Chinese Outward Direct Investment in Africa: From the Perspective of Geopolitics and Cross-cultural Leadership

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Abstract
There has been an increase in economic cooperation between China and Africa. The current study investigated the current status of Chinese Outward Direct Investment (ODI) in Africa and the factors that motivate Chinese companies to invest in Africa. Facing the challenges of investing in Africa, the current study suggested that China needed to enhance its soft power by intensifying academic and social exchange between Africa and China. Additionally, leaders working with Chinese companies investing in Africa can exercise cross-cultural leadership to create a harmonious and friendly relationship with their employees.

Keywords: Outward Direct Investment, Geopolitics, Cross-Cultural Leadership

1. Introduction
Over the past two decades, China has accelerated its Outward Direct Investment (ODI) in Africa. By 2020, the Chinese ODI in Africa has surpassed USD$43.4 billion, covering construction, manufacturing, finance, and business services (China Foreign Direct Investment Statistics Bulletin, 2020). Because China is the largest developing country in the world and Africa is the continent with the most developing countries, there is immense potential for economic cooperation between African countries and China (Devincy & Sylvaire, 2020; Koomson-Abekah & Nwaba, 2018). The current study aims to examine the status of Chinese ODI in Africa, the driving forces for Chinese companies to invest in African countries, and the challenges that Chinese companies confront when investing in African countries. Additionally, recommendations were also offered to Chinese companies investing in African countries on how to face the challenges.

2. Current Status of Chinese Outward Direct Investment in Africa
2.1 Chinese private companies replaced the state-owned companies as the major players of ODI in Africa
With the development of economic globalization, China has become one of the significant sources of ODI, and Chinese companies have begun to accelerate the pace of global expansions in order for their resources to be rationally allocated globally (Stone et al., 2021; Wang & Miao, 2019). Especially Chinese companies have paid particular attention to investing in Africa due to its high potential for economic growth (Stone et al., 2021). Although most Chinese companies active in Africa were predominately state-owned, Chinese private companies have also become new vital players in ODI in African countries in recent years (Ze Yu, 2021). For example, a
study conducted by McKinsey & Company (Ten thousand Chinese businesses in Africa – McKinsey, 2017) found that more than 10000 Chinese companies were now active in Africa, of which 90% were private companies of different scales and diverse businesses.

2.2 The scale of China’s ODI in African countries has increased by nearly 72 times in the past 15 years
With the rise of the African economy and the acceleration of the internationalization of Chinese companies, economic and trade relations between Africa and Chinese have intensified. According to the Ministry of Commerce of the People’s Republic of China (Chinese Direct Investment to Africa from 2003 to 2020), with the convening of the China-Africa Cooperation Forum in 2003, China’s direct investment in Africa began to increase. From 2004 to 2016, Chinese ODI in Africa grew at an average annual compound rate of 18 percent (Jones et al., 2022). As shown in Figure 1, the year 2008 was the fastest-growing year for Chinese companies investing in Africa, with investment reaching an all-time high of US$5.49 billion. Compared with Chinese ODI in Africa of US$74.81 million in 2003, Chinese ODI flowed to African countries in 2017 was US$5.38 billion, which was an increase of nearly 72 times.

![Figure 1](chart.png)

Note. CEIC Database.

2.3 Chinese ODI in Africa is not only limited to raw materials and natural resources sectors but expanded to manufacturing and services sectors
Chinese ODI in Africa was previously focused on resource-intensive sectors, such as resources and mining. However, nowadays Chinese ODI in Africa has extended into other sectors, such as real estate, electric power, telecommunications, and transportation sectors. Specifically, according to Ministry of Commerce of China (CEIC Data), by the end of 2018, over 80% of Chinese ODI had concentrated in the mining, finance, construction, and manufacturing sectors. For example, due to the continuous growth of African economies and the expansion of middle-class families in African countries, Chinese companies have made substantial investments in commercial real estate markets and hotels in African countries (Zhang, 2019).
In the telecommunication sector, the e-commerce and logistics industries are also increasingly attracting the attention of Chinese investors. In July 2017, China’s largest e-commerce company, Alibaba, visited Kenya and Rwanda for the first time to promote the development of e-commerce in Africa (Miao, 2017). According to International Energy Agency, in order to solve the problem of power shortages in several countries in Africa, Chinese companies have also financed and built more than one-third of the power facilities and energy projects in Africa since 2010 (Zhang, 2019). When it comes to the infrastructure sector, China and Africa have continuously cooperated on many significant projects, such as railway, highway, and airport projects. For instance, the Ethiopian Addis Ababa-Djibouti Railway, the Nigerian Aka Railway, the Angola Benguela Railway, and the Kenyan Inner Mongolia Railway have been built and put into operation (Gao, 2018).

2.4 Although Chinese ODI in Africa continues to expand, Chinese ODI mainly focuses on 15 African countries

By the end of 2017, Chinese ODI in Africa had expanded to all African countries. Still, more than half of Chinese ODI was concentrated in 15 countries, namely Algeria, Egypt, Ethiopia, Angola, Congo, Ghana, Zimbabwe, Kenya, Mauritius, Mozambique, South Africa, Nigeria, Sudan, Tanzania, and Zambia (China Foreign Direct Investment Bulletin, 2018). Specifically, the 15 countries can be divided into three categories. The first category is countries with relatively good political and economic environments and infrastructures, such as South Africa and Egypt (China Foreign Direct Investment Bulletin, 2018). The second category is concerned with those rich in mineral resources, such as Angola and Nigeria (China Foreign Direct Investment Bulletin, 2018). The third category is associated with agricultural countries, such as Zimbabwe, Kenya, Mozambique, and Tanzania (China Foreign Direct Investment Bulletin, 2018).

2.5 Chinese ODI has adopted a diversified investment pattern in Africa

First, greenfield investment and mergers and acquisitions (M&A) are the two most important international investment patterns for Chinese ODI in Africa (Li, 2016). However, because most Chinese ODI in Africa is concentrated in labor-intensive industries that are relatively less capital intensive and technology-intensive, greenfield investment has become a major strategy used by Chinese companies. Additionally, considering that the economy of several African countries is still less developed and the risks of investing in these countries are relatively high (Asongu & Odhiambo, 2019; Githaiga et al., 2019), greenfield investments are more conducive for Chinese companies to exert control over their business operations in the African market. Secondly, China also established the Economic Cooperation Zone, a more complex investment pattern in Africa, resulting from the gradual accumulation of successful experiences in investing in large-scale commercial projects in Africa. For example, since 2007, Jiangsu Yongyuan Investment Co., Ltd. has invested in the Oriental Industrial Park in Kadum Town on the outskirts of Addis Ababa, the capital of Ethiopia (Jiang, 2018). The Oriental Industrial Park has attracted nearly 90 Chinese-funded companies to invest about US$640 million in cement, wood processing, shoemaking, automotive assembly, steel rolling, home textiles, clothing, daily chemicals, pharmaceuticals, and food sectors in Africa (Jiang, 2018). Moreover, the Djibouti International Free Trade Zone, established by China and opened in 2018, attracted Chinese companies of various industries to set up their manufacturing bases in Africa (Wan et al., 2020). Additionally, Chinese-funded
companies have established and invested in similar industrial parks of various scales in other African countries, such as Egypt, Nigeria, Kenya, Uganda, Tanzania, Zambia, and South Africa (Wang, 2019).

3. The Driving Force for Chinese Companies to Invest in African Countries

3.1 By investing in the energy sector in Africa, China and Africa can achieve a win-win strategy

China’s energy demand has increased annually over the past two decades, and it is now one of the world's leading energy consumers (DeCastro, 2019; Ouyang & Li, 2018; Shan et al., 2020). Due to the investment of large-scale infrastructures in China, such as high-speed railways, freeways, and real estate development, China consumed more than 50 percent of the world’s steel consumption annually, and in 2018, approximately 70 percent of China’s demand of oil was imported (Wang, 2019). That is why Chinese ODI has always centered on energy resources in order to meet China’s rising demand for energies (Wang & Jiayu, 2019). In this regard, because many African countries have abundant mineral reserves and welcome collaboration with international companies to transform their primary products into high-end finished goods for global markets, Chinese ODI in energy sector in Africa is likely to result in a win-win situation for both Africa and China, (Nkhonjera & Das Nair, 2018).

From the perspective of international relations, although foreign direct investment is most likely to cause geopolitical disputes between countries. However, this does not appear to be the case for China and African countries. There are unique advantages for both China and African countries to develop sound economic and trade investment relations. First, compared to Asia, Europe, and the Middle East, where geopolitical consideration is always a priority for western powers (Kalantzakos, 2020; Wrobel, 2019), western countries’ geopolitical consideration of Africa is weaker, allowing China more room to collaborate with African countries.

For example, given their remote geographic location from western countries, the African continent is distant from the current western powers from a geographical standpoint, except that certain African countries still maintain specialties with European countries, such as France and Portugal (Harshé, 2019). Except for the Bush administration's increased focus on oil resources in Africa (Volman, 2003), neither Trump’s administration nor Biden’s administration appeared to have taken any substantial steps to strengthen US-African economic relations. It is also important note that many African countries are more likely to recognize and accept China’s consistent foreign diplomacy against hegemonism that is not accompanied by any political conditions. In his book Post-American World, Zakaria (2008) compared Chinese and Western foreign policies, claiming that, due to Confucian culture’s impact, China's foreign policy toward African nations is business-oriented and lacks the persuading and evangelical impulses of western countries. In other words, because of China's embrace of mutual respect principles in foreign policy, China and Africa have the potential to build a constructive strategic partnership.

3.2 China can access the immense potential consumer market in Africa

According to the Alliance and the United Nations Economic Commission for Africa, the annual economic growth rate of the African continent reached an average of 3.5% in 2018 and is
expected to reach 3.7% in 2019 (Zhang, 2019). In particular, the annual economic growth rate in sub-Saharan Africa reached 6.2%, which is already higher than many other countries and regions and twice that of Latin America (Zhang, 2019). With the increasing economic development in African countries, Chinese companies are beginning to focus on the rise of Africa as its important emerging market for their low-cost and good-quality goods. Jansson (2020) asserted that when multinational corporations (MNCs) establish international marketing strategies for emerging regions, prices are always a significant aspect of building a competitive advantage. Therefore, low-cost and good-quality goods from Chinese companies investing in Africa will benefit both African consumers and Chinese companies.

3.3 By establishing GVCs in Africa, China and Africa can realize the upgrading of the industrial structure by transferring their manufacturing sectors to African countries


In other words, GVCs “integrate the know-how of lead firms and suppliers of key components along stages of production and in multiple offshore locations” (Dutta, 2021). From the perspective of VGC, the international division of labor that reflects the effective integration and utilization of resources on a global scale has experienced tremendous changes by linking various countries through GVCs. Over the years, China has reaped significant rewards directly from its engagement in GVCs (Fernandez-Stark & Gereffi, 2019). However, given that China's cost advantage has been diminishing over time (Aiginger & Rodrik, 2020), it would be a strategic choice benefiting both China and African countries if Chinese companies could establish their own self-directed GVCs to realize the upgrading of the domestic industrial structure by transferring their manufacturing sectors to African countries. In this regard, China's outward investment in Africa can encourage African countries to integrate into the GVCs and offer prospects for industrial upgrading in African countries.

4. Challenges that Chinese Companies Confront during Their Direct Investment in Africa

4.1 China’s outward investment in Africa faces accusations from western countries

There are several reasons why western countries strive to curb China’s rise in Africa. The first reason is that from the geopolitical point of view, Chinese ODI in Africa can evade the dependence of China-Africa trade on cargo shipping, which challenges the hegemonic status of the United States (U.S.). Friedman (2010) asserted in his book The Next 100 Years: A Forecast for the 21st Century that the focus of global geopolitical competition has shifted from the Eurasian continent to the sea power. Because the U.S. has a unique maritime hegemony, it controls trade routes and the global economic system (Friedman, 2010). To date, maritime transport is still the most efficient and cost-effective mode of transportation for international
trade, which is an integrator of economic globalization. The outcome of China's ODI countries bypasses the US-controlled worldwide maritime trading system, which may weaken the U.S. control of the global financial system.

The second reason is that the U.S. remains the core force dominating the world and does not allow the rise of any other country anywhere. For example, Friedman (2010) asserted the U.S. has always aspired to be the world's most powerful nation, being able to shape and control the world order. Once Western countries, led by the U.S., lose their initiative and influence in Africa or Asia, they are prone to believe their interests are threatened, and the current global political and economic order is disrupted.

The third reason is that the western countries believe the cooperation between China and Africa symbolizes the success of South-South collaboration at large, which seriously threatens the interests of developed countries. Gürcan (2019) argued that the most significant shifts in world politics are hegemonic governance and fast increasing geopolitical multipolarity, which both have substantial effects on the global economy and politics. For western countries, represented by the U.S., the alliance among developing countries was viewed as a shift in the dynamics of global political and economic hegemony (Ciplet et al., 2015). A good case is that at the 2009 United Nations Climate Change Conference, developing countries joined together to reject the carbon emission norms imposed by developed countries (Ciplet et al., 2015).

Nonetheless, there are also opposite voices pointing to the importance of Chinese ODI in Africa, emphasizing that China's investment can contribute to the long-term development of the African economy. For example, Alden (2009) asserted that China’s strategic partnership with Africa for economic interests will eventually link China's economic development drive and growth model to Africa, which will help the African economy to embed the global financial system. Kenneth (2010) argued that developing China-Africa relations would enable Chinese companies to share their talents, technology, and management experience and create technology spillovers in African countries. Yin and Vaschetto (2011) put forward a positive view of China-Africa business exchanges, claiming that China provides affordable goods to African consumers and positively improves African countries' well-being. Mcardle (2015) pointed out that Africa can learn the enormous economic benefits of China’s development of labor-intensive industries. Proponents of Chinese ODI in Africa also asserted that China’s long-term investments could create greater independence of African countries since Chinese investments lack paternalistic or imperialistic characteristics typically associated with Western investments (Jones et al., 2022).

4.2 Cultural differences pose challenges to the cross-cultural management of Chinese companies investing in Africa

From the perspective of cultural differences, as Africa continues to absorb foreign cultures in history, the culture of African countries has gradually formed a complex and diverse situation, which increases the difficulty of cross-cultural management for Chinese companies investing in Africa. Specifically, African culture could be divided into north African Arab and sub-Saharan cultures. In North Africa, Arab culture and European culture are intertwined, while the influence of traditional culture on sub-Saharan Africa is more extensive (Van Pinxteren, 2020). From the
perspective of Hofstede et al’s (2010) five cultural dimensions, there exist significant differences between African countries and China in terms of the national cultures. For example, in the study conducted by Li and Li (2019), Chinese employees were more willing to acknowledge the hierarchy and inequality of powers, but Congolese employees were more reluctant to accept the amount of inequality in the workplace. Congolese employees also paid more attention to self and perceived individuals and essence as more essential than teams and cooperation regarding contrasts between individualism and collectivism. In contrast, Chinese employees pay more attention to collectivism due to the influence of a Confucian culture that emphasizes harmony and loyalty (Li & Li, 2019).

5. Recommendations for Chinese Companies investing in African countries

5.1 Facing the accusation of western countries, China needs to enhance its soft power when investing in Africa

Nye’s (2011) soft power theory has undoubtedly provided theoretical guidance for Chinese ODI in Africa. Nye (2014) refers to soft power as the capability of a country to achieve its purpose through attraction rather than coercion. Because enhancing a country’s soft power can present a positive and favorable image of a country (Morgan, 2019), it is suggested that China needs to improve its soft power from diplomatic and cultural perspectives. First, from a diplomatic standpoint, China needs to strengthen strategic communication with African countries to enhance economic cooperation between Africa and China. For example, China could continue to use the China-Africa Cooperation Forum launched in 2000 as a framework to reinforce the strategic partnership of economic cooperation between Africa and China on the principles of equality and mutual benefit (Zang & Su, 2018). Second, China also needs to increase the academic and social interactions with African universities and colleges to have more cultural exchanges with Africa. According to Nye (2004), because a country can enhance its soft power by improving its cultural attractiveness to other countries, it is only when Africa and China have extensive exchanges in the academic and social fields that the people from Africa and China can deeply understand both African civilization and Chinese civilization.

5.2 Leaders in Chinese companies investing in Africa need to exercise cross-cultural leadership to create a harmonious and friendly relationship with employees working in Africa

Cross-cultural leadership is “the process of being able to unite everyone around a certain vision and effectively manage these cultural differences by being aware of the cultures and cultural differences of the leader and her followers” (Christianse et al., 2020). Given the differences in national cultures between China and Africa, maintaining the advantages and characteristics of local culture, and absorbing the essence of foreign culture will become the way to survive in the era of globalization for the Chinese companies investing in Africa (Luthans & Doh, 2018). Therefore, it is suggested that Chinese companies investing in African leaders can exercise cross-cultural leadership in both pre-investment and post-investment phases. First, in the pre-investment stage, leaders need to attach importance to integrating cross-cultural management into the organization's mission statement and be committed to building a resilient organization to adapt to different cultures. Second, in the post-investment phase, leaders in Chinese companies investing in Africa need to recruit employees with cultural intelligence. For employees with a
lower level of cultural intelligence, it is necessary to provide them with courses and training programs to enhance their cultural intelligence.

Conclusion
As a result of globalization, Chinese corporations are increasing their ODI in Africa. When Chinese companies enter the African market, the political ideology of western nations has become a significant factor that attempted to curb China's ODI, and the cross-cultural differences between China and Africa also present obstacles to the operations of Chinese companies in Africa. Chinese companies operating in Africa can improve their business performance by enhancing China's soft power and implementing effective cross-cultural leadership.

References


