

Chinese investment in Africa: how the New Normal can leverage Agenda 2063 for sustainable economic co-operation*

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Abstract

Since the 1950s, China-Africa co-operation thrived at the back of China's rapid and accelerated growth. After the financial crisis of 2007-2009 however, and especially since 2014, the realities of China's New Normal which requires internal structural transformation has created the need for outward structural changes with partners. This paper attempts to provide the direction for Chinese investment in Africa under the new economic growth model by analysing the flow of Chinese investment to Africa and the role in economic development. Findings show that market and resource seeking principles are still driving Chinese investment on the continent with opportunities and challenges going forward. An 'integration-interaction' framework is used to demonstrate how Chinese investment in Africa can be streamlined for improved and effective mutual development.

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Introduction

Since the implementation of the 'Open Door' policy in 1978, China has witnessed soaring economic development and is currently one of the biggest recipients of foreign direct investment (FDI) around the globe, while at the same time, China has emerged as a major global investor by adopting the 'Going Out' strategy (UNCTAD, 2015). Following a double-digit growth over the past three decades, China's economy experienced a marked slowdown over the last two years, and is entering a 'New Normal', a slower but more sustainable growth path with solid steps towards the Chinese dream,¹ which was proposed by China's President, Xi Jinping, in 2014. The New Normal features medium-to-high speed growth instead of previous high speed growth and is increasingly driven by innovation instead of input and investment. The economic structure in the New Normal will be constantly improved and upgraded (Xinhua Net, 2014). In addition, China introduced the Belt and Road initiative, namely the Silk Road Economic Belt and 21st Century Maritime Silk Road, which provides a new means for China under the New Normal to develop its domestic development and link Europe, Asia and Africa (He, 2015). Along with these initiatives, China's New Normal will not only transform the domestic economy but also its external co-operation.

One such trade and economic co-operation which continues to attract attention from Chinese investors with potential to be affected under the New Normal is China - Africa co-operation. Africa's investment environment has improved over the past three decades and is among the fastest growing economies in the world (AfDB, 2014). Agenda 2063, a 50-year development plan which is used to build an integrated, prosperous and peaceful Africa is considered as one of the efforts to pursue economic development in Africa. The agenda is comprised of seven primary aspirations, 18 goals and 44 priority areas, further expressed into 161 different national-level targets (DeGhetto, Gray and Kiggundu, 2016). As a major strategic partner to Africa, China's investment is without a doubt an important force to advance Africa's development. Investment co-operation, the engine of China-Africa trade and economic co-operation, has been enriched along with a series of mechanisms and programs, such as the Forum on China-Africa Cooperation (FOCAC) and the 'Three Networks and

Industrialisation' program (that is, the high-speed railway, expressway, regional aviation networks and infrastructure industrialisation). Chinese FDI stocks (flows) to Africa reached US\$ 32.35 (US\$ 3.20) billion by the end of 2014, and more than 3,000 Chinese firms are running businesses in Africa, covering mining, manufacturing, construction, finance and other sectors according to the 2014 Statistical Bulletin of China's Outward FDI (OFDI) (henceforth the 2014 Bulletin).

In spite of the above, enhanced investment co-operation between China and Africa, there is a debate among scholars and researchers whether Chinese investment is good or bad for Africa (Babatunde, 2013; Jauch, 2011; Sutton, 2010). Considering its significant role in Africa's development, it seems necessary to move the debate ahead, to how Chinese investment can further improve benefits for both Africa and China, which is the focus of this study. The objectives of this study are thus to analyse the influence of Chinese investment on Africa's economic development, to examine the opportunities and challenges that China-Africa investment co-operation is facing under the New Normal and with the consideration of global and African context, as well as to provide implications for sustainable investment co-operation and common development.

Chinese investment in Africa: theoretical analysis and facts

Over the past three decades, China-Africa development practitioners have continued honing investment opportunities between the two partners, while researchers have been investigating conditions under which such investments are made. Some critics have argued that Chinese investment in Africa, during this period, was driven by the need for raw materials to feed its double-digit growth with little investment into the socio economic wellbeing of African countries (Hanauer and Morris, 2014). Others have pointed out that African countries have merely become markets for cheaper Chinese-manufactured imports which in turn erodes local production. This has led to some cynics comparing Chinese investment in Africa to neo-colonialism (Marton and Matura, 2011). Proponents of Chinese investment in Africa on the other hand have established the link (albeit indirect) between the two partners' investment co-operation and poverty reduction, cultural exchange, education and infrastructure

development (Pigato and Tang, 2015; Van der Lugt et al., 2011). This section presents the current situation of Chinese investment in Africa, its motives and its influence.

Basic statistics

Since the 1990s, China started to escalate its investment in Africa, which rapidly increased after the launch of FOCAC in 2000 (MOC, 2010). Given the improved performance of most African economies² and enhanced China-Africa co-operation mechanisms, Chinese investors have continued to express a desire to expand the scale, widen the field and diversify the approaches of its investment in Africa (Zhang and Zhang, 2016).

In terms of the scale of investment, China's FDI stocks to Africa reached US\$ 32.35 billion by the end of 2014, climbing from US\$ 490 million in 2003 (see Figure 1). Despite a dramatic growth presented in recent years, China's FDI stocks to Africa accounts for just 3.7 per cent of overall China's OFDI according to the 2014 Bulletin. It was also observed that FDI flows from China to Africa was stagnant in the last two years, which is partly due to the slowdown in China's economic growth rate, the sluggish global economy and international commodity price volatility (AfDB et al., 2016). Preliminary results from the 2015 FOCAC Johannesburg Summit aimed at stimulating Chinese investment in Africa, indicates that China's non-financial FDI flows to Africa came in at US\$ 1.3 billion by the first half of 2016, up by ten per cent year-to-year (MOC, 2016). It should further be noted that China has become a major investor in Africa at just three per cent of total inward FDI (IFDI) into the continent (Guerrero and Manji, 2008; Mungai, 2015).

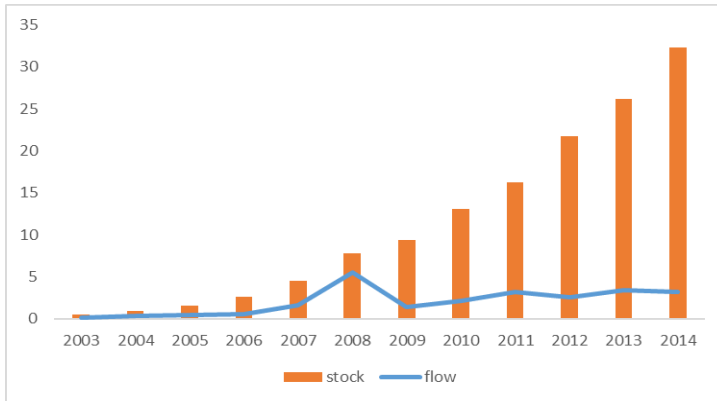


Figure 1. China's FDI to Africa, stocks and flows (billion US\$). Source: Authors' own construction, data were collected from the 2014 Statistical Bulletin of China's OFDI

China is steadily strengthening investment ties with Africa and the destinations covered have increased from 73 per cent of African countries at the end of 2003 to 86.7 per cent in 2014³, and they are not limited to resource-rich countries. It is, however, evident from the data that the share of China's FDI to Africa is unbalanced across countries. For instance, the Top ten receivers, according to China's FDI stocks at the end of 2014, are South Africa, Algeria, Nigeria, Zambia, the Democratic Republic of Congo (DRC), Sudan, Zimbabwe, Angola, Ghana and the Republic of Congo (Congo), accounting for 67.6 per cent of total FDI stocks allocated to Africa (see Figure 2). Similarly, according to China's OFDI flows, at the end of 2014, the Top ten receivers, that is, Algeria, Zambia, Kenya, Congo, Nigeria, Central Africa, Sudan, Tanzania, Egypt and DRC, attracted 82.8 per cent of Chinese FDI (see Figure 3).

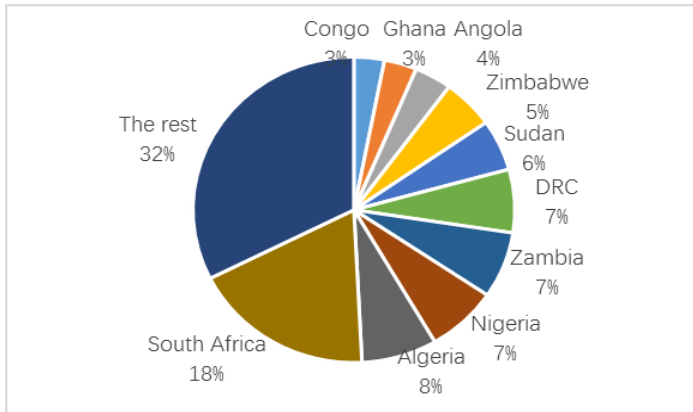


Figure 2. Geographic distribution of China’s FDI stocks, 2014. Source: Authors’ own construction, data were collected from the 2014 Statistical Bulletin of China’s OFDI

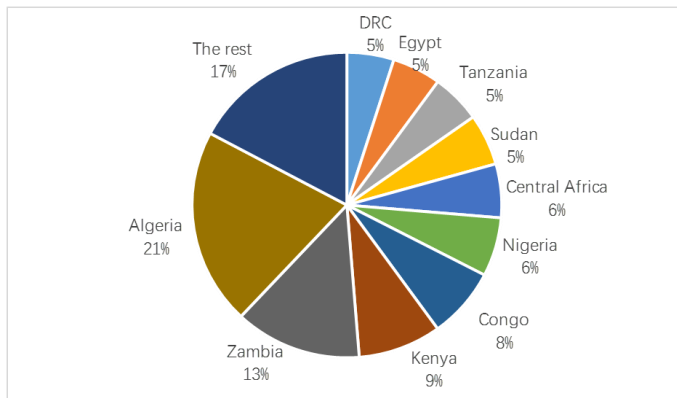


Figure 3. Geographic distribution of China’s FDI flows, 2014. Source: Authors’ own construction, data were collected from the 2014 Statistical Bulletin of China’s OFDI

The results also show that industrial distribution and sources of investment are becoming increasingly diversified. Specifically, China’s FDI stocks cover almost all sectors, although there is still high concentration in some fields. By the end of 2014, China’s FDI stocks to Africa were concentrated in the following sectors: Construction (24.7 per cent), Mining (24.5 per cent), Finance (16.4 per cent), Manufacturing (13.6 per cent) and Scientific Research and Technical Services (4.2 per cent) (see Figure 4). China’s FDI stocks to Africa in the above-mentioned sectors reached US\$ 26.98 billion, representing 83.4 per cent of total FDI stocks. Moreover, industrial distribution of China’s FDI flows to Africa in 2014 concentrated on Construction (23.7 per cent), Transportation, Storage and Postal Service (17.6 per cent), Manufacturing (15.7 per cent), Mining (13.1 per cent) and Finance (8.6 per cent), accounting for 78.7 per cent of total FDI flows with US\$ 2.519 billion (see Figure 5).

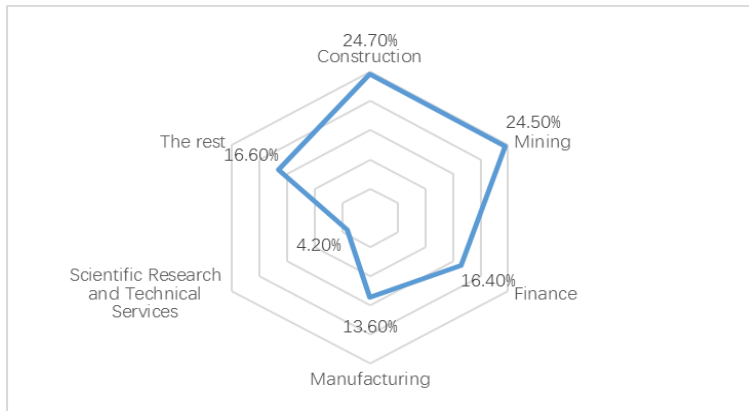


Figure 4. Industrial distribution of China’s OFDI stocks to Africa, 2014. Source: Authors’ own construction, data were collected from the Report on Development of China’s Outward Investment and Economic Cooperation (2015)

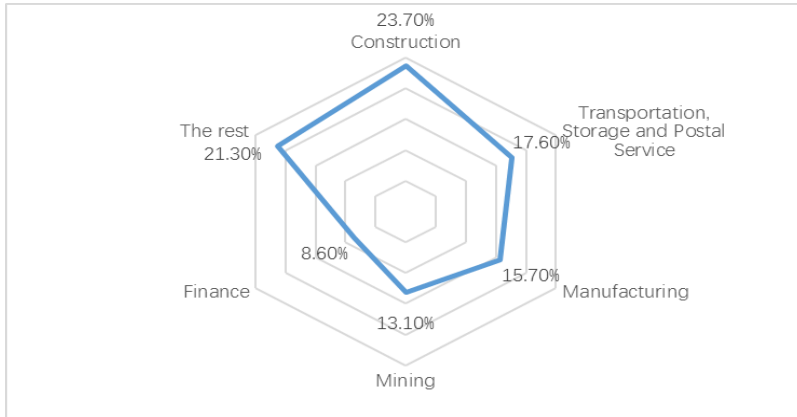


Figure 5. Industrial distribution of China's OFDI flows to Africa, 2014. Source: Authors' own construction, data were collected from the 2014 Statistical Bulletin of China's OFDI

Statistics further show that by the end of 2014, more than 3,000 Chinese firms were running businesses in Africa, of which more than 70 per cent are private companies and small medium-sized enterprises (SMEs); with banks (for example, Industrial and Commercial Bank of China) and non-bank financial institutions (for example, China-Africa Development Fund) also becoming more active in recent years. Their investment approaches are also diverse, ranging from sole proprietorships, joint ventures, mergers and acquisitions (M&A) and contractual joint ventures. At the same time, overseas economic and trade co-operation zones (ETCZs) have gained popularity for China's collective investment in Africa with about 20 ETCZs either in operation or under construction across the continent at the end of November 2015.

Determinants of Chinese investment in Africa

The eclectic paradigm to FDI studies which was initially developed by Dunning (1977) provides a good approach for conceptualising multinational enterprises (MNEs). Eclectic paradigm, also known as ownership, location and internalisation

(OLI) paradigm, suggests that OLI advantages of a company potentially determine its decision to become a multinational (Dunning, 1980, 2000; Dunning and Lundan, 2008). Based on the OLI paradigm, over the past 35 years of economic reform, Chinese companies have developed ownership advantages which has enabled them to compete with MNEs in China. For Chinese companies investing in Africa, improved economic conditions of most African countries, rich natural resource and large potential markets all contribute towards location advantages for them (Chun, 2013). Moreover, the continent's drive for infrastructure development, institutional environment reforms and increased trade relationships with China have also added to internalisation advantage for Chinese companies running businesses in Africa. OLI advantages thus underline the possibility and capability of Chinese companies to invest in Africa.

The motives behind FDI for Chinese MNEs, which have been discussed for some time, can be generally divided into four categories, that is, market-seeking, efficiency-seeking, resource-seeking and strategic asset seeking (Dunning, 1993, 2000). Strategic asset-seeking FDI is used to seek new technologies and improve productivity, which generally occurs when investing in industrialised countries (Gugler and Boie, 2009); and thus seems inappropriate to explain Chinese investment in Africa. Efficiency-seeking FDI is commonly observed in industries such as electrical and electronic products, garments and IT services (UNCTAD, 2006), those industries are however not what Chinese investors concentrate on in Africa at present. Thus, efficiency-seeking is currently not a dominant motive for Chinese companies investing in Africa. Nonetheless, it is believed that with an increase in skilled labour and improved infrastructure in Africa, as well as rising cost of labour in China and China's industries being diversified, efficiency-seeking is expected to become a major determinant for Chinese investment towards Africa.

Market-seeking and resource-seeking FDIs are therefore still the main types of Chinese FDI in Africa. Market-seeking FDI is driven by factors such as host country's market size, per capita income and market potential (Chen et al., 2015; Dunning and Narula, 2004), and aimed to gain access to host-country's domestic markets (Al-Sadig, 2013; Dunning, 2000). Market seeking is the most common type of interna-

tional investment for developing countries MNEs and is observed across most industries (UNCTAD, 2006). Typically, market-seeking FDI is a result of successful trade co-operation (Anyanwu, 2012; Gugler and Boie, 2009). Transportation costs and government regulations are also important factors for market-seeking FDI (Colen et al., 2013; Kudina and Jakubiak, 2011). To a fairer extent, Chinese investment in Africa is characterised by similar features. For instance, South Africa, the only African country in China's Top 20 OFDI stock destinations worldwide according to the 2014 Bulletin, is characterised with relatively high levels of gross domestic product (GDP) and industrialisation, a sizable population as well as a close trade relationship with China. The other Top ten Chinese FDI stock destinations in Africa, such as Algeria, Nigeria, Sudan and Angola, are ranked high in terms of GDP on the continent. Moreover, Nigeria, DRC, Sudan and Algeria own sizable populations among African countries, suggesting their big potential market. Another characteristic for determining market-seeking FDI is proximity between FDI source and the host country where for instance Zhang and Liu (2013) find that Chinese investors tend to invest more in African countries that possess cultural proximity which is proxied by the proportion of ethnic Chinese population in host countries.

For many international investors coming to Africa, resource-seeking has been one of the major motives (Anyanwu, 2011) and China is no exception (Cissé, 2012). Many top ranked Chinese FDI receivers in Africa are resource-rich countries, even though it is not accurate to conclude that Chinese investment to Africa is only to exploit Africa's natural resources as some African host countries of Chinese investments are neither oil nor mineral rich countries. As indicated in Figures 4 and 5, the mining sector accounts for only 24.5 per cent and for 13.1 per cent of China's FDI stocks and flows to Africa in 2014. Similar conclusions are reached when considering Chinese loans to Africa where there is little evidence to confirm that Chinese loans are only arranged for natural resource extraction. Angola (a resource rich country) received the most Chinese loans over the past years, followed by Ethiopia which is not a resource-rich country. Ethiopia does not produce raw materials critical to China, and does not even have direct access to the sea (Adem, 2012).

Put differently, China's FDI to Africa relies on resources, economy, market, labour, infrastructure and other conditions of African host countries. In recent years, the African institutional environment played an increasingly crucial role in directing Chinese investment. Chen et al. (2012) submit that the difference in the institutional environment of host African countries and China, *i.e.* institutional distance, is significantly related to China's investment in Africa, such as China's credit policy, bilateral investment treaty and taxation treaty, as well as Africa's trade, business, fiscal and labour freedom. Dong et al. (2001) find similar results. Furthermore, the motives behind FDI are dynamic and with the advancement of economic, social and institutional conditions in both China and Africa, the determinants of Chinese investment in Africa may also change.

The influence of Chinese investment on Africa's economic development

FDI, as an important source of international capital flows and international economic activities participation, plays an increased influential role in the international market and provides countries an effective approach towards international division of labour (Ruggiero, 1996; Siebert, 2006). Many developing countries consider FDI as a vital component of their national economic development strategy (Ayanwale, 2007). Based on existing studies, the influence of FDI could be reflected in economic growth, domestic investment, trade export, employment and human capital as well as technology spillovers. Along with the growing investment from China to Africa, Chinese investment has, and will continue influencing Africa's economic development in many aspects.

In the first instance, Chinese investment could speed up infrastructure construction and boost African integration. As indicated by the African Union (AU) in Agenda 2063, by 2063 Africa would 'have world class, integrative infrastructure that crisscrosses the continent' (African Union, 2014: 4), and 'the necessary infrastructure will be in place to support Africa's accelerated integration and growth, technological transformation, trade and development' (African Union, 2014: 5). Infrastructure includes but is not limited to roads and highways, railways, airports, maritime ports as well as telecommunications and digital infrastructure. Earlier in 2014, Chinese Premier Li Keqiang proposed the '461' Africa-China Co-operation Framework and

the 'Three Networks and Industrialisation' program. In addition, China and the AU have signed a Memorandum of Understanding (MoU) to support Africa with infrastructure development in 2015; the FOCAC Johannesburg Summit emphasised on actively implementing the MoU, and took infrastructure development as an important part of the FOCAC Johannesburg Action Plan (2016-2018) (henceforth the Action Plan).

A number of Chinese companies are visibly participating in roads, airports, industrial zones and maritime ports construction in many African countries, such as Ethiopia, Djibouti, Kenya and Nigeria, largely closing up infrastructure deficiency for many African countries. The Ethiopia-Djibouti railway (constructed by China Railway Group and China Civil Engineering Construction and opened in October 2016) is one of the most recent major infrastructure developments by China in Africa and it is predicted to lift the economies of Ethiopia and Djibouti, boost Africa's inter-connection and integration process, as well as create better conditions for Chinese and foreign investment. Chinese companies are expected to play an increasingly prominent role in the development of Africa's power sector, occupying 30 per cent of the region's capacity; with over half of the new projects being in renewable energy (International Energy Agency, 2016).

Furthermore, Chinese investment could promote Africa's industrial structure, transform industrialisation, as well as enhance Africa's linkages with global value chains. Agenda 2063 indicates that access to global and regional value chains with high value added goods benefit Africa's development. However, the common way for most African countries to participate in global value chains is through exporting natural resources, mainly because of weak domestic productive capacity and infrastructure (AfDB et al., 2014). This approach affects the continent's economy negatively not only due to high vulnerability to price volatility of natural resource but also because most value addition to Africa is not done locally, leading to weak and or no relationship to gains in employment from participation in global value chains (Ibid). The disconnect between domestic capabilities for most African countries and global value chains optimal participation requirements are attributed to underdeveloped manufacturing sectors, which at the same time hamper the continent's development. As

presented in Agenda 2063, African countries need to accelerate manufacturing activities by widening their participation along the global value chains through the development of efficient logistics, improved business environment and advanced domestic productive capacities to influence the governance structures of economic activities. African industrialisation is an important consideration within China-Africa investment co-operation, and is highlighted in many occasions, such as the Action Plan of the 2015 FOCAC Johannesburg Summit and the G20 Initiative on Supporting Industrialisation in Africa and least developed countries (LDCs) at the 2016 G20 Hangzhou Summit.

Following the above stated Action Plan, China set up a China-Africa Production Capacity Cooperation Fund to support China-Africa industry partnering and industrial capacity co-operation, with an initial instalment of US\$ 10 billion, and expanded the China-Africa Development Fund from US\$ 5 billion to US\$ 10 billion. In addition, China has signed framework agreements for production capacity co-operation with seven countries that have major infrastructure development projects (ports and rails) with economic corridors and/or free industrial zones, namely Congo, Egypt, Ethiopia, Mozambique, Nigeria, Sudan and Zimbabwe. China-Africa industrial capacity (high-quality production capacity) co-operation, such as in the form of ETCZs, will bring in technology and management experience, advance production capacity, technology transformation as well as optimise export structure, ultimately to have value addition. Accordingly, Chinese investment will enhance opportunities for African countries to widely participate in global value chains with improved value added goods.

Equally important, Chinese investment could help create productive employment and cultivate skilled labour. Unemployment is one of the main social challenges facing African countries with underemployment rates above 75 per cent for some countries, leading to extreme poverty being recorded among 34.3 per cent of the employed population (International Labour Organisation, 2016). Though Africa witnessed significant economic growth over the past few years, averaging five per cent (UNECA, 2015), this advancement has not translated into wellbeing for most people (Ernst and Young, 2015). The vision of Agenda 2063 of a ‘people-centered, prosper-

ous continent' demonstrates job creation as an indispensable component to realise real human development. The high unemployment rates among African countries are partly due to capital-intensive industrial structures and the exportation of raw material which does not generate meaningful employment on the continent. Africa received 17.1 per cent of global FDI inflows in 2014, contrast with only 8.7 per cent of jobs (Ernst and Young, 2015). The mismatch between FDI inflows and jobs created partially confirm the fact that FDI activities only create considerable employment if they are labour intensive (Herzer et al., 2008; Kim, 2009). China has the world's largest manufacturing workforce with more than 125 million people, of which 85 million are in labour intensive industries. Over the past years, China has allocated part of labour intensive industries to Africa, thereby localising the workforce and creating numerous job opportunities. Sautman and Yan (2015) find that Chinese companies in extractive industries, manufacturing and construction mostly have 80-95 per cent local workforces. They also find that some industries have relatively more Chinese workforce due to shortages of local engineers and skilled labour, as well as technicians. Notwithstanding the contribution of these temporary relief measures, long term plans in the form of training opportunities are underway. For instance, China has trained over 60,000 nationals of African countries and has sent more than 350,000 technical professionals to Africa (Gumede, 2015). Some Chinese companies are setting good examples for employment creation in Africa. For instance, Huawei - a giant Chinese telecom company, has set up six training centres across Africa and provides training to 12,000 African engineers and workers annually (Wang and Zadek, 2016).

Despite the potential contribution of Chinese investment, it has been criticised of negative influence on Africa's domestic enterprises and local environment, as well as labour disputes (Babatunde, 2013; Jauch, 2011). There is growing concern on how Chinese investors improve their investment outcomes in Africa to achieve mutual development - discussed in the next sections.

Opportunities and challenges in the new context

As China-Africa investment co-operation enters a new developmental context, it is important to examine some of the opportunities and challenges that are likely to

emerge for advancing sustainable economic co-operation (especially investment).

Development opportunities

Even though official accounts indicate that China entered the New Normal, a period of slow growth in 2014, the transition started as far back as 2010, following the 2007-2009 financial crisis (Pigato and Tang, 2015). This new growth does not only affect China but the world at large. Some authors (for example, Economy et al., 2016) have questioned the ability of world economies to adjust to China's New Normal and how it will affect the development of those economies that greatly depend on China for trade. While such questions are important for economies such as Africa, such effects have to also be addressed in a more holistic approach, taking into consideration what the New Normal means to China.

Green and Stern (2015) outline opportunities and challenges for China under the New Normal as follows: firstly, it is expected that, the slowing GDP growth (of lower than seven per cent per year) will be characterised with inward introspection and will potentially spur South-South co-operation and its respective sub-regional groups. Benefits for African countries within the regional perspective will be realised in a form of increased market diversification (as some countries depend on mono products destined to mono markets) and; through favourable and bigger market access (if terms are better than those under other trade agreements *i.e.* Economic Partnership Agreements with the European Union). Potential regional growth will also be realised through China's Belt and Road initiative, a crucial strategy to connect Europe, Asia and Africa through infrastructure, trade and investment – a point discussed later in this section. Secondly, with slower economic growth, there will be tighter control of resources to ensure optimal benefits and reduce corrupt practices which were reported under the old normal, resulting in efficient allocation and more targeted implementation of programs.⁴ Lastly, the New Normal growth, as President Xi Jinping explained, will 'lead to sustainable and high quality growth for the coming decades' (Lim, 2016). This means that China's growth will focus on improving domestic markets to stimulate local consumption and transition from low-value added to high-value added goods production. In order to

improve the quality of their inputs, China is expected to intensify investment in science and technology. At the same time, China will export excess and quality production capacity to other developing countries such as African countries.

While China is going through the New Normal, Africa has also adopted a new co-ordinated development trajectory: 'Agenda 2063'. The opportunities presented under China's New Normal and Agenda 2063 are multifaceted. First, there has been high-level mutual visits between China-Africa in recent years, which will be advanced at the new stage of China-Africa co-operation to seek higher quality and more effective and all-round development. For instance, in 2016 (until July), Zhang Dejiang (Chairman of the Standing Committee of the National People's Congress), Yu Zhengsheng (Chairman of the Chinese People's Political Consultative Conference) and Yang Jiechi (State Councillor) visited Africa. In early 2016, the presidents of Nigeria, Mozambique, Morocco, Togo and Congo also paid state visits to China. During the 2016 G20 Hangzhou summit, chairperson of the AU, presidents of South Africa, Egypt and Senegal were all invited to visit China. These efforts made by China and Africa provide solid political backing for the development of China-Africa investment co-operation.

Additionally, strategic co-ordination between the Belt and Road initiative and Agenda 2063 offers many co-operation possibilities for Chinese and African investors. The '461' China-Africa Co-operation Framework and the 'Three Networks and Industrialisation' program could be considered a rehearsal to help align and co-ordinate these two development strategies (Shu, 2015). In his address at the 5th Meeting of China-Africa Think Tanks Forum, the Director-General of the Department of African Affairs of the Foreign Ministry of PRC announced that following the Action Plan⁵ and 'based on comprehensive research, China has listed Ethiopia, Kenya, Tanzania and the Republic of Congo as demonstration and pioneering countries for such co-operation, while South Africa is designated as the beacon of Africa's industrialisation. Egypt, Angola and Mozambique will be priority partners for production capacity co-operation' (Lin, 2016). Subsequently, China will 'allocate resources to build demonstration zones to these partners, and combine the construction of large infrastructure projects, so as to build industrial belts along the

routes and achieve sound interaction between large-scale infrastructure projects and industrial development' (Ibid). China has underscored the fact that countries that are not demonstration cases are not excluded and will continue to co-operate through established strategies and mechanisms.

Lastly, the opportunities presented under Agenda 2063 is that, in addition to having a more coordinated strategic framework for development, the AU under the New Partnership for Africa's Development (NEPAD) has also identified internal sources of funding from which resources to finance over 70 per cent of development initiatives can be drawn (Fassi and Aggad, 2014). This also means that, investors do not have to deal with over 54 investment plans of individual African countries and toil in finding investment deals. Instead, they can engage through pre-assessed bankable projects under Agenda 2063. Thus, if Chinese investors have difficulties in finding projects, they can leverage on deals through Agenda 2063 action plan (Robertson and Benabdallah, 2016). With all these opportunities under both the New Normal and Agenda 2063, it is important to examine how they are likely to influence investments between the partners going forward and identify possible challenges.

Possible Challenges

Using the view of Chinese investment in Africa under the old normal growth period where the focus was on accelerating growth, it should follow that a slowdown in China's economic activities be reflected in declining investments. However, as presented in the data above and as reported by Pigato and Tang (2015), Chinese investments to Africa has continued to increase during the transition period and during the New Normal period. However, there are challenges (both endogenic and exogenic to the co-operation) that are likely to influence Chinese investment in Africa.

In the first instance, policy space of China-Africa co-operation is restricted. In the past ten years, the relatively relaxed international policy space that offered a good environment for rapid development of the China-Africa partnership, is expected to gradually weaken (Zhang, 2015). Along with Africa rising and increasing attention from the international community, a series of co-operation mechanisms and systems

will be strengthened or built. In addition, on the backdrop of neo-liberalism and the response to United Nation's sustainable development goals (SDGs), African countries are becoming more concerned with long-term development strategies and sustainable development. These facts bring normative constraints and competitive pressure towards China-Africa co-operation, and more importantly, restrict the policy space of further China-Africa co-operation.

Apart from that, following the launch of the SDGs, Africa put forward a Common Africa Position on the Post-2015 Development Agenda, to provide a strategic focus for Africa's development. It is worth considering how China can develop long-term and sustainable co-operation mechanisms with Africa on the basis of its own development strategy and at the global level. It should be noted that responsible investment, among others, has become key to building sustainable impact for a host country. Unlike political, legal and financial risks which were widely discussed between China-Africa investment co-operation (Shen and Bao, 2013), risks of environmental, social, and governance (ESG) issues have not been systematically studied and should not be ignored. Such new types of risk are related to political and economic security (Zhang, 2016). Though the Action Plan reached a consensus in green and low-carbon development and Chinese firms are observed becoming more socially responsible, at home and abroad, they are, however, still insufficiently engaging in ESG issues. It is thus worth pondering how Chinese government, institutional investors, enterprises, banks and other stakeholders can prevent and respond to such kind of risks in China-Africa investment co-operation.

Moreover, Africa's regional integration challenges China's ability to deal with bilateral and sub-regional multilateral relations. For instance, there are policy level commitments by the Chinese government through the FOCAC to not only diversify investments to cover more sectors but also to increase the value of investment (Sun, 2015). China's commitments to Africa while working with individual countries will create animosity as to who is getting what from the pot. China has to deal with bilateral relations, and at the same time needs to move towards addressing contradictions and differences among African countries and regions through Africa's

integration mechanisms. Similarly, they need to learn how to deal with competition and co-operation with other economies.

Despite Agenda 2063 setting Africa's development priorities over the next 50 years, there has not been mechanisms in place to coordinate and operationalise the implementation of these plans (Fassi and Aggad, 2014). While it is still too early to draw conclusive challenges associated with the absence of these mechanisms, it is important that preparations are made to ensure a strong implementation foundation from the start. This will also create trust in the strategic framework by individual countries and encourage them to avail resources to implement the framework. Nonetheless, the translation of the Agenda 2063 action plan may be a lengthy process as it will need to be inclusive of country-specific national development plan targets. The uneven development among African countries and regions, and slow pace of implementation of programs emanating out of Africa's integration platforms in general are not conducive for a smooth implementation of China-Africa investment co-operation.

Advancing China-Africa investment co-operation: An integration-interaction perspective and beyond

This study takes a review of Chinese investment in Africa, analyses motives behind the investment and the influence the investment has on Africa's economic development. The significant influence to a large extent depends on certain conditions of host countries such as infrastructure, human capital, the financial market and institutions (Apergis et al., 2007; Busse and Groizard, 2008; Chen et al., 2012; Dong et al., 2011; Zhang and Liu, 2013). At the same time, the influence also lies on industries/sectors that FDI focuses on in host countries (Alfaro, 2003), and the absorptive capacity of host countries (Vu Le and Suruga, 2005). In order to have a better understanding of determinants and influence of Chinese investment in Africa, and based on the argument provided previously, we build an 'integration-interaction' analysis framework (see Figure 6), and use it to clearly address the way foreign investment influences Africa's economic development.

This framework indicates that in order to improve Africa’s economy, on the one hand, China (and other foreign investors) needs to effectively integrate their resources with African countries (that is, human resources, natural resources and market resources *et al.*), thus providing a sound investment environment for both foreign and domestic investors. On the other hand, there is an endogeneity/causality issue existing among foreign investment, domestic investment, and host countries’ investment environment; these three interact with each other. While Chinese and other foreign investors are concerned with economy, natural resources, market, labour and other conditions of African host countries when they select investment destinations; at the same time they have influence on the Africa’s investment environment.

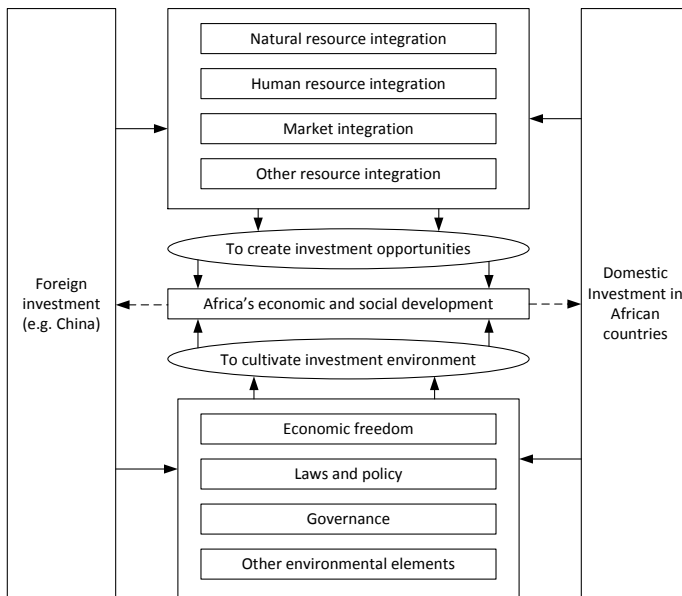


Figure 6. An ‘integration-interaction’ analysis framework.
Source: Authors’ own construction

Considering China's New Normal, Africa's Agenda 2063 and the global development context, China's investment in Africa has entered a new era. Though China's interest on natural resources like oil and minerals will remain undimmed, investors will diversify their investment and pursue sustainable co-operation. Compared to raw materials (resource-seeking investment), priorities will shift to market-seeking and efficient-seeking investment. Based on the established framework in Figure 6, it is notable that sustainable investment co-operation is unlikely to be achieved without the support from African host countries, especially institutional environment, *i.e.* economic freedom, investment policy and public governance. Therefore, narrowing down the institutional distance or differences between China and African host countries is important and urgent. Furthermore, according to opportunities and challenges presented earlier, we have suggestions beyond the framework to promote China's sustainable investment in Africa.

China's transformation from a large trading country to a big investment nation is in favour of restructuring China-Africa economic and trade co-operation; in this process, China needs to think of Agenda 2063 priorities, and also extend the thinking to new energy sources, energy conservation, environmental protection and marine industries by considering complementary industrial structure, which is beneficial for growing the African Blue and Green economies and expanding the co-operation level.

Moreover, there should be deliberate initiatives for building and upgrading industrial parks, to deepen China-Africa investment co-operation. Industrial parks are an important platform in Africa for creating synergy for both China and African countries, and they are an effective way for Chinese enterprises to conduct collective investment and to bind capital and capacity. In addition to building new parks, it is important to upgrade and transform existing zones. In addition to working as a platform for industrial transfer and to optimise construction of infrastructure and public services for attracting investors, equally important is that industrial parks should be devoted to industry chain integration. Therefore, industrial parks are not only to be used as collections of homogeneous businesses, but as links to upstream and downstream businesses. By doing so, it would be possible for enterprises in

industrial parks to get the cluster advantages and have chances to promote China-Africa industrialisation co-operation in depth. The critical role played by intelligence support from African and Chinese experts and training related to management, technical and basic skills in the industrial parks also cannot be ignored.

Further, enlarging financing channels to provide sufficient financial support for China-Africa investment co-operation should be promoted. The acceleration of China-Africa investment co-operation process has triggered huge demand for capital and provided much space for China-Africa financial co-operation. 'Three networks' and other infrastructure programs need an enormous amount of money to support implementation. Given that those programs are featured with long investment pay-back periods and uncertain returns, as well as most African countries being underdeveloped in their financial markets, development finance thus holds a dominant position in this type of investment. However, in some African countries with sound legal and business environment, it is worth exploring diversified financing approaches. For commercial banks, there are opportunities to strengthen institutions and business co-operation, that is besides setting new representative offices or branches, it would be worth seeking local banking partners. For insurance companies, it could be beneficial to carry out investment activities related to personal and property insurance. Moreover, China and African countries need to seek co-operation in the securities and bond markets to widen direct financing channels. China's qualified domestic institutional investors (QDIIs) and Africa's qualified foreign institutional investors (QFIIs) are encouraged to invest in African and Chinese market respectively. In this process, an important note is to promote the Renminbi (RMB) internationalisation, which will broaden China-Africa finance co-operation, thereby simplifying investment procedures, reducing investment costs and currency risk of Chinese investment in Africa that exerts spillover effects to China's FDI, and ultimately advancing China-Africa investment co-operation.

Last but not least, engaging in responsible investing is a pre-requisite to realise sustainable investment co-operation. Sustainable development has long been a prevalent topic, and has drawn increasing attention since the launch of the SDGs. Responsible investment is not only related to commercial areas but also to national

security. Chinese investment in Africa has been criticised as either lacking or being poor on ‘responsibility’ and ‘sustainability’. Some Chinese enterprises have introduced measures to enhance responsible and sustainable investment but these are still inadequate both in scope and level. Responsibility and sustainability issues can not only be reflected in green development co-operation projects or specific projects, but should be integrated into all projects. Sustainable development involves many aspects and it is necessary for investment entities to update relevant concepts when they implement responsible investment. Responsibility is multi-dimensional and it could be addressed from ESG aspects, which at the same time also contain numerous sub-dimensions. Multiple entities are involved in responsible investment; in addition to enterprises, for instance, institutional investors, banks, governments and non-governmental organisations all need to behave responsibly during investment processes. Special attention also needs to be paid on criteria used to evaluate the responsibility to ensure that they are of international standards but also fit local context, instead of directly copying from those used in China.

Concluding remarks

China-Africa investment co-operation is evolving into a new phase along with China entering a New Normal and Africa setting new development strategies. This study sought to re-examine drivers of Chinese investment in Africa where market-seeking and resource-seeking are still being observed as the main motives. The study further investigates influences of Chinese investment on African economic development from a regional integration, industrialisation and employment creation perspectives. Moreover, opportunities and challenges in advancing sustainable development co-operation between China and Africa within the New Normal and Agenda 2063 were explored. An ‘integration-interaction’ analysis framework was developed to provide a better understanding of China-Africa development co-operation. Suggestions are made based on, and beyond the established framework; indicating that the achievement of a sustainable investment co-operation by China is unlikely to be achieved without the support from African host countries, especially with regards to their institutional environment.

Endnotes

1. The Chinese dream is an embodiment of China's aspiration for national rejuvenation, fundamentally aimed at achieving prosperity for the country, renewal of the nation and happiness for the citizens (Glaser, 2014; Sun and Xiao, 2015).
2. According to the African Development Bank (2014: 2) African economies have seen significant and unprecedented growth in terms of human development, economic growth, infrastructure development, governance, regional integration, mainly 'driven by strong domestic demand, improved macroeconomic management, a growing middleclass, and increased political stability'.
3. For more details, please refer to the Ministry of Commerce (MOC), National Bureau of Statistics of the People's Republic of China (PRC) and SAFE (2014).
4. China's old normal growth refers to the high rapid growth, often referred to as double-digit growth that the country experienced over the past three decades (Green and Stern, 2015).
5. As indicated in the Action Plan (Section 3.2.4), China and 49 African countries agree to 'select several African countries to set up pilot and demonstration programs...support the development of infrastructure and public services facilities' and 'explore effective methods and offer a co-operation model for driving forward China-Africa industrial partnering and industrial capacity co-operation in a comprehensive and orderly fashion'.

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