the empirical determinants of inward bound foreign direct investment in China and Africa and also find out what makes China an attractive FDI destination. To achieve this, the chapter analyses 15 empirical studies on China and 15 empirical studies on African countries. First, the chapter finds that the determinants of FDI common to both Africa and China include the market size, economic stability, resource, infrastructure, and efficiency-seeking factors. Second, the chapter establishes that the determinants of FDI specific to African countries include political stability, borrowing costs, country risks, access to land and property registration. Third, the chapter finds that the determinants of FDI that are specific to China include international visibility of regions, internal expenditure on research and development, geographic location and proximity (special economic zones and the opening of coastal cities), total cultural variations and the liberalisation of the Chinese economy.

INTRODUCTION

The debate on the determinants of foreign direct investment still rages on, and different studies on the same country, groups of countries, at differrent time periods, using different methodologies, have often produced mixed results. This implies that there is still no consensus on the factors that affect foreign direct investment in both the developed and the developing world. In this chapter we study the factors that affect foreign direct investment in China and Africa. It should be noted that China and Africa are at

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different stages of development; and also that in the last few decades China has been growing in leaps and bounds, while Africa has been almost stagnant in terms of growth. It must also be noted that China has been able to attract a lot of FDI which has helped it industrialise its economy. However, Africa has struggled to attract FDI and the little that it got has been resource seeking. The chapter reviews fifteen carefully selected empirical studies that were wrritten on China and another fifteen studies that were written on Africa to isolate the similarities and differences in the determinants of FDI. The objective of the chapter is that it attempts to compare the empirical determinants of inward bound FDI in China and Africa; and find out what makes China an attractive FDI destination as compared to Africa.

BACKGROUND

The chapter attempts to analytically compare the empirical determinants of inward-bound foreign direct investment in Africa and China. According to UNCTAD's World Investment Report (2019), China was the second-largest recipient of FDI in 2019. Its FDI inflows in 2019 were US$140 billion and in 2018 they were US$139 billion. In the case of Africa, FDI inflows were US$47 billion in 2018, and in 2019 they were US$49 billion. It should be noted that in both 2018 and 2019 China is ranked as the second-largest recipient of FDI in the world. Besides, if Africa were a country, it will be ranked as the 10th largest recipient (country) of FDI inflows in the world. Despite its status as the world's second-largest economy, China continues to grow at high rates as it attempts to shift its economy from being export-oriented to domestic consumption-oriented (UNCTAD World Investment Report, 2019). On the other hand, the performance of the African economies is a mixed bag because there a few economies that are growing at impressive rates, while the rest of the continent is performing poorly. During the period 2018 to 2019, the FDI received by China is almost 3 times the FDI received by the entire African continent.

The chapter studies China and Africa because, as illustrated above, China is a success story with regards to inward-bound FDI, while the continent of Africa appears to be the diametric opposite. Studying the determinants of FDI in Africa and China may help shed light on why China has become a success story economically, while Africa has not made any meaningful improvements to the welfare of its people. According to Megbowon, Mlambo, & Adekunle (2019), industrialization which is related to the growth and development of the manufacturing sector is imperative for development as noted by the United Nations Development Organization (2017). This is because it covers the economic, social and environmental dimensions of sustainable development which apply to both developing and developed countries. Industrialisation is essential in that it principally explains the inequality and the wealth gap between the developed and developing countries (Megbowon, et. al., 2019). It should be noted that China has been able to industrialise its economy between 1978 and the present mainly through being able to attract FDI and its aggressive export-oriented industrialisation strategy. Moreover, in the African case, no meaningful industrialisation has taken place, and the amounts of inward FDI the whole continent receives is way smaller compared to what China receives.

Figure 1 shows the trend diagrams of FDI inflows for China and Africa which show that China has consistently received large amounts of FDI than Africa. The Figure shows that what China receives in terms of FDI is more than ten times bigger than what the whole of Africa gets in some of the years.