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China’s “Going Global” Policy in Africa: An Exploratory Overview of an Evolving Policy Framework

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Abstract
The pace of economic engagement between China and Africa has increased exponentially in recent years, fueled mostly by burgeoning trade and investment ties. This impressive transformation of Sino-African relations has been complemented significantly by China’s “Going Global” policy, resulting in a huge number and diversity of Chinese multinational companies on the African continent. This proliferation of Chinese companies in Africa has generated new opportunities and prospects for all stakeholders, but has also engendered a host of challenges. This has no doubt had a significant impact on both the making and shaping of China’s foreign policy in Africa, and subsequently China Africa relations as a whole. This study relies on an extensive review of available qualitative and quantitative data to gain insights into the complex institutional and operational framework behind Chinese government support for the international ambitions of Chinese companies in Africa. What are the motives behind Beijing’s “Going Global” Policy? Which key institutions are involved, and what policy tools are employed to encourage the overseas investments of Chinese companies? What are the key drivers behind Chinese companies’ foray into the African market and what are the implications for China Africa relations, both in the short-term and long-term? These and other essential questions are addressed in this paper.

Keywords
China, Africa, going global policy, investment, FDI

1. Introduction
China’s relationship with Africa has evolved in several stages over many decades and has been driven by ideological, political, economic and security interests. From the early 1950s to mid-1970s, often
deemed the revolutionary period, China’s relationship with Africa was mostly driven by ideological and political concerns. From the 1980s, China’s relations with Africa was characterized by rigorous and open interaction with all African states. The “reform and opening up” policy embarked on by then President Deng Xiaoping propelled China’s economic growth and ushered the way towards China’s status as a global manufacturing hub, the world’s second largest economy, and a regional and global power (Shinn & Eisenman, 2012, pp. xi-xii). This transformation had a direct impact on China’s Africa policy, the most obvious being in the area of commerce. Africa has become a vital source of raw materials for Chinese factories and at the same time a destination market for Chinese products. In time it has also become an investment destination for numerous Chinese companies.

At the fore-front of this increasing economic engagement with Africa are numerous Chinese multinational companies, both state-owned and private. The scale and volume of their investment activities differs from country to country and varies by sector, but it is nonetheless a continually growing phenomenon across the African continent. Both China’s State-Owned Enterprises (SOEs) and private sector accounted for $14.7 billion Foreign Direct Investment as of 2012, a growth of more than 60 percent from 2009. Overall, China’s investment in Africa has exceeded $40 billion in Foreign Direct Investment (FDI), through various kinds of investments (Shinn, 2012). Today, these state-owned companies and private sector businesses have supplemented the Chinese government’s role in areas spanning trade, investment and large scale infrastructure construction. The majority of Chinese investments has traditionally been focused on energy, mining, construction and manufacturing, and State-owned companies like the China National Petroleum Corporation (CNPC), China National Offshore Oil Corporation (CNOOC) and China Power Investment Corporation (CPIC) have made huge inroads into Africa with investments running into the tens of billions of dollars (Shinn, 2012).

Over the years the Chinese government has continually enacted policies to further bolster the capacities and capabilities of both private and state-owned Chinese companies. This has no doubt played a crucial role in expanding the scope and scale of Chinese business activities in Africa. Government ministries and agencies as well as a string of financial institutions have been an instrumental part of this strategy. Notable among the political institutions are the Ministry of Commerce (MOFCOM), The National Development and Reform Commission (NDRC) and the State Administration of Foreign Exchange (SAFE). Key financial institutions include China Exim Bank, China Development Bank (CDB) and China-Africa Development Fund (CAD Fund).

Perhaps the best example of specific government policy initiative aimed at encouraging the overseas expansion of Chinese companies is the “Going Global” policy. The first formal reference to the policy occurred in the Chinese Communist Party Central Committee (CCPCC) Opinion on the Formulation of the 10th National Economic and Social Development Five Year Plan (the Opinion) adopted in December 2000. The plan was eventually included in the 10th Five Year Plan, and subsequently in the 2006 11th Five Year Plan.

The implementation of the Going Global strategy has provided great impetus and support to Chinese
businesses to look towards the global landscape. It also set the trend for policies in the succeeding 10 years and began a new chapter for overseas investment by China (Huang & Wilkes, 2011, p. 10). For example, in November 2004, the NDRC and the Export-Import Bank of China co-issued a decision to “provide credit support to the key overseas investment projects encouraged by the state”. These key projects fall into four categories: resource related, export driven, research and development, and merger and acquisition ventures. The Director of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), Li Rongrong mentioned that, backed by this national financial support, “in 2005, a dozen large-scale and competitive central enterprises went out and signed tens of energy and resource contracts”. Among these central enterprises are SOE oil giants CNPC, Sinopec and CNOOC, which are actively acquiring overseas resource assets as part of China’s energy security policy (Center for Strategic and International Studies, 2008, pp. 3-4).

The Chinese government has therefore placed a lot of emphasis on providing support for the overseas expansion of Chinese companies. This can be seen largely as a way to advance its foreign policy and security agenda. It is also an all-encompassing policy as it pertains to both state-owned and private companies, and has over the years propelled countless Chinese multinational companies to look towards Africa as an investment destination.

The extensive proliferation of Chinese multinational companies in Africa is therefore a consequence of China’s going global outward investment strategy. Although China’s Going-Global policy has played a huge role in China’s commercial motives and therefore has had a growing impact on China’s foreign policy, there has been a lack of critical analyses into the inner workings, policy apparatus and institutional framework of China’s “Going-global” policy and its role within the wider context of China Africa relations. An overwhelming majority of the literature has focused mostly on China’s overarching policy goals in Africa and its overall impact. As can be expected, the scholarship in this regard is polarized between two factions: the optimists, who have highlighted the opportunities accruing to China’s increasing presence, and the skeptics, who emphasize on what they call the “exploitative” nature of Chinese engagement on the continent. Consequently, much of the literature has tended to provide an over-simplification of the impact of China’s increasing presence. As Daniel Large notes, “The effect is often emotively to describe China’s rise in Africa in terms of a monolithic Chinese dragon in an un-variegated African bush stripped of historical and political content” (Large, 2008, p. 46).

In the same vein, Li Anshan, a prominent China-Africa scholar, has noted the popular perception in the West that the recent rapid developments of the Sino-African relationship have arisen after a long, dormant period, and that its recent re-emergence reflects a set of ambitious and unsettling goals on the continent that include a quest for energy, trade and geopolitical interests. In his opinion, such viewpoints fail to convey the most important elements in Sino-African relations, saying “that the development of the relationship over the past 50 years has been based on ‘equal treatment, respect for sovereignty and common development’ and that ‘Sino-African relations’ are not new—dating back to
ancient times and progressing gradually based on common historical experiences”. He does admit though, that China’s foreign policy and more specifically its African policy has been informed by its development strategy, and has over the years undergone a triple transformation: a change from ideological emphasis to ideological neutrality, from unitary form to multiple channels in bilateral exchange and from single aid to win-win strategy in the field of cooperation (Li, 2007, p. 70).

By far, the most frequently cited driver of Chinese engagement in Africa is energy security, a point which is emphasized by Chris Alden and Cristina Alves: “It is neither a secret nor a revelation that China’s energy concerns have been playing an increasingly crucial role in its foreign policymaking in the new century” (Alden & Alves, 2009, p. 4). Ian Taylor points out in support of this view: “indeed, the abundance of natural resources in Africa has led Beijing to seek long-term deals with African governments that ensure continued access to all its raw materials and sources of energy” (Taylor, 2009, p. 19).

Chris Alden et al. describe the key factors propelling Chinese engagement in Africa as a combination of domestic Chinese dynamics, a desire to expand into new markets and international political factors, but that “the overarching driver has been the Chinese government’s strategic pursuit of resources and attempts to ensure raw material supplies for growing energy needs within China, in part reflecting the country’s position as a centre of global manufacturing” (Alden et al., 2008, pp. 6-7).

China’s search for resource security has in essence become a major focus of its foreign policy, and “in this regard, Africa has assumed a critical role in achieving this objective” (Alden & Alves, 2009, p. 5). Some authors have even gone as far as to suggest that the quest of energy and resource security has become the sole objective of the Chinese government’s foreign policy in Africa. Chietigj Bajpaee for instance, believes that “China’s political, economic and military relations with Africa have been subordinated to its quest to secure energy resources” (Bajpaee, 2005). Jean Kachiga counters this assertion, arguing that such an interpretation of China’s approach in Africa is limited to a myopic view that only takes the current developments into account, and fails to consider both the long history of China-Africa relations and the complexity of China’s involvements in the continent (Kachiga, 2013, p. 49). Nonetheless, the success of China’s resource diplomacy in Africa has been acknowledged by all, and can be seen in its increasing presence across the length and breadth of the continent, especially in resource rich countries. Compared to the 1990s, China today is a force to reckon with in Africa with oil leases and mining concessions, but is increasingly making bold forays into other diverse sectors like agriculture, construction, financial services and manufacturing.

Consequently, through the Going-global policy, China’s commercial interests have become increasingly intertwined within the broader political and economic confines of many African states. Consequently, this paper will seek to answer the following questions: What are the motives behind Beijing’s “Going Global” Policy? Which key institutions are involved, and what policy tools do they employ to encourage the overseas investments of Chinese companies? How much leverage does the Chinese government have over the activities of its companies in Africa and what are the implications
for China Africa relations, both in the short-term and long-term? These and other essential questions will be addressed in this paper.

2. Methods and Sources
The entirety of this paper is based on secondary sources of information. In particular, Chinese government sources including policy papers and documents from bodies and agencies such as the Ministry of Commerce (MOFCOM), National Development and Reform Commission (NDRC), Ministry of Foreign Affairs (MOFA), and State Administration of Foreign Exchange (SAFE) are utilized. Additional sources include official pronouncements from speeches as well as proceedings from high-level meetings and conferences. The paper also made use of published materials from books, journals, reports and seminars. In addition, a critical review of findings from various case studies from different sources was conducted in order to gain a deeper understanding into the policy and institutional framework that drives China’s “Going Global” policy in Africa.

3. Results
3.1 The Great Leap Outward: China’s “Going Global Policy” in Perspective
China’s investment policies have frequently changed over time, with initiation of new policy and changes in strategic directions. In the immediate aftermath of the formation of the People’s Republic of China in 1949, restrictive investment policies as a consequence of the state planning system, coupled with a lack of investment resources resulted in very limited outward investment activity. However, China’s opening up and reform initiated by Deng Xiaoping led to many changes in Chinese government policy, which has over the years shaped and directed the degree of internationalization of Chinese MNCs. Today, outward investment is a key focus of the Chinese government, especially since the announcement of the going global policy in 2000 (Buckley et al., 2007, p. 47).

This strategy was launched as part of the 10th Five-Year plan in 2001, the same year that China acceded to the World Trade Organization (WTO). The president of China at the time, Jiang Zemin detailed the objectives of the plan as increasing outward direct investment, undertaking construction and engineering projects abroad, and exporting labor services. Some of the most obvious measures in that direction included the relaxation of investment restrictions abroad and the increase in financial support for corporate champions.

The first formal reference to the strategy however, was said to have occurred in the Chinese Communist Party Central Committee (CCPCC) Opinion on the Formulation of the 10th National Economic and Social Development Five Year Plan (the Opinion) adopted in December 2000. As the first formal reference to the going out strategy, the Opinion, in its 12th Article stated the following as one of the goals of the Five Year Plan:

"Implement the 'go-global' strategy, and strive to achieve new breakthroughs using domestic and foreign resources and markets. Encourage outward investment that can
bring into play China’s comparative advantage, widen the areas, channels and methods of economic and technical cooperation, support the transnational operations of competitive enterprises to go abroad to develop processing trade and develop resources, and provide help in the areas of loans, insurance, etc. Grasp firmly the formulation and regulation of the system of supervision for domestic enterprises going abroad to invest, strengthen the administration of Chinese companies abroad and the coordination of investment services” (Freeman, 2008, pp. 4-5).

The plan was eventually included in the 10th Five Year Plan, and subsequently in the 2006 11th Five Year Plan. The Outline of the 11th Five Year Plan for national economic and social development highlighted the following seven needs:

i. To encourage overseas investments to enhance China’s competitiveness and expand the scope and modalities of China’s international economic and technical cooperation;

ii. To continue to develop overseas project contracting and labor service cooperation, and encourage competitive companies to explore processing and trading overseas, thereby promoting export of products, services and technology;

iii. To support companies in exploring resources overseas that were in short supply domestically and promote adjustment of the sectoral structure of resources trade;

iv. To encourage the use of foreign intellectual property resources to establish research and development and design operation centres overseas;

v. To support capable companies in developing transnational operations to achieve internationalized operations to achieve internationalized development;

vi. To improve the overseas investment service system and create a good investment environment for companies through improvements in systems governing finance, insurance, foreign exchange, taxation, intellectual property rights, laws and regulations, information services and entry and exit management; and

vii. To improve corporate governance structures and internal regulatory mechanisms to regulate and supervise overseas investments (Huang & Wilkes, 2011, p. 9).

Section 1 of Chapter 37 of the Five Year Plan spells out China’s going out strategy as follows:

“Support qualified enterprises to engage in outward direct investment and global operations. Give priority to competitive industries, provide guidance to enterprises to engage in overseas processing trade, promote the diversification of products’ places of origin. Cultivate and develop Chinese multinational corporations through international mergers and acquisitions, equity participation, public listing, restructuring and consolidation, etc. Enhance cooperative development of overseas resources based on the principles of complementary strengths, equality, and mutual benefits. Encourage enterprises to participate in infrastructure construction overseas, improve the level of project contracting overseas, and steadily develop labour cooperation. Improve the
outward investment promotion and security system, strengthen the coordination of overseas investments, risk management and the supervision of state-owned assets overseas” (National People’s Congress, 2006).

According to Huang Wenbin and Andreas Wilkes:

“this document marked the birth of China’s Going Out strategy and the comprehensive development of China’s overseas investments. It also set the trend for policies in the succeeding 10 years and began a new chapter for overseas investment by China. Supported by this new strategy, overseas investment grew significantly, attracting the attention it receives today” (Huang & Wilkes, 2011, p. 10).

The going out policy was subsequently featured in the annual economic development plans passed by the National People’s Congress. While the Five Year Plans do not spell out any specific policy details as regards the going out strategy, numerous official documents have been released with specific policy guidelines, regulations and incentives to encourage Chinese companies to go global. One of such documents is the Nine Principles on Encouraging and Standardizing Outward Investment, released by the State Council in October 2007. The document sets out initiatives to “encourage qualified enterprises to actively and steadily participate in international economic and technological cooperation … in order to seize economic globalization and regional cooperation opportunities”.

In 2006, the Chinese government, through the National Development and Reform Commission (NDRC), the Ministry of Commerce and other government agencies, released the Outward Investment Direction Policy (the Outward Investment Policy) in a bid to define the basic policy on outward investment. The Outward Investment Policy was created:

“in order to accelerate the implementation of the ‘Going Global’ strategy, to promote effective, orderly, coordinated and sound development of outward investment, and to provide guidance on the direction of outward investment” (NDRC et al., 2006).

The document reiterates the Chinese government’s commitment towards the internationalization efforts of Chinese companies in Article Two as follows:

“China encourages and supports enterprises of all categories with competitive advantages to make outward investment. In order to increase enterprises’ international competitiveness and cooperative participation, deepen exchange and cooperation with other countries, and promote development for all, China encourages the optimal utilization of both domestic and international markets and the optimal allocation of resources through outward investment” (NDRC et al., 2006).

The Outward Investment Policy identifies enterprises as the subjects of outward investment, and that in their outward investment initiatives, they should:

“conform to principles of market economy and common international rules, uphold the principles of complementary strengths and mutual benefits, comply with local laws and regulations, establish a good international reputation, and take adequate precautions
Among other things, the document stipulates the sectors in which outward investment is encouraged, allowed or prohibited, provides policy support for the encouraged sectors and spells out the basic goals of the government in encouraging outward investment. The sectors that are encouraged are:

i. Those that can acquire resources or raw materials for which there is domestic shortage and which is required urgently for the development of the national economy.

ii. Those that can promote the exports of domestic products, equipment or technology in which China enjoys a comparative advantage, as well as the export of labor services.

iii. Those which can significantly improve China’s technological, research and development capability, as well as make use of internationally advanced technology, advanced management experience and professionals (NDRC et al., 2006).

The Outward Investment Policy includes a Catalogue of Encouraged Outward Investment which details the encouraged sectors. These cover a wide range of industries including agriculture, mining and quarrying, manufacturing, services and others.

The activities that are encouraged in the agricultural sector include planting of natural rubber, planting of oil-seeds, cotton, and vegetables, harvesting, transportation and cultivation of timber, animal husbandry, especially breeding of quality varieties of breeder animals, breeder birds and aquatic offspring, and ocean fishery, including ocean fishing and ocean mariculture. The activities encouraged in the mining and quarrying industry include prospecting and exploitation of petroleum, natural gas, iron, manganese, chromium, copper, bauxite ores, lead, zinc, nickel, cobalt, titanium, vanadium, niobium, tin, gold, silver, uranium ore, salt, phosphate sulfur, boron ore, coal, oil sand, oil shale heavy oil, diamond, graphite, etc. The activities encouraged in the manufacturing industry include textiles, clothing, footwear and other leather goods, furniture, agricultural machines, paper, industrial chemicals, fertilizers, pharmaceuticals, smelting, satellites, industrial machinery, cement, vehicles, electronics and many others. The activities encouraged in the service sector include global marketing network, ocean freight transport, construction and operation of communications network, software development and application service, research of new and high technologies and new and high tech products, trans-border highway and railroad transportation, and construction and operation of trans-border highways, railroads and bridges, journalism, radio programs, films, television programs, and the spread of culture and art that increases publicity of the Chinese culture (NDRC et al., 2006).

The investments that are prohibited are those that:

i. Endanger national security and hurts public interests;

ii. Utilize techniques or technologies that are prohibited by China from exportation;

iii. Are in areas of operation prohibited by Chinese law;

iv. Prohibited from receiving investment by the law of the hosting country, other industries prohibited by the international treaties that China has concluded or taken part in;

v. Prohibited by law, administrative law, or regulation (NDRC et al., 2006).
Aside from the sectors that are encouraged or prohibited, all other sectors are “permitted”. Investments that fall into the encouraged sectors receive policy support, while those in the permitted sectors do not receive any support, though they may be undertaken. Article 8 of the Outward Investment Policy details policy initiatives aimed at providing support and incentivizing companies to pursue the aforementioned encouraged investment projects. For these investments, “the state shall provide policy support in macroeconomic control, multilateral and bilateral economic and trade policy, diplomacy, finance, taxation and foreign exchange, customs, resources and information, credit and loan, insurance, and bilateral and multilateral cooperation and foreign affairs, etc.” (NDRC et al., 2006).

One of the foremost means of providing policy support is the Special Funds for Foreign Economic and Technical Cooperation. These funds are overseen by the Ministry of Finance and MOFCOM at the central and local level and are used to support outward investment and other activities such as agricultural, forestry and fisheries cooperation, civil engineering contracting, labor services, the establishment of high and new technology development platforms and design consulting. In line with these funds, outward investment is defined as investment by Chinese enterprises outside China to establish an enterprise, or obtain ownership or management rights over an enterprise, or rights to products of an enterprise by means of a newly established business entity, acquisition, merger or share participation (Freeman, 2008, pp. 6-7).

Practically, there are two main types of financial support for outward investment. They include direct support for costs and interest subsidies. Support for costs are given either for pre-investment expenses or operating costs, depending on the nature of the investment. Some investment projects do not qualify for all types of support. Generally, they may only receive support for pre-investment expenses and interest payments, but not operating costs. Subsidies for pre-investment expenses on the other hand are given to enterprises involved in outward investment, cooperative projects in agriculture, forestry or fisheries, contracting, labor services, high or new technology research and development platforms and design consultancy. The pre-investment expenses that qualify for subsidies include the costs for obtaining third party legal, technical or business consulting services, surveys or investigations, project feasibility studies and the purchase and translation of regulatory documents and specifications. The subsidies given for pre-investment costs may not exceed 50% of the actual expenses on the required services (Freeman, 2008, p. 7).

Support for operating costs is principally not available for outward investment projects, but to enterprises engaged in labor services, development of foreign high and new technology research and development platforms and design consultancy. In the case of research and development platforms, the support is available for the leasing or purchase of offices, laboratories and equipment, and also the acquisition of data concerning high and new technology, again with a limit of 50% of actual costs. High and new technology research and development platforms are defined as entities for research and development or experimental development created by Chinese enterprises outside China through new establishment, acquisition or merger abroad to engage in basic research, product application research...
and high technology research (Freeman, 2008, p. 7).

Interest rate subsidies are applied to interest on loans for enterprises that engage in outward investment or cooperative projects abroad in agriculture, forestry and fisheries. To qualify for interest rate subsidies, the loans must be medium or long term loans with a period not less than one year from a domestic Chinese bank. The total amount of the loan in question should not be more than the investment by the Chinese party or the contract amount and the subsidy may not exceed five years. In principle, the interest rate subsidy for RMB loans may not exceed the People’s Bank of China base rate in effect and for foreign currency loans it cannot exceed 3% (Freeman, 2008, p. 7).

The government periodically makes changes to its policy support for outward investments. For example, in 2006 there was an increase in the number of forms of support with the introduction of new directives. One of these was a 20% subsidy for the transport of raw materials to China for enterprises engaged in the exploitation of raw materials. To qualify for this subsidy, the raw materials in question must be transported by a Chinese enterprise with an equity interest, and must fall within the following resources: oil, natural gas, iron, copper, aluminium and other metals, and also forestry and fisheries resources. A subsidy was also introduced for the cost of personal accident insurance for Chinese personnel working outside China and subsidies were also permitted for the cost of personnel required to be sent outside China to handle events of force majeure such as terrorism, war and natural disasters. Again in 2006, the maximum amount of subsidies a single enterprise could receive in any one year was limited to RMB20 million. Investment projects that can receive support are also limited by the value of the total investment. So for foreign investment projects, the Chinese party’s investment must not be less than US$1 million or its equivalent, while for foreign high or new technology development platforms, the contract amount must be not less than US$500,000 (Freeman, 2008, pp. 7-8).

The Outward Investment Policy has also targeted specific sectors in other ways. One of the earliest to be encouraged was investment in processing trade. A number of measures on this sector were adopted. However, the Chinese government does not generally provide specific sector and country specific incentives for outward investment rather than the supports available for encouraged investment sectors. What it does though, is provide guidance on targeted countries and sectors in them. These are based on what the Chinese government views as preferred sectors for investment in various destination countries. For example, in the past the government has tried to guide Chinese companies to invest in the assembly of consumer electronics and the Middle East and Europe and textile processing in Africa, Latin America and Europe. Subsequently, the government has released more comprehensive catalogues of countries and target sectors in which Chinese companies are encouraged to invest. These catalogues are however, only for guidance. In addition, market analyses, guides to the legal environment and investment barrier reports for many countries are made available by the government to support Chinese companies in their investment decisions (Freeman, 2008, p. 8).

The Outward Investment Policy document further details government policy regarding prohibited outward investment projects in Article 9, stating that the state will not grant approval for such projects,
and will take the necessary measures to prevent and stop such projects (NDRC et al., 2006).

The impact of the going out policy was felt soon after its implementation. Notably, China’s ODI stock reached approximately US$36 billion and ranked sixth among 118 emerging economies by the end of 2002. In 2004, the government began a gradual liberalization of the ODI regulatory regime with the “reform of the investment system”. This reform was aimed at decentralization of investment verification and approval at the provincial level, relaxation of foreign exchange controls, and stimulus packages to ease the transition of Chinese companies onto the world stage (Bowman et al., 2013, p. 8).

The going global strategy was effective in its ability to motivate Chinese companies to actively seek and acquire foreign assets and equity interests in contrast to merely trading in global commodities and raw materials. This has guaranteed China a market presence in virtually every country in the world, further raising China’s geopolitical profile as a key investor across different markets and industries all over the world.

The effects of the going out policy can also be seen from the rapid growth in China’s exports and international market pervasion. In 1968 China’s share of the world market was negligible; in 1998 it had less than 2% of the world market share, and by 2010 China ranked first in international exports, with a world market share of 10.4% (Bowman et al., 2013, p. 9). Chinese companies foray into international markets continues to this day, evidenced by the increasingly global presence of numerous Chinese companies. In 1995, there were only 3 Chinese companies in the Fortune 500 list but by 2011 there were 61. Government controls over Chinese companies’ investment and management decisions have been relaxed significantly while overall government supervision is less effective stemming from the break up of links between ministries in charge of specific industries and enterprises, and the corporatization and partial public listing of big SOEs. By 2005, there were more than 7000 Chinese enterprises investing in 160 countries around the world, with a total outward foreign investment stock and flow estimated at US$50 billion and US$5 billion respectively. Outgoing FDI in turn, grew from US$2.7 billion in 2002 to US$57.9 billion in 2010 (Power et al., 2012, p. 104).

In line with this trend, Africa has witnessed a surge in Chinese investment across all sectors of the economy. Chinese FDI has grown from $1 billion in 2004 to $35 billion in 2015, according to official figures. This represents an impressive, average annual growth rate of 40 percent (Sun et al., 2017, p. 20). At the current growth rates, it is estimated that China will become Africa’s largest source of FDI stock within the next decade. Viewed from a country-level perspective, Chinese investment in Africa has recorded growth rates of more than 52 percent a year in Ethiopia, 59 percent a year in South Africa, and 89 percent a year in Angola from 2004 to 2014 (Sun et al., 2017, p. 22).

Especially notable are investments in infrastructure. Numerous examples abound of mega projects financed and undertaken by Chinese companies in Africa. In 2015, Chinese companies committed $21 billion into African infrastructure projects. This figure surpassed the combined total investment of the Infrastructure Consortium for Africa, whose members include the African Development Bank, the European Commission, the European Investment Bank, the International Finance Corporation, the
World Bank, and the Group of Eight (G8) countries. Examples of key projects financed by Chinese institutions include the $3.8 billion Mombasa-Nairobi Standard Gauge Railway in Kenya, as well as the $1.7 billion Karuma Hydroelectric Power Station in Uganda. Overall, Chinese contractors make up almost half of Africa’s international Engineering, Procurement, and Construction (EPC) market. In addition, six of the ten largest international EPC contractors currently operating in Africa are all Chinese, including China Communications Construction, China State Construction Engineering Corporation, Citic Construction Company, China Railway Group, China Railway Construction Corporation and Sinohydro Group (Sun et al., 2017, pp. 23-24).

While the exact number of Chinese companies in Africa is still a hotly debated issue, a research project undertaken under the auspices of McKinsey & Co. shows that there are many more Chinese companies operating in Africa than has previously been estimated. In all eight African countries that were surveyed, it was discovered that the number of Chinese firms was between double and nine times the number captured by China’s Ministry of Commerce (MOFCOM) database, which was the largest database of Chinese firms in Africa. The same comparison with records of African countries’ investment authorities yielded similar multiples. Broad-brushed across the entire continent, the research suggests that there are more than 10,000 Chinese firms operating in Africa today (Sun et al., 2017, p. 27).

3.2 Key Institutions Involved in China’s Going Global Policy

Chinese SOEs receive extensive support from the government of China which usually comes in the form of financing but also includes information and advisory services and establishing of contacts with African governments. Other companies that are owned by provincial governments as well as private companies also receive government help.

Chris Alden and Martyn Davies report that:

“A typical Chinese MNC has a business model heavily reliant upon political support, receives financial backing from the state and is involved in mining and energy industries. This characterization applies primarily to Chinese state-owned enterprises whose rapid entry into the global economy can be attributed to the financial support provided by the Chinese government. In pursuit of its broader global ambitions, Beijing is intent on ‘picking corporate champions’ which, with the benefit of active and generous support from the state, are being groomed to join the ranks of the Fortune 500. Roughly 180 companies have been designated the state to benefit from preferential finance, tax concessions and political backing to ‘go global’ and become true multinationals. Chinese companies have the advantage of building their businesses on the back of a booming home market and leveraging the economy of scale advantage that this provides’” (Alden & Davies, 2006, p. 3).

Several government agencies such as the Ministry of Finance, Ministry of Commerce, National Development and Reform Commission (NRDC) and the State Administration of Foreign Exchange
SAFE have all introduced policies to encourage and support Chinese companies in their internationalization efforts. Financial institutions like the China Development Bank, the China Exim Bank, Sinohuare and Bank of China offer foreign exchange, loans and insurance services to Chinese companies.

China’s State Assets Supervision and Administration Control (SASAC) has compiled a list of 166 Chinese multinational companies, state-owned or otherwise, which have been deemed “flagship enterprises”. These companies can expect to receive preferential treatment from the Chinese government and include companies such as China Overseas Engineering Corporation (COVEC), China Roads and Bridges Corporation (CRBC) and China Railway Construction (CRC), which are all active on the African continent. Usually, bids that are seen as too costly by other western companies are pursued by these Chinese multinationals, especially when such projects are considered strategically important. They can afford to take on these projects as they receive additional public sector backing (Corkin & Burke, 2006, p. 11).

The proliferation of Chinese enterprises in Africa is therefore not a product of circumstance but instead, the result of a well-executed and coordinated strategy by the Chinese government, combining political will and goals with a wide range of mechanisms and resources comprising of political and financial institutions. This system is designed to enhance the mutual support of all actors involved and to coordinate their actions and intents and it is within this institutional infrastructure that Chinese firms are encouraged to go abroad.

A sizeable amount of central government administrative departments are tasked with the responsibility of policy making regarding China’s outward investment activities. Through a compilation of policies on overseas investment and an analysis of the agencies responsible for issuing these policies, Huang Wenbin and Andreas Wilkes indicate that there are 26 central government agencies involved in the policy making process. They classified these central government agencies into four general levels as depicted in Figure 1. At the very top of the pyramid is the State Council, which is responsible for the overall management of China’s government and significant decisions affecting the economy and society. The second level includes the core ministerial-level agencies who are mainly involved with overseas investment management. Examples include the Ministry of Commerce (MOFCOM) and the State Administration for Foreign Exchange (SAFE). The National Development and Reform Commission (NDRC) which has been historically responsible for approving overseas investments and has even been informally referred to as the “small state council” was also considered part of this second level. The third level comprises those functional departments responsible for various fields such as finance and taxation. They are mainly tasked with assisting the core ministries to ensure that the policies are coordinated with other existing policies, and to assist in issuing and implementing the policies. The fourth and final level includes mostly line ministries responsible for specific sectors such as mining, agriculture and forestry. While each of these ministries is directly in charge of policies within its own sector, they are less influential in determining overseas investment policy affecting its
sector. In addition, there exist several departments under each of these ministries who also play important roles such as execution of policies (Huang & Wilkes, 2011, p. 2).

![Figure 1. China’s OFDI Management System](source: Huang & Wilkes (2011).

**Note.** SFA refers to State Forestry Administration, MOA refers to Ministry of Agriculture and SAOT refers to State Administration of Taxation.

From an analysis of 30 years of relevant policies, the authors conclude that:

“**MOFCOM and SAFE are the most important agencies, having issued more than 50% of these policies. If the NDRC is included as a core ministerial agency, then this second level of authority accounts for 56.1% of the total number of OFDI-related policies issued. Although the State Council issued only 5.9% of policies, its influence is tremendous. Departments in the third level—the Ministry of Finance (MOF), China Securities Regulatory Commission (CSRC) and the People’s Bank of China (PBC)—are also important, accounting for nearly 20% of the policies issued**” (Huang & Wilkes, 2011, p. 2).
Figure 2. Proportion of Overseas Investment Policy Changes by Various Policymaking Agencies


The main political and financial actors involved in encouraging and supporting the overseas investments of Chinese companies are as follows:

3.2.1 The State Council

The State Council is China’s cabinet. Headed by the Premier, it is responsible for directing policy-making at the national level. The State Council not only establishes the overall blueprint for OFDI but manages its implementation as well. It makes decisions regarding what priorities should be pursued and coordinates national economic development, manages foreign affairs, and concludes treaties. The State Council is also responsible for drafting laws and regulations (which then have to be approved by the National People’s Congress and the Standing Committee) and supervising China’s national ministries and other entities such as the State-Owned Assets Supervision and Administration Commission (SASAC) and the People’s Bank of China (PBOC). The State Council is also directly involved in the approval of overseas projects requiring very large amounts of foreign exchange or major investments in natural resources (International Institute for Sustainable Development, 2012). The
state council only makes major and strategic economic and policy decisions while specific policy measures are undertaken by subordinate organs such as SAFE or MOFCOM (Huang & Wilkes, 2011, p. 2).

Under the direct supervision of the State Council are several institutions like the China Banking Regulatory Commission (CBRC) which has been responsible for approving OFDI projects by Chinese banks since 1992. There’s also the China Insurance Regulatory Commission which is also the examining, approving and supervising the establishment of overseas insurance organizations by Chinese insurance companies (International Institute for Sustainable Development, 2012).

3.2.2 The Ministry of Commerce (MOFCOM)

MOFCOM is probably the foremost institution involved in the internationalization of Chinese MNCs. It is a major entity at the central level in terms of its influence and control over foreign investment and aid (International Institute for Sustainable Development, 2012). It’s main responsibilities with regard to Chinese overseas investments are:

i. Supervision of Chinese outward investment by drafting and implementing policies and regulations, and by considering applications for approval of non-financial OFDI projects;

ii. Bilateral and multilateral negotiations on investment and trade treaties and representing China at the World Trade Organization and other international economic organizations;

iii. Ensuring the alignment of China’s economic and trade laws with international treaties and agreements; and

iv. Coordinating China’s foreign aid policy and other related funding and loan schemes (Huang & Wilkes, 2011, p. 3).

Working under MOFCOM are several departments tasked with specific responsibilities as it pertains to Chinese MNCs. The first of these is the Department of West-Asia and African Affairs (DWAAA). The role of the DWAAA is to advise policymakers, encourage investment and disseminate information on political, social, legal and economic environment in African countries. Secondly, the Department of Foreign Economic Cooperation (DFEC) regulates all Chinese companies operating abroad. All Chinese companies actively investing on the African continent need to register with the DFEC as long as their investment surpasses $10,000. Additionally, the DFEC reserves the right to revoke the operating licenses of any Chinese company that fails to comply with MOC directives and regulations or Chinese Laws in general. The third department is the Department of Foreign Aid (DFA). The DFA is responsible for approving every aid project and bid by any Chinese corporation. In addition, the DFA facilitates the biding process, becomes the guarantor and overseer of the project once it kicks off, and is also responsible for implementing China’s foreign aid. The last department is the Economic and Commercial Counselor (ECC). The ECC is largely seen as the extended arm of the MOC overseas. The ECC is attached to Chinese Embassies in foreign countries where it plays a watchdog role by ensuring that Chinese companies comply with Chinese regulations, laws, policies and directives (Kachiga, 2013, pp. 79-80). All investments requiring the incorporation of a business entity outside of China must gain
the approval of MOFCOM.

3.2.3 The Ministry of Finance (MOF)
The MOF was established in 1949, and its main responsibilities include:

i. Drafting development strategies, plans and policies for China’s fiscal and taxation sectors, and cooperating in the development of macro-economic policies based on forecast economic trends;

ii. Drafting laws and regulations regarding fiscal, taxation and accounting management;

iii. Managing the central government’s revenue and expenditures, including preparing the annual budget, supervising its use and reporting to the central government.

The MOF is also in charge of negotiations and agreements regarding China’s overseas fiscal activities, such as debt (Huang & Wilkes, 2011, p. 4). Its role in implementing China’s Africa policy is minor and limited to managing the budget for foreign aid expenditures in collaboration with MOFCOM and MFA (Hanauer & Morris, 2014, p. 25).

3.2.4 State Administration of Foreign Exchange (SAFE)
SAFE was established in 1979 under the Bank of China, and is mainly responsible for administering the use and flow of foreign exchange. Previously, this responsibility was distributed across several ministries but with the establishment of SAFE, all of China’s foreign exchange controls are under its supervision. Authority over SAFE was moved from the Bank of China to the newly created central bank, the People’s Bank of China (PBC), but it still remained largely independent until a government restructure in 1998. This restructure strengthened SAFE’s OFDI mandate in four ways:

i. Assuming responsibility for reporting balance of payments data to the State Council and the International Monetary Fund;

ii. Making foreign exchange policy recommendations to the People’s Bank of China;

iii. Overseeing the transfer of foreign exchange out of and into China under the capital account of the balance of payments; and

iv. Managing China’s foreign exchange reserves (Huang & Wilkes, 2011, p. 3).

3.2.5 National Development and Reform Commission (NDRC)
The NDRC, sometimes referred to by its previous name, the State Development and Reform Commission, is the main government body that designs, regulates and coordinates national economic development and industrial policy. Its functions include regulating government investments in domestic industries and developing “strategies, goals and policies to balance and optimize China’s overseas investments” (Huang & Wilkes, 2011, pp. 3-4). The NDRC’s objective is to create an advantageous environment for Chinese enterprises doing business in Africa. They support the setting up of inter-government investment cooperation institutions between China and African countries and promote Chinese-African economic and technological cooperation. Its executive body is the Foreign Investment Department. The NDRC also engages in tariff exemptions for exports from least developed countries in Africa (Li et al., 2012, p. 27). It has worked in collaboration with MOFCOM to publish a
host country catalogue that lists the countries for which the Chinese government subsidises OFDI (Huang & Wilkes, 2011, p. 4). It has also worked in conjunction with the Ministry of Finance, Ministry of Commerce and General Administration of Customs to establish a tariff exemption group to decide a number of issues, which include the list of tariff exemption commodities, rules of origin and the implementation periods (Li et al., 2012, p. 27). The NDRC is also:

“involved in the approval process for Chinese OFDI and large scale Chinese OFDI projects in industrial sectors such as natural resources and other projects involving large sums of foreign exchange need prior investment approval from the NDRC” (Huang & Wilkes, 2011, p. 4).

Projects for resource development that require Chinese investment exceeding US$30 million as well as non-resource development projects that require investment amounts of more than $10 million must be approved by the NDRC, while resource development projects with investments of over US$200 million and non-resource projects requiring investments of over US$50 million must be reported by the NDRC to the State Council for Approval (Freeman, 2008, p. 8).

3.2.6 China Export Import Bank (Exim Bank)

The Export-Import Bank of China is one of the principal lending arms of the Chinese government. It was founded in 1994 and is fully owned by the state, with the central government guiding its operations. It is headquartered in Beijing, but has 25 domestic branches and four overseas institutions namely, the Paris Branch, Representative Office for Southern and Eastern Africa, Representative Office for Northern and Western Africa, and St. Petersburg Representative Office. The Exim Bank has established correspondent banking relationships with 1,408 banks in over 160 countries and regions worldwide. The bank’s main responsibilities are to facilitate the export and import of Chinese mechanical and electronic products, complete sets of equipment and new-and high-tech products, assist Chinese companies with comparative advantages in their offshore project contracting and outbound investment, and promote international economic cooperation and trade (Export-Import Bank of China, 2016, pp. 24-25).

3.2.7 China Development Bank

Like the Exim Bank, the China Development Bank (CDB) was established in 1994. Its main mission has been to build China’s infrastructure including its national highway and rail networks, gas pipelines, water projects, and power plants as well as key economic sectors like petroleum-chemical refining, and telecommunications. The bank is also tasked with disbursing loans for Chinese businesses in pursuance of the “going global” strategy (Wang, 2007, p. 15). As of 2009, the CDB was active in 78 countries, implementing and promoting the going out strategy through offerings such as currency swaps, credits and loans, fund management, equity investment, merger and acquisition financing, and leasing operations. It is involved in overseas investment activities in infrastructure, basic industries, agriculture, small and medium-sized enterprises and housing (International Institute for Sustainable Development, 2012).
3.2.8 China-Africa Development Fund (CADF or CAD Fund)
CAD Fund was established in 2007 to encourage Chinese enterprises to conduct trade and other economic activities in Africa. It is a subsidiary of CDB and also its principal source of funding. It is a market-oriented operating fund with 50-year duration. CAD Fund’s objective includes “to promote economic cooperation between China and Africa and advance Africa’s economic development”. It does this by investing directly in Chinese enterprises that have already set up operations in Africa and also providing funding for those that wish to do so. CAD Fund operates on market economy principles and is solely responsible for all its profits and losses. The Fund’s target group is Chinese enterprises who already operate in Africa or wish to invest in projects on the continent, as long as they comply with the laws, statutes and regulations of China and the recipient country which is being invested in. Financial support from the fund helps to support Chinese enterprises who experience capital shortage, but it also provides advisory services to Chinese enterprises who often lack experience in the African market. Based on market principles and the investment needs of specific African countries, CAD Fund seeks investment in sectors such as agriculture, machinery manufacturing, infrastructure, construction materials, trade zones and resources development. Management of CAD Fund are required to meet annually with representatives from various Chinese government ministries (Schickerling, 2012, p. 47).

<table>
<thead>
<tr>
<th>Country</th>
<th>Project</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>Power plant</td>
<td>Phase—I capacity 200,000 kilowatts</td>
</tr>
<tr>
<td>Egypt</td>
<td>Suez Trade and Economic Cooperation Zone</td>
<td>19 businesses already operating in the zone</td>
</tr>
<tr>
<td>South Africa</td>
<td>Cement Plant</td>
<td>In cooperation with a South African firm; annual capacity of 1 million tons of cement</td>
</tr>
<tr>
<td>South Africa</td>
<td>Heavy-duty Truck Assembly plant</td>
<td>Investment and operation in cooperation with a South African firm; annual capacity of 2000 commercial heavy-duty trucks</td>
</tr>
<tr>
<td>Tanzania</td>
<td>Sisal Plantation</td>
<td>Sisal plantations operation and sisal yarn plant construction</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>Cement Plant</td>
<td>Investment in construction; annual capacity of 500,000 tons of cement</td>
</tr>
</tbody>
</table>

Source: China-Africa Research Center (2011).

3.2.9 China Securities Regulatory Commission (CSRC)
The CSRC was set up in 1990 as a ministerial level agency to manage the country’s security and futures markets. With regards to outward investment, it is responsible for approving and supervising
Chinese companies’ overseas stock issues and debenture activities, stock market listings and related financial activities. However, the agency’s actual role in supervising overseas listings is limited to making suggestions and providing coordination while most of the supervisory work is undertaken by the responsible departments in the location of the listing (Huang & Wilkes, 2011, p. 4).

3.2.10 State Asset Supervision and Administration Commission (SASAC)

SASAC was established by the State Council and tasked with the responsibility of supervising the non-financial state-owned enterprises. As a direct representative of the Chinese government, owner and investor in state-owned enterprises, SASAC has wide-reaching responsibilities and powers. Before SASAC was established, its responsibilities were divided between the State Economic Trade Commission and several ministries and other government agencies that controlled and supervised their respective sectors. This situation sometimes resulted in state-owned enterprises competing amongst themselves, hence the creation of SASAC (Huang & Wilkes, 2011, p. 5).

As an investor, SASAC is mostly concerned with ensuring the competitiveness and profitability of state-owned enterprises under its supervision. SASAC is comprised of two levels: the national level which directly controls 120 national state-owned enterprises, and the subnational level which act at a provincial level. SASAC is directly involved in the major decision making of firms under their control. They do this by appointing senior managers to state-owned enterprises. A sizeable amount of senior managers are actually appointed directly by the Chinese Communist Party. Outward investment projects by state-owned enterprises under the supervision of SASAC usually require the approval of SASAC (Huang & Wilkes, 2011, p. 5). Examples of Chinese companies investing overseas under the direct control of SASAC include: China National Offshore Oil Corporation (CNOOC), China National Petroleum Corporation (CNPC), Sinochem Corporation, China State Construction Engineering Corporation, China Minmetals Corporation, China Cereals, Oils and Foods Company (COFCO) and TCL (through SASAC’s holdings in Huizhou Municipal Investment Holdings). All of the aforementioned companies are ranked among the top 100 developing country multinational enterprises. SASAC also controls smaller state-owned enterprises such as China Aviation Oil and Sinosteel (Huang & Wilkes, 2011, p. 5).

3.2.11 China Export and Credit Insurance Corporation (SINOSURE)

SINOSURE was established in 2001 and its main objective is to support Chinese exports and investment abroad by insuring against buyer and country risks. These risks include foreign exchange restrictions expropriation, nationalization and war. SINOSURE’s total volume of new business reached $29.4 billion in 2006, up from just $2.8 billion in 2002. Even though Africa represented only 3 percent of its short-term insurance in 2006, it still accounted for nearly 30 percent of SINOSURE’s medium and long-term business, second only to Asia (Wang, 2007, p. 16). While the leading four countries for short-term insurance were the United States, Hong Kong, Japan and Germany, the leading market for medium and long-term insurance were Sudan, Pakistan, Iran and the Philippines. In 2006, the total insured amount for medium and long-term export credit, both buyer and supplier credits, was US$2.6
billion, though it had declined by 6.5% compared with the previous year (Freeman, 2008, p. 10).

3.2.12 China Council for the Promotion of International Trade (CCPIT)

The CCPIT is dedicated to promoting cooperation between Chinese and African entrepreneurs. During ministerial conferences of FOCAC, the CCPIT convenes the China-Africa business sub-forum to stimulate pragmatic bilateral cooperation. Its executive body is the Department of International Liaison. Under the leadership of the CCPIT, the China-Africa joint chamber facilitated activities to improve mutual cooperation (Li et al., 2012, p. 27).

3.2.13 Chinese Embassies and Consulates

In a document drafted by MOFCOM in 2006 titled *Encouraging and Supporting “Go-Global” of Privately Owned Enterprises*, the role of Chinese embassies and consulates in host countries were spelled out as follows:

“Chinese embassies and consulates should assist private enterprises in acquiring information regarding the countries in which they are located, proactively build connections for enterprises to ‘go global’, and help enterprises to overcome difficulties. They should guide Chinese-funded enterprises in conducting business in compliance with the law. They should organize and establish chambers of commerce for Chinese-funded enterprises overseas as well as attract private enterprises to join the chambers of commerce. To facilitate problem solving, they should strengthen consultation and negotiation with governments in the countries in which they are located in regards to obstacles encountered by business personnel in exiting and entering certain countries, difficulty in acquiring visas, etc. Consular protection should be strengthened to safeguard the legal rights of Chinese-funded enterprises and their personnel overseas. Enterprises should also be given guidance in formulating safety protection measures to increase their capacity to safeguard their personnel and assets as well as handle unexpected incidents. Private enterprises should proactively communicate with and report information to Chinese embassies (consulates) and accept guidance from embassies (consulates)” (MOFCOM, 2006).

The institutional frameworks of all these ministries, departments and institutions is woven into the larger Chinese political hierarchy and is hinged on collaboration with other relevant ministries and departments such as the State-Owned Assets Supervision and Administration Commission. These ministries and departments all conjointly or individually report to the state council (Shinn & Eisenman, 2013, p. 80). The implementation of the Going Global strategy has in no small way fueled and propelled Chinese companies to look towards the global landscape. Moreover, it has provided great impetus for a diversity of policy initiatives that has opened a new chapter for the overseas investment of Chinese companies in Africa. But what are the underlying motives driving China’s going-global policy in Africa? The next section will attempt to address this question.
4. Discussion

Chinese government support for the internationalization efforts of Chinese companies is therefore a recurring theme which has no doubt played a crucial role in expanding the scope and scale of Chinese business activities in Africa. As demonstrated above, government ministries and agencies as well as a string of financial institutions have been an instrumental part of this strategy. Several key motives and drivers account for this comprehensive strategy. Among the more common ones are:

4.1 Resource Acquisition

Due to a massive domestic investment, rapid urbanization and production for domestic and foreign consumption, China has witnessed an unprecedented demand for resources such as oil, iron ore, copper and aluminum. China is presently consuming more than 25% of the world’s total annual production of minerals. It is forecasted that China’s dependence on imported oil and gas will rise from 51.2% and 5.8% in 2008 to 60% and 30% in 2015, and continue to grow to 70% and 50% in 2030. This huge demand cannot be sustained by domestic production alone, given China’s limited domestic deposits of most resources, and so the threat of severe resource shortage is a real issue for China’s policy makers. It is no surprise then that energy exploitation and development have consistently been at the forefront of China’s OFDI drive, accounting for 70% of the total value from 2005-2013 (Du, 2014, pp. 1130-1131).

Of particular importance to China is access to energy resources. According to a study by the International Energy Agency (IEA), China is well aware of its growing dependency on imported energy and is therefore taking the necessary steps to secure “a more prominent position in the existing global system of energy production and trade but, where it can, it tries to open new connections in the global markets” (International Energy Agency, 2000, p. 47). The study also adds that increasingly, China’s external energy policies come to form a subset of foreign economic and security policies in general. It cites the aggressive recent foreign investments of China’s state owned enterprises, notably CNPC and CNOOC as a direct consequence of a May 1997 policy paper in which former Premier Li Peng “blessed Chinese involvement in the exploration and development of international oil and gas resources” and also “tied such projects specifically to the objective of stable, long-term supplies of oil and gas”. The study concludes that China is increasingly aware of the fact that its diplomatic goals with respect to energy, primarily oil and gas, must “aim toward participation in the global energy system in a way that maximizes domestic energy security” (International Energy Agency, 2000, p. 10).

The Chinese government’s need to secure much needed resources to fuel China’s burgeoning economic growth is therefore a huge impetus for the Chinese government to aggressively pursue oil and numerous other natural resource commodities in Africa. China has already assumed the status of second-largest importer of oil in the world, and coupled with a declining domestic production of oil, as well as the increasing need to sustain economic growth, the Chinese government has had to take steps to explore long-term deals with African governments in order to ensure an uninterrupted access to much needed raw materials, especially energy resources like oil. In essence, China’s search for energy
security has become the chief, overarching driver of its foreign policy push in Africa, which has long assumed a major role in this objective, and much of this focus is evidenced by specific policy initiatives such as the Going Global policy.

4.2 New Markets
For many Chinese manufacturers and entrepreneurs, the types of goods they produce and sell has immense value in Africa. These include affordable electronics, household appliances, apparel, and other domestic goods. Since Africa’s economy is less developed than that of the West, such inexpensive products get a much better reception there. Besides, due to the low level of industrialization in Africa, there exist little to no competition in some industries. This is a big draw for Chinese companies who can immediately command a large share of the market.

In addition, due to the opening up and reform measures initiated by then President Deng Xiaoping, China has increasingly become a destination of choice for foreign firms wishing to lower production costs and expand their markets. This, coupled with increased domestic competition has meant that Chinese firms are finding it increasingly tough to do business in their home country. A KPMG report targeting foreign firms operating in China interviewed a number of senior executives over a range of sectors about the challenges and opportunities of operating in China. Such opinions as “growth slowing”, “costs rising” and “China being an increasingly expensive place to do business” were reported. This could be seen as the beginning of a shift in the world’s production chain with China moving up the value chain (Ahmed, 2013, p. 51).

A study by IBM Business Consulting Services notes:

“In aggregate, the majority of profits in China disproportionately flow to highly regulated, highly concentrated industries such as oil and gas, mining and telecommunications services that are primarily controlled by SOEs. In contrast, many manufacturing sectors are deregulating, hindered by overcapacity and facing intense profit pressures. As a result, Chinese manufacturers are naturally looking abroad for new markets with less competition and higher profit potential” (IBM Consulting Services, 2006, pp. 4-5).

4.3 Diversification
Another motivation for China’s going-global policy is the need for Chinese multinationals to diversify as a way of spreading risk. Expansion into the African market is a way of diversifying the markets for their products in the global economy. In this regard, the Chinese government also encourages companies to enter into new markets and to use foreign market access as a way of getting around trade barriers by foreign countries. For example, after the passage of the African Growth and Opportunity Act, Chinese companies began setting up textile factories in Africa in order to gain entry into the U.S market.
4.4 Strategic Assets
It has become necessary for Chinese companies, especially State-Owned Enterprises to obtain strategic assets as they become part of the global economy. This is especially crucial for companies in the energy sector, who with government assistance are able to purchase a myriad of operations in strategic locations without having to worry about cost efficiency. This has been the case in Africa where Chinese companies have been obtaining strategic assets from failing investments within the energy sector.

5. Conclusion
There is certainly no doubt that with its going global policy, China is pursuing its own self-interests. However, tangible potential benefits exist for all stakeholders. African states will gain much needed foreign investment to bolster economic growth, diversify their economies and climb up the global value chain. The Chinese government stands to benefit from continued, uninterrupted access to natural resources, while improving its relations with African states through the strengthening of its diplomatic standing, which will go a long way towards actualizing the political partnership it needs to counter Western influence and enhance its standing within the international stage. Chinese companies will gain much needed international experience and move closer towards their internationalization aspirations. Additionally, African markets present huge opportunities for expanding revenues and profits, reducing risk through diversification as well as reducing costs by taking advantage of cheap labor and raw materials.

Overall, China’s investments on the continent have contributed to African development while helping China to diversify its external assets, most of which are tied up in foreign treasury bonds with relatively low yields. It has also increasing led to a change in public policy, from a more myopic focus on trade and investment in a few sectors to a more diverse and broad-ranging engagement. Chinese investments in Africa have not only spurred the growth of Chinese firms but has also enhanced Africa’s economic development through the upgrade of industrial technology, provision of jobs, increase in foreign exchange earnings, development of infrastructure, knowledge transfer, and economic diversification.

Thus, China Africa relations under its current form as well as its future outlook appears to be ripe with opportunity, not only for China and its armada of multinationals, but for African states as well. What remains to be seen is if African governments across the continent can ensure that their own key interests are captured within this engagement. This is the challenge faced by African countries, but within which exists the opportunity to enhance the pace of economic development and improve the quality of life of its people. However, several issues need to be tackled in order for both parties to realize the full potential in this engagement. Many African governments now possess adequate leverage to not only negotiate with China on equal terms, but also spell out the terms of any agreements. China has time and again reiterated its commitment to a mutually beneficial and win-win partnership. The onus lies on African states to engage China in a way that will compliment their domestic growth and
development strategies. A starting point will be encouraging Chinese companies to establish joint ventures with local firms, use local materials and labor, reinvest profits in the local economy and share technical know-how. This way, engagement with China will not only serve to benefit the Chinese side, but will also work towards cultivating and harnessing the development of the local economy, with the aim to improve the quality of life of Africans.

References


