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Chinese and other foreign investments in Africa's development

An argument for African agency

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Preface

The meaning of the word “partnership” is highly interesting and full of associations. At first glance, it sounds like teamwork on an equal footing, but when it comes to economic investments, it is clear that each party wants to get the best for itself. Africa's growing significance in global economic diplomacy has captured the attention of a range of international powers, including China, Russia, the UK, and Turkey. With the 2024 Forum on China-Africa Cooperation (FOCAC) setting ambitious targets—such as a $51 billion investment in Africa by 2027—China’s FDI footprint is poised to deepen. This has sparked a broader debate around the nature of this engagement, with questions raised about whether Africa is merely experiencing another wave of resource extraction or whether it can strategically leverage such investments to bolster its development goals. Despite the limited research on the direct impact of Chinese FDI on job creation, the potential for Africa to engage with foreign investors in a more strategic, mutually beneficial way is becoming increasingly critical.
AIA Associate Fellow Abiodun Egbetokun focuses on questioning achieving Africa’s long term interest an examining the input-ouput dynamics of Chinese Investments. Using statistic data bases, such as numbers of foreign direct investments, he not only draws attention on theoretical, but also empirical perspectives. In doing so he underlines critical aspects and chances of a potentially unequal economic relationship between Africa and China.

Die Bedeutung des Wortes „Partnerschaft“ ist hochinteressant und assoziationsreich. Zwar klingt die auf den ersten Blick nach Teamarbeit auf Augenhöhe, doch wenn es um wirtschaftliche Investitionen geht, so ist klar, dass möchte jede Partei für sich das Beste herausholen möchte. Die wachsende Bedeutung Afrikas in der globalen Wirtschaftsdiplomatie hat die Aufmerksamkeit einer Reihe internationaler Mächte auf sich gezogen, darunter China, Russland, das Vereinigte Königreich und die Türkei. Da das Forum für die chinesisch-afrikanische Zusammenarbeit (FOCAC) 2024 ehrgeizige Ziele gesetzt hat, wie z. B. Investitionen in Höhe von 51 Mrd. USD in Afrika bis 2027, wird sich Chinas Engagement weiter verstärken. Dies hat eine breite Debatte über die Art dieses Engagements ausgelöst, wobei die Frage aufgeworfen wurde, ob Afrika lediglich eine weitere Welle der Ressourcengewinnung erlebt oder ob es solche Investitionen strategisch nutzen kann, um seine Entwicklungsziele zu unterstützen.
AIA Associate Fellow Abiodun Egbetokun konzentriert sich auf die Frage, wie das langfristige Interesse Afrikas erreicht werden kann, und untersucht die Input-Output-Dynamik chinesischer Investitionen. Anhand von statistischen Datengrundlagen, wie z.B. den Zahlen ausländischer Direktinvestitionen, lenkt er die Aufmerksamkeit nicht nur auf theoretische, sondern auch auf empirische Perspektiven. Dabei zeigt er kritische Aspekte und Chancen einer potenziell ungleichen Wirtschaftsbeziehung zwischen Afrika und China auf.

Manuel Becker
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Abstract: *Africa has become a focal point of foreign investments, particularly from China whose economic engagement with the continent has surged in recent years. However, the disproportionate focus of these investments on resource extraction raises concerns about long-term benefits for Africa. This paper examines the development implications of Chinese investments, with a focus on employment. The results show that while FDI flows have limited short-term effects, the stock of accumulated investments tends to support long-term employment creation. However, this requires a more strategic approach to foreign investments — one that prioritises the strengthening of local regulatory frameworks to ensure investor accountability, promotes value-chain upgrading and embraces regional cooperation under the African Continental Free Trade Area (AfCFTA) to negotiate more favourable terms with foreign partners.*

Abstract: *Afrika ist zu einem wichtigen Fokus ausländischer Investitionen geworden, insbesondere aus China, dessen wirtschaftliches Engagement auf dem Kontinent in den letzten Jahren stark zugenommen hat. Die unverhältnismäßige Konzentration dieser Investitionen auf die Rohstoffgewinnung gibt jedoch Anlass zur Sorge über den langfristigen Nutzen für Afrika. In diesem Papier werden die Auswirkungen chinesischer Investitionen auf die Entwicklungszusammenarbeit untersucht, wobei der Schwerpunkt auf der Beschäftigung liegt. Die Ergebnisse zeigen, dass die ADI-Ströme zwar nur begrenzte kurzfristige Auswirkungen haben, der Bestand an akkumulierten Investitionen jedoch tendenziell die langfristige Schaffung von Arbeitsplätzen fördert. Dies erfordert jedoch einen strategischeren Ansatz für ausländische Investitionen - einen Ansatz, der die Stärkung lokaler regulatorischer Rahmenbedingungen zur Gewährleistung der Rechenschaftspflicht der Investoren in den Vordergrund stellt, die Verbesserung der Wertschöpfungskette fördert und die regionale Zusammenarbeit im Rahmen der Afrikanischen Kontinentalen Freihandelszone (AfCFTA) einbezieht, um günstigere Bedingungen mit ausländischen Partnern auszuhandeln.*

1. Introduction

> "'RUSSIA–AFRICA SUMMIT 2019', 'UK–AFRICA SUMMIT 2020', 'Middle East–Africa summit 2020', 'Africa–France summit 2020', 'Turkey–Africa summit 2020', 'Forum on China–Africa Cooperation (FOCAC) 2021', 'Russia–Africa summit and Economic forum 2022'. Not a month passes without the announcement of an upcoming 'Africa+1' summit, meeting, forum, or other form of summitry bringing together the continent's presidents, ministers, and high-level officials with their traditional, emerging, and aspiring partners or with multilateral organisations." (Soulé 2020: 633)

China's economic involvement in Africa has significantly increased over the past two decades, and it shows no sign of slowing down yet. At the September 2024 Forum on China-Africa Cooperation (FOCAC) in Beijing, President Xi Jinping announced China's plan to inject about USD 51 billion into Africa by 2027 (Xinhua News 2024). Yet, China's involvement in Africa is nuanced and must continue to be examined (Egbetokun, 2024). This paper will focus on two of the many reasons for this. Firstly, while China remains a dominant player in Africa, other international players like Russia, Turkey and even the European Union (EU), are expanding their economic engagement with African countries. To what extent do these foreign engagements align with Africa's long-term interests? Secondly, despite recent evidence that the impact of China's presence in Africa has been more positive than negative (de Freitas, 2024, Amendolagine et al. 2024), concerns about its extractive activities and the broader implications for sustainable development remain (Boafo et al, 2024; Carciotto and Chikohomero, 2022). Similar concerns can be raised about other foreign interests in Africa. Against this background, one can ask: Is Africa entering a new era of resource exploitation disguised as development partnerships? More importantly, how can Africa position itself strategically to leverage the rising global interest?

Dike and Owusu (2024) provide a valuable summary of the extensive and continually expanding literature of the many empirical analyses and theories related to these questions (see, for instance, Amendolagine et al, 2024; Avenyo et al, 2024; Marson and Savin, 2022; Park and Tang, 2021; Savin et al, 2020; Mlambo et al, 2016; Chen et al, 2015; Dreher and Fuchs, 2015; Shen, 2015; Bräutigam, 2003). As shown in Table 1, China's engagement with African countries is driven by a combination of economic and political motivations. However, the outcomes remain contentious: some scholars view the engagement as mutually beneficial, while others critique it as exploitative and counterproductive to African development. The latter make up what we term the 'suspicion narrative'.

Table 1: Overview of the literature on China-Africa relations

Themes	Summary
Antecedents (Drivers)	China's interest in Africa is mainly driven by economic and political considerations. China sources raw materials and seeks political support from Africa.

Phenomena (Strategies)	The strategies of the Chinese in Africa include trading partnerships, infrastructure projects, aid and interest-free loans, economic and political support, and foreign direct investments (FDI).
Consequences (Outcomes)	China-Africa relationships are implicated in conflicting outcomes – mutually beneficial but also opportunistic and lopsided in favour of the Chinese; destructive, inimical, a rip-off and counterproductive to Africans.

Source: Adapted from Dike and Owusu (2024)

With an emphasis on FDI, this paper argues that African nations must approach foreign partnerships cautiously and with assertive agency to ensure that critical developmental needs, such as employment, are not compromised. This perspective moves beyond a pessimistic suspicion narrative and focuses on strategic issues of relevance for Africa's development. Employment, a key Sustainable Development Goal (SDG), is one such issue. While FDI can support employment through the creation and expansion of businesses — key to structural change and economic development (Ibrahim and Acquah, 2021; Aust et al., 2020; Savin et al., 2020) — much of the evidence for this considers FDI from Western partners like the United States. In contrast, there is limited evidence on how Chinese FDI impacts employment in recipient countries. This paper addresses that gap by presenting new empirical findings. Overall, the paper attempts to give a balanced view of the development implications of Chinese investments in Africa.

First, attention needs to be drawn to the colonial roots of resource extraction from Africa, a legacy that Africa's engagement with China and other foreign interests often ignores (Soulé, 2020). Furthermore, the term 'suspicion narrative' is briefly discussed before turning to the developmental aspects, looking at the sectoral pattern of Chinese FDI in Africa. Estimates based on country-level Chinese FDI data[1] show that the annual flow of FDI from China does not lead to employment benefits for recipient countries but the accumulated stock of FDI does. Some thoughts on how African countries can position themselves strategically to avoid exploitation and expropriation conclude this paper.

2. Colonial legacies of resource extraction

Africa's modern-day economic relationships with foreign powers are deeply rooted in its colonial past. The current model of resource extraction, where African countries supply raw materials to industrialised nations, mirrors the exploitative patterns established during colonial rule. Colonisers structured African economies to serve their own industrial needs, exporting raw materials like minerals, agricultural produce and timber, while limiting local value addition. The historical institutions established for this purpose still play a

[1] Data sourced from China Africa Research Initiative (CARI), http://www.sais-cari.org/data.

role in explaining differences in economic prosperity across countries today (Acemoglu et al 2021).

Countries like China, EU Member States and Russia may frame their engagement in diplomatic terms, but the fundamental economic dynamic remains unchanged. China's investments in infrastructure, such as roads and railways, are sometimes similar to how colonial powers constructed railways to ports for the export of unprocessed raw materials (Chen et al, 2018; Mlambo et al, 2016; Shen, 2015). African nations need to acknowledge these legacies as they negotiate modern trade and investment deals. Without learning from the past, the continent risks falling into a new form of economic colonialism, where foreign powers control its resources under the guise of partnership. This also applies to understanding the implications of China's engagement model in Africa, as it provides the foundation for the 'suspicion narrative'. This narrative is summarised in the following to lay the foundations for the new empirical evidence presented subsequently.

3. The suspicion narrative of China's engagement model

Some scholars and critics argue that Chinese investment patterns echo Africa's historical experience with foreign powers, where resource extraction and market access are the primary focus. This 'suspicion narrative' takes root in the widely cited work of Naim (2007) which framed Chinese aid as 'rogue aid'. As noted by Bräutigam (2011), China's lack of sensitivity to governance contexts is often cited by proponents of the 'suspicion narrative'. While Western investment tends to gravitate toward countries with relatively better governance structures, Chinese capital flows are more flexible and go into both well-governed and poorly governed environments (Ye, 2022; Chen et al. 2018). The suspicion arises from the fact that China's flexibility, while appealing to African leaders who may view Western conditionalities as meddlesome, also poses political and economic risks. According to Woods (2008), Chinese 'rogue aid' tends to bolster rogue states, fuelling corruption and increasing the debt burdens of poor countries. Consequently, poor governance environments are often unable to negotiate favourable terms for their citizens, leading to lopsided deals that benefit China more than the host country.

To be fair, several reports exist of exploitative investment and labour practices by Chinese companies in Africa (Carciotto and Chikohomero, 2022). Moreover, a significant share of China's investments in Africa comprises large infrastructure projects which are elitist in nature, and mining projects which harm the environment and exploit labour. There is also a widespread belief that Chinese contractors occasionally provide training programs for local workers but retain higher-skilled and technical positions for Chinese workers, leaving lower-skilled roles for local labour. As a result, while large-scale infrastructure and mining projects may offer short-term employment opportunities, their long-term contributions to skill development and structural transformation remain constrained (Xiaoyang, 2016; Gadzala, 2010). Taken together, the 'suspicion narrative' seems to be well-founded to the extent to which it criticises China's substantive interests in Africa and the broader geopolitical implications it is now having. In particular, the model of securing access to

strategic resources while offering infrastructural or economic support has become attractive to other players, thereby further exposing Africa to a potential scramble (Soulé, 2020).

Notably, Turkey has recently made Africa one of its foreign policy priorities[2], increased its military presence[3] and sold drones to at least 11 countries as of August 2024.[4] After agreeing on a deal on exclusive exploitation rights of some oil blocks in Somali waters earlier in the same year, it announced plans to send navy support for security[5]. Meanwhile, the EU is expanding its Global Gateway initiative, which mirrors China's Belt and Road Initiative (BRI) (Hackenesch et al, 2024). Since 2022 when Russia's weaponised energy supply tactics against EU countries came to a head[6], the EU Green Deal has paid significant attention to Africa as an input supplier (Usman et al, 2021). In turn, Russia has also expanded its influence in the Sahel region[7] where most of Africa's recent coups have taken place[8], and will expand even more with Egypt and Ethiopia now members of the BRICS (Brazil, Russia, India, China and South Africa) bloc and Nigeria showing interest[9]. Such developments signal a growing trend of foreign powers eyeing Africa's resources while presenting themselves as partners in development.

However, neither the 'rogue aid' nor the 'suspicion narrative' have found strong empirical support. Apart from the fact that Naim (2007) used only anecdotal evidence, later studies show that China simply remains indifferent to the quality of institutions in the destination countries instead of imposing normative conditions about good governance and economic reforms (Broich, 2017; Dreher and Fuchs, 2015; Brautigam, 2011). In contrast to the 'suspicion narrative', some recent studies suggest that Chinese engagement across African countries promotes the recipients' participation in the downstream global value chains (GVCs), and potentially increases productivity and manufactured exports (Amendolagine et al, 2024). Chinese investments have also been viewed as holding potential for job creation across Africa (Bräutigam et al, 2019). In particular, infrastructure and manufacturing investments have been key drivers of employment. Between 2012 and 2022, China reportedly generated an average of over 18,000 jobs annually in Africa, more than any other foreign country[10]. Oya and Schaefer (2023) further suggest that Chinese companies in Africa do not necessarily pay lower wages than other foreign companies. This is crucial, especially as the continent continues to make uneven progress towards achieving the SDGs (Egbetokun, 2024).

[2] https://www.gisreportsonline.com/r/turkey-influence-africa/

[3] https://african.business/2024/02/politics/the-ankara-consensus-how-turkey-is-boosting-influence-in-rising-africa

[4] https://www.bloomberg.com/news/articles/2024-08-18/turkey-to-start-oil-drilling-in-somalia-as-it-seeks-bigger-influence-in-africa?embedded-checkout=true

[5] https://www.reuters.com/business/energy/turkey-send-ship-search-oil-gas-off-somalia-coast-2024-07-18/

[6] https://www.theguardian.com/world/2022/jul/15/gas-blackmail-how-putins-weaponised-energy-supplies-are-hurting-europe

[7] https://blogs.lse.ac.uk/africaatlse/2024/05/08/russia-has-tightened-its-hold-over-the-sahel-region-and-now-its-looking-to-africas-west-coast/

[8] https://www.africanews.com/2023/08/30/africa-the-7-military-coups-over-the-last-three-years/

[9] https://moderndiplomacy.eu/2024/03/16/nigeria-contemplates-brics-membership/

[10] https://africa.businessinsider.com/local/markets/china-ranks-ahead-of-america-as-the-largest-investor-in-africa-since-2010/62532rh

4. Sectoral patterns of Chinese investment

A corollary of the above is that the view of China investing solely in resource extraction in Africa is a misconception. In reality, Chinese FDI and aid-funded projects extend beyond mining and construction to manufacturing and services (Chen et al, 2018). However, while the number of Chinese loan or investment deals in manufacturing and services suggests these sectors are top priorities, the actual capital invested tells a different story. As is shown in Figure 1, the weight of manufacturing and services in the stock of China's FDI remains small relative to the extractive industries. In 2022, for instance, 33 percent of all Chinese FDI in Africa was in construction and 24 percent in mining, overshadowing investments in manufacturing (12 percent) and services (16 percent). In contrast to manufacturing and services, the stock of Chinese FDI in construction and mining increased noticeably between 2013 and 2022 (Figure 2).

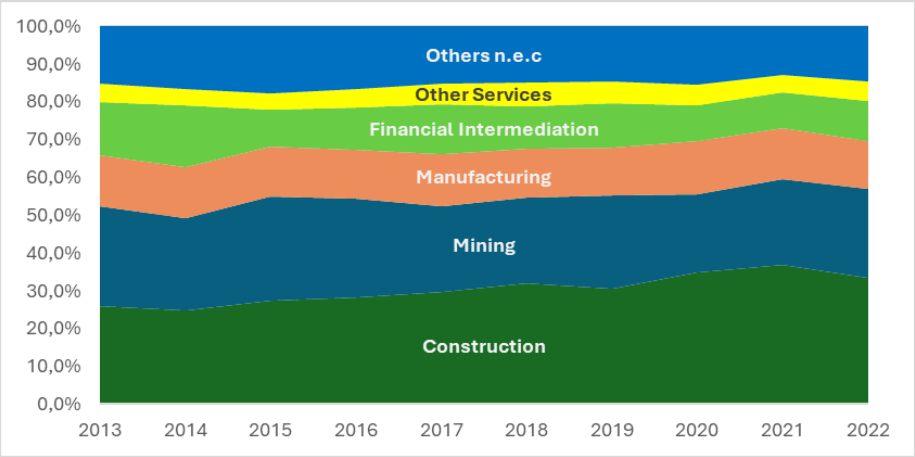

Figure 1: Sectoral share of Chinese FDI stock in Africa, 2013-2022
Source: Author's illustration of data from the China-Africa Research Initiative, SAIS, Johns Hopkins University

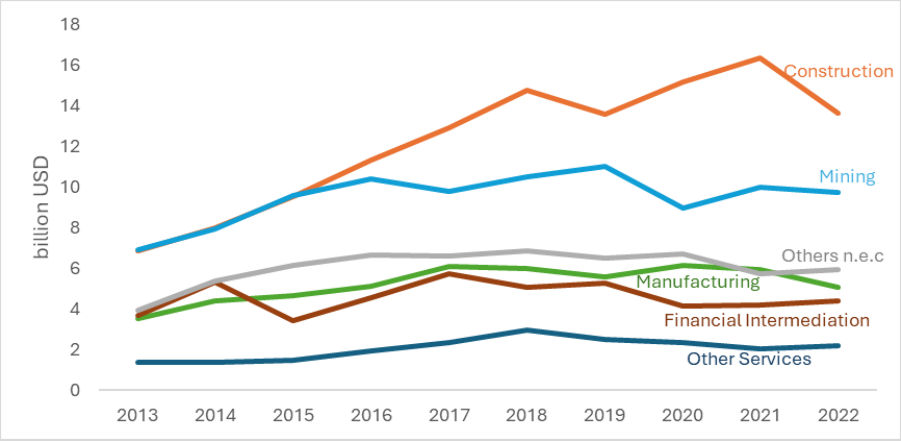

Figure 2: Value of Chinese FDI stock in Africa by sector, 2013-2022

Source: Author's illustration of data from the China-Africa Research Initiative, SAIS, Johns Hopkins University

Thus, despite occasional forays into manufacturing and financial services, China's investments remain predominantly in sectors that extract raw materials or support infrastructure that facilitates extraction, such as roads, railways and ports. These extractive activities often create environmental hazards and disrupt the livelihoods of local populations. Another concern is that Chinese-funded infrastructure projects, such as Uganda's Entebbe-Kampala Expressway, Kenya's Nairobi Expressway or the African Union headquarters in Addis Ababa, are sometimes more suited for elite convenience and international mobility than for local development. These projects often bypass areas that could have a greater impact on industrialisation or local business development. Many railway investment projects under the BRI connect mines to ports[11] and hence facilitate the export of unprocessed raw materials rather than foster local processing which will add value and create jobs. Hopefully this problem will reduce in the coming decades, given recent signals from Beijingto shift away from mega-projects, as re-iterated clearly in the 2024 FOCAC[12]. This shift is situated within a broader Chinese approach of prioritising smaller and more targeted projects with a higher likelihood of impact (Ray, 2023). At least a thousand of such projects are promised to be delivered by 2027, according to the FOCAC Beijing Action Plan (2025-2027).[13] Notwithstanding, African countries need to bear the responsibility of looking out for themselves, especially in ensuring that foreign partnerships and investments are directed towards strategic development issues such as employment.

[11] https://www.theafricareport.com/359877/opinion-africa-should-leverage-trade-relations-with-china-to-boost-regional-value-chains/

[12] https://www.megatrends-afrika.de/publikation/megatrends-spotlight-38-focac-2024-towards-normative-power-of-china

[13] https://www.mfa.gov.cn/eng/xw/zyxw/202409/t20240905_11485993.html#:~:text=President%20Xi%20Jinping%20of%20the,28.

5. The impact of Chinese FDI on employment in Africa

Africa consistently exhibited higher unemployment rates than the global average from 2013 to 2022 (Figure 3). While both Africa and the world showed a relatively stable trend until 2019, unemployment spiked sharply in 2020 due to the global disruptions caused by the COVID-19 pandemic. Post-2020, unemployment began to decline for both Africa and the world, but Africa's unemployment rate remains significantly higher than the global average. As mentioned earlier, FDI can support in addressing this important development problem.

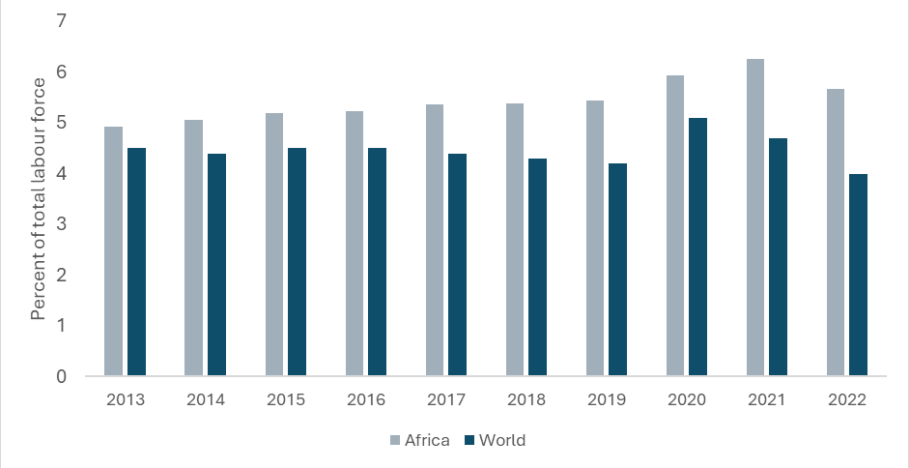

Figure 3: Unemployment rate in Africa and the world, 2013-2023

Source: International Labour Organization

To analyse whether Chinese FDI has been helpful in this regard, the following panel regression equation is specified:

$$Employment_{it} = \beta_0 + \beta_1 FDI_{it} + \beta_2 GDP_{it} + \beta_3 Population_{it} + \beta_4 GFCF_{it} + \beta_5 Trade\ balance_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

The variables are self-evident, with the exception of GFCF which stands for gross fixed capital formation as a share of GDP. The coefficient of interest is β_1 which captures the effect of FDI on employment. For a holistic view, three employment measures are included in the estimation, viz: total unemployment and youth unemployment (for which negative values of β_1 will suggest reduction in unemployment) as well as employment in industry (for which positive values of β_1 will suggest an increase). Real GDP is included in the specification to control for the size of each country, population to account for labour supply, GFCF to account for domestic infrastructure investments, and trade balance to account for the presence of foreign employment spillovers. μ_i, λ_t and ϵ_{it} respectively are the country-specific fixed effects (to control for unobserved heterogeneity), time fixed effects (to control for year-specific shocks) and the idiosyncratic error terms. We use an unbalanced panel

dataset on 50 African countries covering the 20-year period between 2003 and 2022. Variable definitions, data sources and a list of countries are presented in Appendices A and B. The correlation matrix in Appendix C indicates no multicollinearity concerns.

The main variable of interest is FDI, measured in two ways. FDI flow refers to the new, incremental investments made during each year. FDI stock represents the accumulated FDI over time, which includes all past and current investments. Together, these measures offer complementary insights: FDI flow reflects short-term dynamics and investment behaviour, while FDI stock reflects the sustained economic integration and potential structural impact of foreign investments. Data for both variables were sourced from the China Africa Research Initiative (available at http://www.sais-cari.org/data) and was log-transformed to permit elasticity interpretation and also mitigate skewness and heteroskedasticity. Summary statistics are presented in Table 2. Between 2003 and 2022, the average stock of Chinese FDI in Africa was $435 million. The largest recipient country hosted approximately $7 billion, while some countries recorded no Chinese FDI during this period. On average, annual FDI flows from China to Africa amounted to $49 million, with the highest annual investment reaching $4.8 billion in South Africa in 2008. Conversely, the lowest FDI flow was a net outflow of negative $800 million from South Africa in 2021.[14] During the same period, average unemployment in Africa was 9%, peaking at 38% in Eswatini in 2022.

Table 1: Summary statistics

Variable	N	Mean	Std. dev.	Min	Max
FDI stock	1,080	435.41	886.66	0	7472.77
FDI flow	1,080	48.57	190.49	-814.91	4807.86
Total unemployment	1,020	9.049	7.30	0.317	37.85
Youth unemployment	1,020	17.79	16.15	0.468	81.29
Employment in industry	1,020	14.03	7.74	2.38	35.04
Population	1,040	2.18E+07	3.09E+07	82475	2.19E+08
GFCF	891	21.93082	8.478863	2.000441	78.00091
GDP	1,007	4.28E+10	8.56E+10	6.90E+08	5.35E+11
Trade balance	911	-7.25562	16.34751	-69.3681	49.76069

Note: Unbalanced panel, N varies across variables.

Results of the fixed effects ordinary least squares (OLS) estimations are presented in Table 3. The impact of FDI may not be immediate and can vary over time. To capture these dynamics, the analysis includes annual lags of the independent variable over a range of 1 to 10 years (i.e., from t+1 to t+10). This approach allows us to observe how FDI influences outcomes both in the short and long term. Overall, the models are satisfactory. Although the adjusted R2 values are generally lower, especially for flows, the within R2 values range from approximately 0.09 to 0.24 across panels, indicating that the models explain a modest but meaningful portion of the variation in the dependent variables after accounting

[14] Negative FDI flows occur for several reasons, including divestments, repatriation of earnings and debt repayments, among others. The data used in this paper does not permit a detailed exploration of this.

for fixed effects. The consistently significant F-statistics across all models indicate that the explanatory variables collectively have a meaningful impact on the dependent variables. That said, it is important to preface the discussion of the regression results with a caveat: the unbalanced panel dataset imposes limitations on the comparability of results across time periods and countries. Consequently, these findings should be considered preliminary, and we approach any causal inferences with appropriate caution.

The effects of FDI flow on total unemployment (Table 3, Panel A) and youth unemployment (Table 3, Panel C) are generally weak and inconsistent across time, with coefficients remaining small and statistically insignificant. These results suggest that annual changes in FDI flows have minimal effects on unemployment both in the short and long term. This is consistent with previous studies showing that FDI flows, particularly when they target capital-intensive sectors like infrastructure and mining, do not immediately generate significant employment opportunities (Chen et al., 2018; Mlambo et al., 2016). With a view to maximising short-term gains, these sectors often rely on imported labour and automation technologies, which ultimately limits their immediate contribution to local labour markets. In addition, even when infrastructure projects use local labour, the employment created in such projects is often seasonal, with jobs disappearing once construction is completed. Moreover, new FDI flows often take time to translate into tangible economic benefits like job creation. This becomes clearer once we look at the employment effects of FDI stock, that is, the accumulation of all past and current investments.

The stock of Chinese FDI exhibits consistent and significant negative effects on both total unemployment (Table 3, Panel B) and youth unemployment (Table 3, Panel D). This effect deepens over time. For example, at t+1, a 1% increase in FDI stock is associated with a 0.12% reduction in total unemployment. By t+10, the employment gain increases to 0.34%. Similarly, the effect on youth unemployment becomes more pronounced over time, with a 1% increase in FDI stock reducing youth unemployment by 0.62% at t+10, a noticeable increase from 0.27 at t+1. These results highlight the potential of accumulated FDI over the long term. The sustained presence of foreign investments promotes backward and forward linkages, facilitates skills transfer and supports structural transformation (Amendolagine et al., 2024; Ibrahim and Acquah, 2021).

The theoretical mechanism is straightforward: accumulated FDI stock reflects the maturity of investments, including operational businesses, functional infrastructure and established industries that contribute significantly to job creation. Over time, FDI stock becomes more deeply integrated into the local economy through sourcing local inputs, stimulating domestic businesses and expanding export-oriented activities. These backward and forward linkages indirectly support employment by creating demand in complementary industries. Moreover, as FDI projects mature, they often facilitate the transfer of skills and technology, enhance productivity and increase the demand for labour. This is particularly evident in labour-intensive sectors such as manufacturing, agriculture and services. The cumulative nature of FDI stock thus ensures not only direct employment through the projects themselves but also broader economic benefits that contribute to sustainable development. The data used in the current paper does not permit a detailed exploration of this theoretical mechanism; this is left for future studies.

As mentioned above, the quality of jobs created by Chinese FDI is sometimes questionable. As shown in Section 4, construction and mining make up a large share of Chinese

investments in Africa. A strand of argument in the 'suspicion narrative' discussed in Section 3 is that these sectors are wont to offer short-term employment opportunities with limited long-term contributions to skill development and structural transformation. To examine this aspect, we consider the impact of Chinese FDI stock and flow on the share of employment in industry across Africa (Table 3, Panels E and F). The results show that initial effects of FDI flow are negative and significant in the short term. For instance, at t+1, a 1% increase in FDI flow reduces industrial employment by 0.16% (Table 3, Panel E). This suggests that short-term FDI inflows may displace local labour, perhaps due to automation and imported labour. However, these effects dissipate over time, becoming insignificant six years after. The results on FDI stock are similar (Table 3, Panel F). The labour displacement effect disappears within 5 years, suggesting that the initial disruptions caused by FDI stock are mitigated as investments mature and the industrial sector adjusts to new technologies and production processes.

The above mixed effects raise the need for strategic domestic policies and institutional frameworks to shape FDI outcomes. For example, countries with robust labour market policies, local content requirements and mechanisms for skills transfer are better equipped to maximise the benefits of FDI and mitigate its potential drawbacks (Carciotto and Chikohomero, 2022). Conversely, weak governance structures may exacerbate dependency on resource extraction and hinder broader industrialisation efforts. This raises the need for African countries to bring agency to their engagement with foreign partners.

Table 3: Effect of Chinese FDI on employment in Africa, panel fixed effects OLS (2003 – 2022)

	DEPENDENT VARIABLE: TOTAL UNEMPLOYMENT									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Panel A	t+1	t+2	t+3	t+4	t+5	t+6	t+7	t+8	t+9	t+10
Flow of Chinese FDI	-0.051 (0.050)	-0.007 (0.051)	-0.050 (0.051)	-0.085 (0.053)	-0.043 (0.055)	-0.010 (0.058)	-0.024 (0.062)	-0.022 (0.063)	-0.028 (0.064)	-0.071 (0.065)
Number of obs.	697	667	638	612	579	542	513	478	440	403
Number of groups	44	44	44	44	44	44	44	44	43	43
Adjusted R-sq.	-0.003	0.010	0.016	0.003	0.011	0.030	0.025	0.015	0.021	0.030
Within R-sq.	0.092	0.106	0.115	0.106	0.117	0.140	0.139	0.137	0.148	0.165

F-stat	2.767***	3.245***	3.549***	3.253***	3.611***	4.326***	4.296***	4.152***	4.431***	4.877***
Panel B	t+1	t+2	t+3	t+4	t+5	t+6	t+7	t+8	t+9	t+10
Stock of Chinese FDI	-0.126** (0.064)	-0.124* (0.064)	-0.143** (0.066)	-0.192*** (0.068)	-0.160** (0.069)	-0.159** (0.072)	-0.167** (0.076)	-0.191** (0.079)	-0.273*** (0.084)	-0.340*** (0.088)
Number of obs.	774	737	699	661	622	582	542	501	459	418
Number of groups	44	44	44	44	44	44	44	44	43	43
Adjusted R-sq.	0.009	0.014	0.023	0.032	0.034	0.033	0.034	0.044	0.071	0.084
Within R-sq.	0.093	0.101	0.113	0.124	0.130	0.134	0.141	0.157	0.186	0.207
F-stat	3.159***	3.419***	3.836***	4.243***	4.410***	4.476***	4.649***	5.124***	6.121***	6.731***
	DEPENDENT VARIABLE: YOUTH UNEMPLOYMENT									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Panel C	t+1	t+2	t+3	t+4	t+5	t+6	t+7	t+8	t+9	t+10
Flow of Chinese FDI	-0.033 (0.096)	-0.038 (0.098)	-0.023 (0.099)	-0.107 (0.104)	-0.040 (0.107)	0.025 (0.114)	-0.057 (0.121)	-0.048 (0.121)	-0.119 (0.124)	-0.189 (0.125)
Number of obs.	697	667	638	612	579	542	513	478	440	403
Number of groups	44	44	44	44	44	44	44	44	43	43
Adjusted R-sq.	0.001	0.008	0.011	0.003	0.009	-0.001	-0.004	-0.013	-0.011	-0.018
Within R-sq.	0.095	0.105	0.110	0.106	0.116	0.112	0.113	0.112	0.120	0.124

R-sq.										
F-stat	2.890***	3.209***	3.384***	3.246***	3.550***	3.370***	3.400***	3.294***	3.477***	3.502***
Panel D	t+1	t+2	t+3	t+4	t+5	t+6	t+7	t+8	t+9	t+10
Stock of Chinese FDI	-0.269**	-0.265**	-0.283**	-0.368***	-0.313**	-0.294**	-0.305**	-0.350**	-0.528***	-0.617***
	(0.124)	(0.127)	(0.130)	(0.133)	(0.136)	(0.143)	(0.149)	(0.153)	(0.159)	(0.167)
Number of obs.	774	737	699	661	622	582	542	501	459	418
Number of groups	44	44	44	44	44	44	44	44	43	43
Adjusted R-sq.	0.026	0.030	0.035	0.034	0.027	0.013	0.003	0.008	0.026	0.029
Within R-sq.	0.109	0.115	0.123	0.126	0.124	0.116	0.113	0.125	0.147	0.160
F-stat	3.757***	3.973***	4.242***	4.295***	4.180***	3.798***	3.622***	3.944***	4.619***	4.905***
	DEPENDENT VARIABLE: EMPLOYMENT IN INDUSTRY									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Panel E	t+1	t+2	t+3	t+4	t+5	t+6	t+7	t+8	t+9	t+10
Flow of Chinese FDI	-0.164***	-0.198***	-0.198***	-0.111**	-0.056	-0.043	-0.000	0.027	0.046	0.031
	(0.059)	(0.058)	(0.056)	(0.054)	(0.053)	(0.055)	(0.055)	(0.057)	(0.058)	(0.058)
Number of obs.	697	667	638	612	579	542	513	478	440	403
Number of groups	44	44	44	44	44	44	44	44	43	43
Adjusted R-sq.	0.144	0.151	0.153	0.142	0.129	0.095	0.071	0.051	0.029	0.004

Within R-sq.	0.225	0.234	0.239	0.231	0.222	0.197	0.180	0.168	0.155	0.143
F-stat	7.971***	8.341***	8.547***	8.217***	7.765***	6.543***	5.823***	5.290***	4.659***	4.127***
Panel F	t+1	t+2	t+3	t+4	t+5	t+6	t+7	t+8	t+9	t+10
Stock of Chinese FDI	-0.251*** (0.076)	-0.194*** (0.074)	-0.144** (0.073)	-0.095 (0.070)	-0.039 (0.068)	-0.009 (0.069)	0.000 (0.071)	-0.021 (0.073)	-0.051 (0.076)	-0.076 (0.078)
Number of obs.	774	737	699	661	622	582	542	501	459	418
Number of groups	44	44	44	44	44	44	44	44	43	43
Adjusted R-sq.	0.167	0.166	0.161	0.153	0.136	0.111	0.079	0.044	0.031	0.008
Within R-sq.	0.239	0.240	0.238	0.234	0.223	0.205	0.181	0.157	0.152	0.142
F-stat	9.630***	9.617***	9.405***	9.129***	8.424***	7.429***	6.267***	5.139***	4.776***	4.251***

Notes: Fixed effects OLS. Estimations include year fixed effects, real GDP, gross fixed capital formation, population and trade balance. Observations vary because panel is unbalanced.

6. Strengthening African agency

To avoid being swallowed up in a scramble, African countries must shift from passive FDI recipients to strategic partners. This is crucial given the long-term risks associated with the current trajectory of foreign interest in Africa. Countries must adopt a more proactive approach in their negotiations, with a focus on value-chain upgrading, regulatory reforms and regional integration.

Prioritising value-chain upgrading is key, that is to say ensuring that raw materials are processed locally rather than being exported in unprocessed forms. For example, Ethiopia has made significant progress in recent years in upgrading its textile value chain. The country's Hawassa Industrial Park, for example, serves as a model of how strategic investment can lead to local job creation, technology transfer and value addition. Similarly, Rwanda has moved towards technology-driven industries. One of the country's key initiatives is the Kigali Innovation City, a project aimed at creating a regional technology ecosystem. These countries demonstrate that it is possible for African nations to climb the

value chain and capture greater economic benefits from their natural and human resources.

In addition, African countries should, in the first instance, target sectors where they have comparative advantage, such as agro-processing and low- and medium-tech manufacturing, with clear plans to diversify into more sophisticated sectors. Localising production would not only create jobs but also drive industrialisation. In the long run, this strategy will reduce Africa's dependence on foreign capital and external demand for raw materials. Two specific policy actions are relevant here. Firstly, African countries need to enforce local content laws that require foreign investors to include a certain percentage of local inputs in their operations. Secondly, African governments need to negotiate deals that mandate the establishment of domestic processing facilities as part of any resource extraction agreement.

Moreover, stronger local regulations are necessary to ensure that foreign investments align with national development priorities and to hold investors accountable for environmental, social or economic impacts. For example, resource extraction activities in several countries involve child labour, including mining in the Democratic Republic of Congo and cocoa plantations in Ghana and Cote d'Ivoire . This is a local upstream problem that requires stronger local regulations which downstream international partners cannot or will not fix. African countries will benefit from stricter enforcement and monitoring of existing labour laws where they exist and creation of laws that prevent exploitation where they do not already exist. To regulate mining activities, stronger environmental impact assessment (EIA) frameworks are required.

Finally, the reality is that no single African country can stand up to China or any other global power alone. A regional multilateral approach is essential. Self-preserving bilateral partnerships can only yield sub-optimal outcomes and expose the continent to exploitation. The African Continental Free Trade Area (AfCFTA) could offer a continental negotiation framework for African countries to collectively negotiate better terms and minimise unequal power dynamics with China or other international partners. Moreover, through intra-African trade among African countries, AfCFTA can enable the development of industries that cater to the continental market, rather than relying solely on exports to the global market. Consequently, countries will capture more value from their resources and move beyond the role of raw material suppliers. This, in turn, can create jobs and reduce poverty across the continent.

But in spite of its promise, the progress of AfCFTA is hindered by some notable challenges. One significant hurdle is the lack of harmonised policies across member states, particularly in trade facilitation (Odijie, 2019). Different customs procedures, tariff structures and non-tariff barriers present obstacles to the free flow of goods and services across borders. Inadequate physical infrastructure connecting African countries is another important challenge. While AfCFTA aims to boost intra-African trade, the continent's transportation and logistics systems are often underdeveloped. The cost of moving goods and personnel therefore remain high. In addition, the capacity of individual countries to enforce trade agreements varies significantly, with many nations lacking the institutional frameworks necessary for monitoring compliance and settling trade disputes. If African countries are serious about their agency within international partnerships and about

economic self-sufficiency, overcoming the above challenges should be at the top of their agenda.

7. Conclusion

While Chinese investments in Africa have contributed to much-needed infrastructure development, they have also raised concerns about reinforcing old patterns of extraction and resource dependency. While the 'suspicion narrative' raises concerns over exploitation and dependency, the empirical results in this paper highlight the potential for long-term development benefits from accumulated FDI stock. Policymakers therefore need to ensure that foreign investments align with national developmental priorities and balance short-term gains with long-term opportunities for economic transformation. Moreover, the results echo calls for African nations to adopt strategic approaches in negotiating with foreign investors, prioritising employment creation, value-chain upgrading and sustainability over short-term gains. As other foreign interests like Russia, Turkey and the EU begin to follow China's template, African leaders must take a more critical stance. Rather than welcoming any investment with open arms, they must strategically guide foreign investments towards sectors that promote industrialisation, value chain upgrading and local development. Stronger regulations, regional cooperation and a focus on value addition are critical to ensuring that Africa benefits from this new era of foreign interest, rather than falling victim to another round of resource extraction.

8. Literature

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9. Appendices

A. Variable definition and sources

Variable	Definition	Data source
Total unemployment (%)	Share of the total labour force that is without work but available for and seeking employment	World Development Indicators
Youth unemployment (%)	Share of the labour force aged 15-24 without work but available for and seeking employment	World Development Indicators
Chinese FDI flow (million USD)	Net inflows of investment from China to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor	SAIS-CARI
Chinese FDI stock (million USD)	Total value of FDI from China in a country at a point in time	SAIS-CARI

Real GDP (US$)	GDP at purchaser's prices, in 2015 constant US dollars	World Development Indicators
Population	Headcount of all residents regardless of legal status or citizenship	World Development Indicators
Gross fixed capital formation (% of GDP)	Share of GDP invested in fixed capital, including land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings	World Development Indicators
Trade balance (% of GDP)	Value of exports of goods and services minus imports of goods and services, as a share of GDP	World Development Indicators

B. List of countries and summary statistics (mean values only)

Country	Total unemployment (%)	Youth unemployment (%)	Employment in industry (%)	Chinese FDI stock (million USD)	Chinese FDI flow (million USD)	Population (million)	Real GDP (billion USD)	GFCF (%)	Trade balance (%)

Algeria	12.65	29.01	29.79	1255.05	113.38	37.97	172	34.39	5.07
Angola	16.32	35.27	7.76	1146.69	92.59	26.12	73.8	26.69	15.07
Benin	1.46	3.26	19.69	63.83	9.81	10.30	10.8	20.56	-4.77
Botswana	19.44	36.55	17.43	167.84	19.31	2.21	13.1	26.53	-0.50
Burkina Faso	4.14	6.64	6.06	1.53	0.93	17.57	10.9	18.61	-7.57
Burundi	1.78	2.60	3.03	7.89	1.53	9.84	2.83	13.43	-19.99
Cameroon	3.89	6.36	13.09	184.77	18.64	21.67	29.3	18.73	-2.28
Cape Verde	12.57	26.36	20.90	6.80	0.13	0.54	1.65	-	-21.66
Central African Republic	5.78	10.48	6.36	26.65	12.95	4.76	1.97	14.15	-13.43
Chad	0.98	1.37	6.89	277.28	21.53	13.17	8.81	25.48	-4.35
Comoros	4.95	10.16	16.27	3.12	0.09	0.70	0.909	15.32	-18.99
Congo, Dem. Rep.	4.15	7.57	8.84	1952.13	269.70	73.72	32.5	19.14	9.65
Congo, Rep.	20.24	41.41	23.61	485.05	58.43	4.72	9.96	38.55	-4.83
Cote d'Ivoire	4.61	6.51	11.30	212.74	43.65	22.63	42.2	19.11	1.13
Djibouti	26.46	71.77	5.16	56.02	8.46	0.96	2.76	28.45	4.72
Egypt	10.32	27.63	24.61	565.23	80.31	92.89	311	16.38	-6.40
Equatorial Guinea	8.28	15.86	14.00	197.21	8.97	1.23	11.6	27.04	25.43
Eritrea	5.80	10.29	8.86	113.21	16.19	3.21	2.1	15.61	-32.76

Eswatini	27.60	54.34	24.75	0.00	0.00	1.12	3.78	14.31	-5.45
Ethiopia	2.70	4.12	7.42	1120.10	101.92	96.66	55.8	34.31	9.00
Gabon	19.52	35.49	12.92	157.13	14.53	1.87	12.8	24.54	-
Ghana	4.58	8.85	16.17	767.75	88.39	27.29	44	20.01	-10.59
Guinea	5.06	6.64	6.13	359.53	56.63	11.07	8.75	21.38	-18.49
Guinea-Bissau	3.26	4.09	10.06	29.15	0.59	1.69	1.1	19.39	-13.10
Kenya	3.43	8.37	13.70	807.85	122.10	44.05	64.1	19.62	-9.78
Lesotho	16.36	23.82	32.31	7.90	1.52	2.10	2.07	27.77	-53.84
Liberia	2.63	2.65	9.60	138.96	18.34	4.27	2.72	-	-
Libya	19.14	49.25	24.43	121.59	-12.07	6.22	65.2	18.17	18.46
Madagascar	2.76	3.84	7.18	273.60	23.39	23.41	10.8	22.42	-9.15
Malawi	5.01	6.77	7.40	122.85	1.74	15.96	8.21	-	-
Mali	1.70	2.67	8.10	204.93	13.15	17.03	12.2	19.31	-10.39
Mauritania	10.09	18.05	16.26	99.61	15.25	3.72	5.66	34.43	-10.97
Mauritius	7.59	23.47	27.74	634.78	85.81	1.25	10.8	20.73	-7.27
Morocco	9.76	19.71	22.05	148.18	15.81	33.57	99	27.49	-9.21
Mozambique	3.35	7.08	6.40	527.99	68.16	25.35	13.5	-	-27.39
Namibia	20.89	41.18	15.12	223.74	6.25	2.21	9.51	22.06	-13.41
Niger	1.26	2.28	7.35	491.75	85.46	18.77	8.83	26.03	-13.69

Nigeria	4.17	10.18	12.07	1586.50	164.26	174.00	412	-	-
Rwanda	12.06	16.86	8.68	80.27	7.21	11.04	7.51	21.20	-14.77
Senegal	3.56	4.34	18.61	126.98	7.35	13.58	17	23.73	-16.08
Sierra Leone	3.97	6.39	7.55	90.23	4.86	6.91	4.03	15.23	-20.31
Somalia	18.90	33.97	16.03	0.00	0.00	13.19	6.21	15.07	-47.28
South Africa	22.57	41.65	22.30	3880.58	438.78	53.77	321	16.89	0.44
South Sudan	12.60	19.24	14.96	20.15	2.06	9.77	16.9	9.92	16.76
Sudan	14.04	25.40	14.88	789.08	36.67	36.49	52	15.92	-3.51
Tanzania	2.78	4.85	6.23	724.18	78.72	49.78	42.7	34.03	-
Togo	2.87	5.24	16.29	68.34	6.06	7.05	5.25	18.68	-11.64
Tunisia	14.97	34.15	33.09	13.02	1.62	11.25	42.3	21.34	-7.32
Uganda	3.06	4.63	7.26	357.47	57.41	35.58	28.9	24.03	-9.60
Zambia	9.45	19.06	9.19	1683.09	210.14	15.14	18.3	31.06	2.12
Zimbabwe	6.00	9.80	9.89	960.79	89.65	13.74	17.2	9.45	-12.31

C. Correlation matrix

	1	2	3	4	5	6	7	8	9
FDI stock	1								
FDI flow	0.4425*	1							
Total unemployment	0.0731*	0.0082	1						
Youth unemployment	0.0680*	0.0091	0.9613*	1					

Employment in industry	0.031	0.0125	0.4597*	0.4575*	1			
Population	0.4895*	0.2373*	-0.1993*	-0.1582*	-0.0483	1		
GFCF	0.0925*	0.0786*	0.0840*	0.1016*	0.1278*	0.0644	1	
Real GDP	0.5443*	0.2503*	0.1163*	0.1625*	0.2500*	0.8033*	0	1
Trade balance	0.1537*	0.0826*	0.1222*	0.1919*	-0.0101	0.2329*	0	0.2172* 1

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