

Chapter 6

Chinese Investments in Africa: Implications for Entrepreneurship

Eva Esther Shalin Ebenezer
Pentecost University College, Ghana

Wei Shi
Saginaw Valley State University, USA

Wayne E. Mackie
Saginaw Valley State University, USA

ABSTRACT

The chapter focuses on Chinese investment in Africa and its general impact on African businesses and its specific implications for entrepreneurship in Africa. This chapter first provides a historical overview of China's economic development to explain why China has the ability to invest in Africa. Two types of investments from China are considered: the investment from the Chinese government and the investment from various Chinese firms. This study highlights which countries the investments targeted, the amount of capital, and the business areas the Chinese and investors emphasize. The final segment highlights both positive and negative implications of the investment activities for both China and Africa. In particular, this segment emphasizes the implications for entrepreneurship in Africa.

INTRODUCTION

According to the information from CIA.GOV, 2014, China has for centuries been the world's leading country in economic, cultural, scientific and other aspects of civilization. However, during the 19th and early 20th centuries, China suffered serious crisis. The entire European continent was beset by unstable internal situations, major famines, military defeats, and foreign occupation. Af-

ter World War II, the chairman of the Communist Party of China, Mao Zedong founded an autocratic socialist system. In order to ensure China's sovereignty in a very exceeding period of times, Chinese government implemented strict controls over the specifications of entire National People's daily lives and living costs. Until 1978, after the death of the first President of China, Deng Xiaoping as new leader of China being committed to bringing China's economy back on the right track, adjusted

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China's economic policies to market-oriented economic development. By the year 2000, China's output increased tremendously. According to *The Guardian* (2014), before the Chinese government introduced several economic growth reforms in 1979, the average annual real GDP growth rate in China was estimated at 5.3% (from 1960-1978) as determined by the Congressional Research Service. In 2010 the annual growth rate stood at 10.4%. From the late 1970s, China's development has gradually shifted from a centralized planned economy to a more market-oriented system with an important role in the world economy. In 2010, China became the world's largest exporter. According to the European Commission (2014), China's exports have increased from 41,477 million Euros in 2003, to 113,454 million Euros in 2010 to 148,269 million Euros in 2013. China has gradually approached achieving reforms begun by phasing out agricultural collectivization, gradually opening market prices, decentralizing its fiscal system, granting more autonomy to state-owned corporations, establishing a diversified banking system, improving stock markets, assisting the development of private fields, and conducting open economic policies.

Through the several stages of rapid development of China's economy, China has had a stable capital base to invest in global foreign countries. In order to conform to the international economy and the energy demand trend and satisfy Chinese firms' internal expansion requirements, Chinese government changed its policy to encourage not only Chinese firms, but also the Chinese government itself to invest in foreign countries, especially in Africa where the demand and attractiveness is huge. This informed their attraction to Africa.

This chapter first details the nature and extent of Chinese investment in Africa and provides an overview of both governmental and corporate investments. Second, it highlights the implications of these investments generally for African businesses and, more specifically, for African entrepreneurship.

CHINESE INVESTMENT IN AFRICA

China over a long period of time has been searching for natural resources to meet the needs of its domestic industries. On the one hand Africa has a lot of natural resources that China may desire to gain. On the other hand, Africa as an emerging market with a huge range of demands may need foreign countries to fill and exploit. It therefore seems like a promising win-win prospect.

According to Zafar (2007), China and Africa have valued more than \$50 billion transactions as of 2006. This includes China importing oil from Angola and Sudan; China acquiring timber from Central Africa; and copper from Zambia. Due to the Chinese demands for large amounts of oil and metals from Africa, the real GDP of sub-Saharan Africa appears to rise because of the high prices at which these commodities are traded. However, factually, it is not only Sub-Saharan Africa but the entire continent that eagerly needs a lot of Chinese capital as aid and investment in infrastructure construction. The trade, therefore, appears to be of the utmost benefit to all, as China has brought much-needed funds to the mainland in exchange for its of numerous natural resources. Chinese investment in Africa has come in two forms: as investment from the Government and investment from Chinese firms.

The Investments from Chinese Government

According to Wikipedia, China and Africa's modern political and economic relations was established during the period of the Chinese Communist Party's first leader Mao Zedong. Since the 21st century, China and Africa have established a closer economic partnership. Trade between China and Africa increased by 700% during the 1990s (Le Monde Diplomatique, 2005), and China is currently Africa's largest trading partner (Wonacott, 2011). In order to increase the cooperation between China and Africa, in October 2000,

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