Threats and Opportunities Developing Nations of Africa Can Draw From the Foreign Direct Investment From Russia and China

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The 21st century has seen the world superpowers, such as Russia and China and multi-lateral agencies encourage backward states to embrace and promote foreign direct investment (FDI) as an instrument to improve domestic production which will lead to economic growth and development. This is premised on the fact that FDI comes with transfer of technology, new and advanced management approaches, technical skills, and access to international markets. However, researchers have shown that occasionally FDI inflows achieve the opposite as they compete for the same markets with local industries and, as a result, they crowd out local industries leading to higher unemployment. Further, research has shown that most international financial crises were caused by rapid withdrawal of FDI. In essence, FDI can have positive and can also have negative effects on economic growth. Against this background, this discussion seeks to outline and look at the threats and opportunities that backward states, such as those in Africa will draw from the 21st century FDI from world superpowers.

Keywords: economic threats, economic opportunities, developing nations, foreign direct investment, superpowers, economic growth, economic development

Introduction

Mason and Sanjyot (2012) defined foreign direct investment (FDI) as capital flows resulting in the behaviour of multinational companies. FDI has also been explained as investment in or acquisition of foreign assets with the intent to control and manage them. However, whilst the attention has been on growing economies to attract FDI, there are many factors by which governments may attract or detract FDI, for instance, government policies have been discussed extensively in literature as a major contributing factor for FDI (Anyanwu, 2008). Promoting governments regulate FDIs through policy interventions to safeguard their interests as well as those of the indigenous people. Governments also craft policies to control and regulate the flow of FDI, so that local political and economic concerns are addressed. The major reason why most multinationals seek foreign investment is for the benefits of their own firms and countries, but these interests may clash with hosting government’s hence the regulation of FDI through policies.
There has been a substantial increase in FDI in developing countries since the first decade of the 21st century, and while Africa did not initially benefit from the boom, the picture is starting to change. The region had abandoned the wall from the global economic and financial crisis and the path to recovery was hampered by the image of uncertainty and instability in the political arena (Goldstein, 2004). However, despite these challenges, such as the global financial crisis in 2008/2009, inadequate infrastructure, corruption and conflict, the negative image due to political upheaval in North Africa, the Africa continent was a growth hotspot in 2011 with a 24% increase in FDI projects as investors remain hopeful of an African renaissance. Asiedu (2004) believed that another reason for poor FDI inflows into African continent is because of the continent’s approach to attracting FDI. Asiedu further argues that policies implemented in other developing regions have not been successful in Africa. This suggests that Africa had a different set of factors that determine FDI inflow and some entails high return on capital, openness to trade, competitiveness, macro-economic indicators, political stability, transparent financial markets, and natural resources.

Emerging powers, namely, Russia and China are said to be playing an increasingly consequential role in Africa, and are set to deepen their impact upon political, economic and security dynamics across the continent in coming years. Activism of emerging powers, namely, China and Russia in Africa takes several forms, measured in terms of the goals pursued and the means used to pursue such economic goals. FDI, aid and trade agreements are the more familiar forms of interaction by which emerging powers engage the African continent (Ali, 2011). China, for instance, has significantly invaded the African continent with its FDI since the turn of the new millennium followed by Russia and Indian mining companies which are expanding into Zambia and DRC to the infrastructure construction undertaken by Chinese firms across the continent. It has, however, been argued that emerging powers are therefore bringing financial capital, business acumen and new models of development and diplomacy to the continent. In doing so, these emerging powers see Africa as a resource partner, an export market, and a relatively uninhabited geopolitical space in which they can leverage their growing influence. Very little has been theorised on the costs and benefits of bi- and multi- lateral relations with China and Russia, thus this research needs to focus on the costs and benefits of the bi- and multi- lateral arrangements (Anyanwu, 2008).

**Literature Review**

This chapter will scrutinise henceforth making an in-depth review of the literature on the costs and benefits that emerge in continents, such as Africa from bi- and multi- lateral economic and political arrangements from Russia and China. The review mainly focuses on the major aspects relevant to the study at hand and it is mainly based on theoretical, conceptual, and empirical reviews. Bi-lateralism refers to a situation in which two countries or organisations have a trade agreement to work together to achieve something (Ali, 2011). Therefore, a bi-lateral trade agreement deliberates preferred trading status between two nations by giving them access to each other’s markets, thus resulting in increased trade and economic growth. These terms of the agreement will homogenise business operations and level the playing field (Amadeo, 2020). Bi-lateral agreements are easier to negotiate, hence saving time. Bi-lateral agreements have tremendously enlarged to more than 50 percent of the negotiations which have taken place within these 300 agreements in 2005.

Thompson (2014) indicated that multi-lateral trade agreements are treaties of commerce between three or more nations. This agreement homogenises business operations and commerce regulations by creating fair labour
standards and environmental protection. The goals are to keep one signatory country from pilfering the other’s intellectual property, dumping products at a cheap cost, or using unfair subsidies. The treaties are intended to discuss such benefits as they reduce tariffs and make it easier for participating countries to import and export products, giving expanded access to each other’s markets and increasing their country’s economic growth.

Theories of Multi-national Business Finance and Trade

There are many theories used to explain bi- and multi-lateral arrangements between one country and other countries of the world, some of which are explained below.

Comparative Advantage Theory. The theory of comparative advantage stipulates that all countries benefit in trade irrespective of one nation being able to produce all goods more cheaply than the other nation. These nations can still trade under conditions where each can benefit, thus a resultant effect of strengthening their bond. David Ricardo in the 19th century postulated that even countries or regions which are not the most efficient commodity producers can still participate in and benefit from international trade (Baron & Kemp, 2004). According to this theory, two countries should do business together even though one dominates the other in the production of two or more goods. Hence, this theory justifies the need of having bi- and multi-lateral agreements among nations.

Opportunity Cost Theory. The theory was proposed by Gottfried Haberler in 1959. Using an example, it states that if Zimbabwe produces tobacco by utilizing its human resources worth of $10 million and exports to the US in 2012. The opportunity cost of this project is: If Zimbabwe developed software packages by utilizing the same human resources and exported the same to the USA in 2012, the worth of the exports would have been $100 million. The opportunity cost approach specifies the cost in terms of the value of the alternatives which have to be foregone in order to fulfill a specific art. Thus, this theory provides the basis for international business in terms of exporting a particular product rather than other products. The previous example suggests that it would be profitable for Zimbabwe to develop and export software packages rather than tobacco to the USA.

The Vent for Surplus Theory. International trade absorbs the output of unemployed factors. If the countries produce more than the domestic requirements, they have to export the surplus to other countries. Otherwise, a part of the productive labour of the country must cease and the value of its annual produce diminishes. Thus, in the absence of foreign trade, there would be surplus productive capacity in the country. The surplus productive capacity is taken by another country and in turn gives the benefit under international trade. According to this theory, the factors of production of developing countries are fully utilized. The unemployed labour of the developing countries is profitably employed when the surplus is exported.

Product Life Cycle Theory. The theory developed by Raymond Vernon in the 1960s proved to be a good frame of reference for explaining and predicting patterns of international trade, and of multinational companies as well. This can be considered the theory that unifies the development of multinational companies, showing without doubt that trade flows are linked to the international trade. The theory suggests that a trade cycle begins when a product is made by the mother company, then by its subsidiaries, and then by any other company anywhere in the world, where the production costs are the lowest possible. At the same time, the theory explains how a country that initially appears as an exporter of the products can end as an importer, when the product reaches the last stage of its life cycle. The essence of this theory is influenced by the technological innovations and market expansion. Technology is the main factor in the development and creation of new
products, whereas the size and the structure of the market are generated by the expansion and the type of internationalization adopted by the firm. In other words, the international Product Life Cycle Theory stresses that a company will begin to export its product and later take on foreign direct investment as the product moves through its life cycle. Eventually, a country’s export becomes its import. Although the model was developed around the US, it can be generalized and applied to any of the developed and innovative markets of the world. Figure 1 describes the international product life cycle.

Heckscher-Ohlin Model. According to the Heckscher-Ohlin Model, it states that a country should specialise in production and export using the factors that are most abundant, and thus the cheapest. Thus, this allows the operational activities to flow at a low cost which enables less to be spent by bi- and multi- lateral companies in Africa. This gives an insight that countries should export products that utilise their plentiful factor endowments and import products that utilise the countries’ scarce factor endowments. This implies that a capital-abundant country will export products from its capital-intensive industries to labour abundant countries, and the labour-abundant countries by importing capital-intensive goods will in return export labour-intensive products to the capital-abundant countries. The Heckscher-Ohlin Model highlighted that factor endowment differences could be a basis for trade, and that trade could lead to factor price convergence between trading partners which in turn is a benefit for bi- and multi- lateral arrangements. Free trade agreements across boarders vary, for example, the AANZFTA signatory countries are likely to vary greatly depending on specific economic circumstances of a particular country. For example, the Australian government publicly supports the benefits of bi-lateral and regional FTAs, despite the current government’s strong statements that the Doha Round of multi-lateral trade negotiations remains Australia’s number one trade reform priority (Ali, 2011).

Costs of Sino-Russia FDI Arrangements to Africa

The costs that are encountered due to the emerging of bi- and multi- lateral arrangements possess as drawbacks. They include their complex nature and the risk of polarization and distortion of comparative advantage or misled specialisation only to mention a few.

Complexity. Complexity refers to a state of being intricate or complicated. Multi-lateral agreements are difficult to enforce. Their nature of taking a long time to finalise as they will be negotiations makes them become
time-consuming, hence other partners tend to lose interest due to the lengthy process. Despite that the details of the negotiation are specific to trade and business practices, the time they take is lengthy (Asiedu, 2004). That means the public often misunderstands them. Consequently, they receive lots of controversy and protests. Another disadvantage is that, since trade barriers disappear, smaller businesses cannot compete with giant multinationals. They often lay off workers to cut costs. Others move their businesses to a participant country where the wages are low.

**Trade diversion.** Hine (1994) argued that the risk that trade diversion outweighs trade creation is high because developing countries tend to have less efficient production methods. Findings from studies conducted on the trade effect of free trade areas (FTAs) in Sub-Saharan Africa (SSA) within the trade literature have confirmed the fragility of the estimated effect of the FTA treatment on trade flows. The findings from the studies on SSA, such as Johnson (2006), Yana and Gupta (2005) confirm the conventional belief that RTAs in SSA have not enhanced trade among member countries as a result of lack of complementary products, high external trade barriers and inadequate trade facilitation infrastructure. It is also argued further that RTAs can also lead to less product differentiation, unwillingness to import from high-cost members, small market size and lack of strong and sustained political commitments.

**Distortion of misled specialization.** There is also the danger of distortion of comparative advantages and of misled specialisation if relatively inefficient manufacturers in developing countries that are protected by the association’s high barriers to trade benefit from trade diversion. In the past, there were indeed some instances in which a poorer developing country registered a strong increase in imports of overpriced capital goods, such as machinery from its slightly more-developed partner country, resulting in considerable distribution effects to the disadvantage of the poorer developing country. In two cases, it led to the end to the collapse of the association (in Kenya and Tanzania and in El Salvador and Honduras) (Schiff & Winters, 1998).

**Reduction of domestic tax bases.** A potentially unforeseen consequence of trade liberalisation is the impact of customs tariff reductions on domestic tax bases, and therefore on domestic tax collections. Whilst trade is likely to stimulate further economic activity, government treasuries and finance ministries are nevertheless concerned about the impact on indirect tax revenues. This is particularly the case with narrow-based indirect taxes such as excises, also known as “special consumption taxes” or similar titles. Trade agreements can bring forth unintended consequences, with government indirect tax revenue bases along the supply chain for imported goods dependent on customs duties. Modern, comprehensive trade agreements afford the opportunity for signatory parties to consider legislative or regulatory reforms that can further-modernise domestic tax and revenue policies.

**Overlapping memberships.** Overlapping of countries in several RTAs can trigger different commitments, orientations, and engagements of countries, and can result in conflicting objectives for DCs and LDCs. Overlapping memberships may dilute the political. However, actions, including interested parties to RTAs to enhance Free Trade Areas (FTAs), are often proposed. For example, in 2015, the COMESA, the EAC and the SADC proposed to launch a Tripartite Free Trade Area (TFFA), and further proposed to extend to the African Continental Free Trade Area (CFTA).

**Risk of polarization.** Among the potential adverse effects of regional integration, polarisation effects may occur. Moreover, in the regional context itself, adverse polarisation effects can crop up for members of the regional integration, mainly for countries at unequal levels of development (Vaitsos, 1978; Robson, 1987). The main activities of the members of the regional integration may centre in the member countries which are closer
and as such, the cost of imports and exports are relatively lower. Countries found in the centre of the regional integration might have an advantage over members found in relatively distant parts of the region. Yet the risks of polarization are often mitigated by coordinated and enhanced policies along with the efforts of the members of the integration to support production sharing and economic development.

“Spaghetti bowl” effect. The extensive proliferation of agreements has often been referred to as the “Spaghetti Bowl” Phenomenon (SBP). The Spaghetti Bowl Phenomenon was first pointed out by Bhagwati (1995) and further clarified by Bhagwati, Greenaway, and Panagariya (1998) as a set of numerous and crisscrossing PTAs and innumerable applicable tariff rates depending on arbitrarily determined and often a multiplicity of sources of origin. In short, the systematic effect is to generate a world of preferences, with all its well-known consequences, which increase transaction costs and facilitate protectionism.

Benefits of Bi- and Multi- lateral Arrangements

An opportunity or benefit refers to a condition or circumstances which put one in a favourable or superior position. The countries in a bi- or multi- lateral agreement will be in a better place to trade against other traders as they enjoy the following benefits, only to mention a few.

Import quotas. The countries have favourable import quotas which are not available for other trading partners. This intern gives them an added advantage over other traders as they will be at an advantage of providing goods and services at a reduced yet affordable price.

Stability of prices. As the arrangements clearly states guidelines from which the minimum and maximum purchase price is set. This intern causes fewer distortions on the market mechanisation and allocation of resources. No country will be allowed to sell cheaper goods only for it to take advantage over the other it is in an arrangement with.

Standardised regulations. All the trade partners will be bound with the same regulations. This helps to maintain fair competition and results in the elimination of legal costs since they follow the same rules for each country. This helps to develop stronger emerging markets which will help in the development of the country’s economy over time.

Increased multi-lateral bargaining power. Within bi- and multi- lateral agreements, the member states engage towards specific objectives and thus, share almost the same political and economic goals and objectives. This concurs with Chenoy (2008) who asserted that many countries draw together in order to use pluralism as an instrument to put together their benefits and strengthen their global and regional influence. The three main factors that are responsible for substantial trade creation and welfare gains are geographical proximity, intra-industry and inter industry trade determinants. As found by Wonnacott and Lutz (1989) and Krugman, Obstfeld, and Melitz (1991), substantial trade creation also results from economies of scale in the presence of differentiated products when the two countries signing the trade agreement are large and of similar economic size.

Enhancement of specialization. For developing countries, especially SSA countries endowed with abundant natural resources, the Heckscher-Ohlin Model implies that these countries can specialise in the production and exportation of natural resource based (that is primary) products to capital-abundant developed countries. Thus, based on the Heckscher-Ohlin Model SSA countries will be expected to trade more with developed countries or other capital-abundant developing countries (that is North-South trade) than among themselves (South-South trade). Granted that Heckscher-Ohlin Model explains the pattern of trade flows, regional trade agreements are not expected to contribute significantly to bi-lateral trade within SSA as compared...
to trade agreements with developed and/or capital-abundant developing countries (North-South trade). In addition, in situations where there are significant differences in factor endowment ratios, comparative advantage ensures that there are potential significant gains from trade creation.

**Macroeconomic stabilities.** Bi- and multi-lateral agreements can foster the implementation of sound macroeconomic policies which will in turn promote economic development. Furthermore, Martin et al. (2012) stressed out that these agreements can act as the backbone to peaceful relations by offering a political forum that entices cooperation towards some economic ambitions. According to Schiff and Winters (1998), regional integration can, in the same way, strengthen the hand against security issues or other threats. Member countries can even institutionalise a framework of macroeconomic management. In addition, Niekerk (2005) asserted that multi-lateral agreements can create a sense of insurance against macroeconomic instability, such as possibilities of trade shocks, trade war and protectionist measures of developed countries. Moreover, with asymmetric terms of trade shocks, such as with the oil resource in Nigeria and the rest of ECOWAS, insurance is an important tenant for the region.

**Deeper economic integration.** According to Lawrence (1996), regional trade agreements (RTAs) endorse “deeper” integration. RTAs persuade a deep economic integration through coordination though there may not be a complete harmonisation of standards, customs policies, or regulatory policies. Bi-lateral arrangements foster greater deeper integration mainly with the possibility of a wider range of discussions between the member countries. Thus, there might be the prospect to express views, to dialogue on the aspects of the policies, to exchange critics and to find solutions. Despite member countries having different economies, the economic integration might deepen because of the feasibility to coordinate, and trade efficiently and effectively with a relatively fewer members than in the multi-lateral agreements.

**Export opportunities.** Additional export opportunities amount to an appreciable enlargement of the market. As a result of a (usually small) number of companies in individual markets, market expansion can also be expected to lead to a rather sharp increase in competitive intensity, which will make the companies more productive and more innovative. Both effects can serve to make companies in developing countries so competitive that they are able to compete in the world market.

**Transparency within domestic tax and revenue systems.** Trade agreements offer the chance to encourage further reforms and transparency within domestic tax and revenue systems. Given the growing production of trade agreements, it is important that new agreements unlock their potential to achieve greater commitments from signatory parties to enact positive and constructive reform from FDI for African countries, such as Russia and China.

**Employment creation.** Indirect employment created by foreign affiliates in host countries, according to Nanak (2000), can be large, probably larger than that created directly. With the growth of international production, the share of employment creation by foreign affiliates is growing. Employment creation in host countries has been partly attributed to the labour-intensive nature of the economic activities established by foreign companies (World Bank, 2000). There is a wide divergence of views concerning the effect of FDI on host countries’ employment levels. The initial assumption in most host countries is that there is an increase in the level of employment when foreign investors enter a country. This view is shared by US multinationals, who contend that they are only able to maintain domestic employment in high-skill activities by transferring their labour-intensive activities abroad and employment creation. However, this is still an advantage to host countries, who are better off with this increase in employment levels than if there were no FDIs at all
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(Glickman & Woodward, 1989). Another side to this divergent view is that due to the sophisticated technology and the level of knowledge of foreign investors, host countries are not able to compete with regard to this knowledge, which eventually leads to downsizing of the labour force.

Empirical Case Study of Sino-Africa

Although the economic interactions and cultural exchanges between China and Africa go back many centuries, the contemporary Sino-Africa relationship began with the formal establishment of diplomatic ties with Egypt in 1956. China and Africa have since then become all-weather friends that understand, support, and help each other. Fifty-one of the continent’s 54 countries have established diplomatic ties with China, thus far, the most recent being South Sudan in 2011. China and Africa have shared comprehensive consensus on major international issues, common interests, and a willingness to deepen their cooperation. Frequent high-level reciprocal visits (known by some in Africa the “frequent flyer” form of diplomacy) have promoted mutual understanding and trust and have effectively boosted the development of bi-lateral ties. Currently, the first foreign visit by the Chinese foreign minister is always to Africa. China-Africa relations also contribute to both sides’ struggle for a higher international status.

Impact of Trade Arrangements on Economic Growth

According to the findings of Mussa (2011) published on the research carried out on the impact of multi-lateral development finance institutions on economic growth. She concluded that FDIs have a stronger growth impact on lower-income countries than in higher-income economies. The findings revealed that a 10% increase in multi-lateral FDIs’ commitments increase growth by 1.3% in lower-income countries, and by 0.9% in higher-income countries. It was learned that FDIs invest in productive sectors of the economy especially in developing nations hence contributing more to the GDP of that country. Important growth rates are often related with countries embracing the ongoing globalisation and increasing openness to the international bi- and multi-lateral arrangements. More so, researchers believe that participation in the international economy was the primary source of growth in many East Asian countries that have experienced fast economic development during the past 50 years (World Bank, 1993). This removes any doubt that international trade accelerates technological development. Mankiw (2004) stated that a country that exports wheat and imports steel will benefit in the same way as if it had invented a technology for turning wheat into steel.

Potential Impact of China’s Presence in Africa

The impact of China’s trade with and investment in Africa is difficult to determine in part because China’s increased presence is relatively recent, and a valid assessment will take several years. Some African sectors suffer from reduced production and employment owing to competition from China, both domestically and in third markets. Several countries are with industries that have been threatened by Chinese imports, leading to numerous factories closing. For example, in the textile industry, South Africa apparently lost between 23,000 and 85,000 and Ghana also had to close down businesses (Schiere, Ndikumana, & Walkenhorst, 2011).

African countries differ significantly in the extent of economic diversification, with Egypt and South Africa the most diversified and thus probably the least vulnerable, and some of the oil exporters totally dependent on oil revenues. The extent of dependence on China’s trade, FDI and development assistance differs greatly. China’s success has encouraged a number of African countries to imitate China’s policies. Many African countries favour the Beijing Consensus as it seeks engagement with China along lines less restrictive than those imposed by European and American partners or international organisations (Ali, 2011; Anyanwu,
This freedom, however, may be risky because China may be willing to finance projects, for example, in infrastructure that more traditional partners refuse to support because they are not sustainable. Many African economies have reaped enormous benefits from China’s rapid growth and increasingly important trade links with the continent, although other African countries have suffered from increased competition. Thus, the impact of China will depend on the commodity specialization of each country.

**China’s Outward FDI Flows to Africa**

China is by far the most important new partner of Africa in terms of political, trade, investment, and assistance relations. Its primary interests relate to the need to secure oil for its fast-growing economy. Africa, with its established and new oil fields, and relative openness to foreign investment is an obvious place to do business. The same goes for other raw materials e.g. copper and timber as well as land, with immense room for growth in agricultural productivity. Africa has also become a migration destination for many Chinese looking for new economic opportunities (Schiere, Ndikumana, & Walkenhorst, 2011). Africa is an important political partner for China, with its 53 votes at the United Nations (UN) and a voice of the world’s poor at global summits. Africa gets in return booming exports to China, cheap imports for poor African consumers, exponentially growing investment, especially in infrastructure and large volumes of development finance. And African governments tend to prefer China’s large, soft loans with few strings attached to criteria-rigged loans from the IMF or the World Bank. However, the more African economies are geared to exporting unprocessed goods, the less likely other sectors like services or manufacturing will flourish.

China has pledged to support industrialisation in Africa and some investment is indeed directed to processing, but so far most of trade and investment flows are limited to primary industries—as is the case for major traditional donors. Abundant cheap imports from China have sometimes contributed to displace local production in some African manufacturing (mainly textile) industries. The Chinese government has provided various policy incentives to encourage Chinese companies to invest in developing countries. The majority of Chinese companies in Africa are state-owned and/or heavily subsidised and politically backed by government-to-government relations when they enter a new market. Regulatory frameworks in African countries, especially on services, are not conducive to business development in general and tend to discriminate against foreign operators but Chinese companies do get legal and other types of security (Bilal & Rampa, 2011).

**Research Methodology**

The chapter explains the selection of the research design and methods that were used in collecting data on the study on threats and opportunities African countries draw from Russia-Sino FDI. According to Barnes, Grove, and Burns (2003), research design is a blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings. Research design is important because it allows smooth working of numerous research operations thereby making the research as effective as possible by providing maximum information with minimum costs in terms of time, money, and efforts. The research design used in this study was qualitative in nature and hence the specific technique employed to assess the impact of FDI by Sino-Russia was descriptive research design. A descriptive research design is used when researchers want to understand the characteristics of certain phenomena underlying a particular problem. Both secondary and primary data were collected from ZIMSTATS and RBZ monetary policy statements (MPS) (2009-2020) and respondents respectively using questionnaires and interviews.
According to Barnes et al. (2003), descriptive research is designed to give an image of the situation as it is naturally happening. Robinson (2002) stated that descriptive research is used to depict an accurate side view of people, situations, and events. According to Schindler (2003), descriptive research design was the most appropriate method as it allows the researchers to bring in both qualitative and quantitative data into consideration thereby resulting in validity and reliability of research findings. This is because the design involves different techniques of data collection to gather views from various groups of people like, civil servants, academics, and businesses and their management teams and employees. Most of the 250 people sampled using probability and non-probability methods and interviewed were academics, businessmen, RBZ and banks, government employees from the Ministry of Finance and Economic Development and Ministry of Industry and Commerce.

Findings, Analysis, and Discussion

The research data drawn from both primary and secondary data on threats and benefits African countries draw from Sino-Russia FDI are presented, analysed, and discussed as detailed below.

FDI and Technology

We discovered that the interaction between FDI and technology manifested stronger results in the case of different sectors of FDI. These initial findings indicate that if a host country has improved its levels of local technology, then foreign technology in terms of FDI diffusion is more readily absorbed. This strengthens the local economy by increasing productivity and generating jobs and by extension, reduces income inequality. Our study also confirmed that a better institutional and conducive environment is likely to reduce income inequality as it protects investors and labourers and creates a more conducive business environment. On the other hand, if institutions favour protection of foreign capital and technology, inequality can increase through obstructed technology diffusion, making it more difficult for the host country to absorb and utilize foreign technology. This finding aligns with the argument by Morgan (2016) that modern institutions tend to facilitate the protection of investors rather than workers. Our research also found that a higher share of trade in GDP is likely to lead to higher income inequality, as greater dependency on trade increases competition between foreign and domestic firms and poses a threat to the local economy. Increased competition may decrease the productivity of local firms and consequently reduce employment.

The Relationship Between FDI and Income Inequality

Our research revealed an interesting finding that FDI leads to an increase in income inequality in host countries but, when controlled for other local factors, such as absorptive capacity, human capital, the level of technology and the quality of institutions as demonstrated on Table 1.

This clearly demonstrates that the impact of FDI on host counties is determined by their local conditions. In addition, if a country increases its human capital levels (measured by proxy of tertiary education), it can be expected that income inequality will decrease. Education improves both urban productivity and the capacity to innovate which, in turn, delivers higher growth. Therefore, the level of education not only improves incomes of individuals, but also has a long-term effect on the local economy (Sharniska & Bagchi-Sen, 1995). The findings also indicate that a higher level of technology and innovation (although with a lesser degree of significance) is likely to spur income inequality, because advanced technology tends to replace workers and reduce
employment. However, although insignificant in this model, an interaction between total FDI and local technology would reduce income inequality (seen by the negative sign) through knowledge transfer.

The Impact of FDI on Total Employment in Africa

The first part of our analysis explored the impact of three aspects of FDI, namely, Greenfield FDI, FDI flows and FDI stock on total employment in the main employment sectors in Africa (see Table 2).

It was noted that in the case of Africa, a large share of Greenfield FDI is targeted at the resources sector, which is strongly associated with the extractive industries. FDI in these industries does not generally lead to significant employment creation and technology transfer (Asiedu, 2006). The Human Development Index (HDI), which is comprised of GDP, life expectancy and education, has a positive and very significant effect on increasing employment levels and shows that increased levels of wealth, longevity and learning contribute to increasing levels of employment.

Table 1

The Impact of Sectoral FDI and Other Factors on Income Inequality

| Variables                                      | Equality | Equality | Equality | Equality | Equality |
|------------------------------------------------|----------|----------|----------|----------|----------|
| Total FDI share (% of GDP)                     | ++       |          |          |          |          |
| High-tech FDI share (% of GDP)                 |          | ++       |          |          |          |
| Manufacturing FDI share (% of GDP)             |          |          | ++       |          | 0+       |
| Resource FDI share (% of GDP)                  |          |          |          |          | 0+       |
| Services FDI share (% of GDP)                  |          |          |          |          |          |
| Absorptive capacity                            | 0+       | 0+       | ++       | 0+       | 0+       |
| Total FDI share and absorptive capacity        | ++       |          |          |          |          |
| High-tech FDI share and absorptive capacity    | ++       |          |          |          |          |
| Tertiary enrolment                             | +++      | ++       | 0+       | ++       | ++       |
| High-tech FDI share and tertiary enrolment     | --       |          |          |          |          |
| Resource FDI share and tertiary enrolment      |          | 0-       |          |          |          |
| Technology index                               | -        | 0-       |          |          | 0-       |
| Institutions                                   | +        | +        | 0+       | 0-       | 0+       |
| Total FDI share and institutions               | --       |          |          |          |          |
| High-tech FDI share and institutions           |          |          |          |          |          |
| Manufacturing FDI share and institutions       |          |          |          |          |          |
| Resource FDI share and institutions            |          |          |          |          |          |
| Trade share (% of GDP)                         |          | 0-       |          | 0-       | 0-       |
| Initial per capita GDP growth                  | 0+       | ++       | 0-       | 0+       | 0-       |
| 2. Central Africa                              | 0+       | 0-       | 0+       | 0-       | 0+       |
| 3. East Africa                                 | 0-       | 0-       | 0-       | 0-       | 0-       |
| 4. West Africa                                 | 0+       | ++       | 0+       | 0-       | +        |
| 5. Southern Africa                             | 0-       | 0+       | 0+       | 0-       | 0+       |

Source: Krau, Walland and Hansen (2011), based on DI Markets and various additional data sources

+++ Very significant and positive relation; ++ More significant and positive relation; + Significant and positive relation; -- Very significant and negative relation; --- More significant and negative relation; - Significant and negative relation; 0+ Not significant but positive relation; 0- Not significant but negative relation.
Table 2

Impact of Greenfield FDI, FDI Flows and FDI Stock on Total Employment

| Variables                        | Total Employment (Greenfield FDI) | Total Employment (FDI Inflows) | Total Employment (FDI Stock) |
|----------------------------------|-----------------------------------|-------------------------------|-----------------------------|
| Greenfield FDI                   | 0+                                |                               |                             |
| FDI Inflows                      |                                   | 0+                            |                             |
| FDI Stock                        |                                   |                               |                             |
| Human Development Index          | +++                               | +++                           | +++                         |
| Working Population (15-64)       | 0+                                | 0+                            | 0+                          |
| Trade openness                   | +++                               | +++                           | +++                         |
| Percentage of mobile phone users | +++                               | +++                           | +++                         |
| Trade openness and percentage of mobile phone subscribers | --- | --- | --- |
| International Country Risk Guide | --- | --- | --- |

Source: Wall Mehta and Kau, 2016, based on data from different sources.

Higher GDP levels affect employment in several ways which include education and investment (Amendolagine et al., 2013). In addition, education proved to be a significant factor contributing to higher employment. Rwanda has improved its FDI investment through administrative and institutional reforms, but foreign investors still experience a lack of human resources there (Mutebi, 2018). On the other hand, the size of the working population (aged 15 to 64) does not appear to have any significant impact on employment, although the sign is positive. Trade openness is a measure of how open a country is to global trade, also has a positive and indeed a very significant impact on total employment because openness enables local firms to increase their exports. When the export productivity of local firms increases, the demand for labour goes up. In addition, trade openness amplifies inward FDI through which the number of direct and indirect jobs increases.

Threats of Sino-Russian FDI to African Countries

The impact of FDI on host economies may differ depending on the mode and motives for entry on behalf of MNCs. Special concern has been raised as to the effects of mergers and acquisitions on potential host countries in Africa as opposed to Greenfield’s new investment. These concerns, being expressed both in developed and developing countries are caused by some special features of Mergers and Acquisition. These do not raise employment to the same degree as would Greenfield investments. On the contrary, Merger and Acquisition may imply laying off or the closing of some production and functional activities. These may include headquarters and research and development departments. The taking over of existing activity rather than establishing new also implies that mergers and acquisitions will not immediately add to aggregated productivity. Strategic action can reduce competition once it takes place as a part of aggressive strategies to impede domestic competition.
Artificial Monopolies

Lankes and Venables (1996) argued that by their access to finance and advanced technical and management expertise, MNEs can possibly force all local competitors out of business, which can lead to market dominance by MNEs. Once such monopolistic power is obtained, MNEs can then raise prices and extract excessive profits, potentially eliminating any overall benefit of FDI. Lankes and Venables (1996) went further warn that monopolistic power gained by MNEs is a risk associated with FDI that should be closely monitored by host countries.

Destructive Competition

Singh and Jun (1996) indicated that, because MNEs often have skills, technology, and capital that local firms cannot match, FDI may create damaging competition to local firms, and that this is often cited as a primary negative spill-over from FDI. This is a significant and complex risk to evaluate. Lehman and Moody (2002) noted that it is certainly true that local firms can be damaged or even put out of business and that unemployment can result.

Environmental Degradation

New production facilities may lead to environmental degradation. A frequent argument is that MNCs attempt to locate polluting facilities where environmental controls are the weakest. It is true that most developing countries have fewer environmental regulations and less ability to enforce regulations, which may result in terrible accidents and great environmental harm being caused by MNCs (for instance, the Bhopal chemical disaster oil pollution in India in 1984). However, there is no good evidence of MNCs being more likely to pollute than domestic firms. Evidence may actually point the other way because MNEs, due to their higher profile, are seen to be more sensitive to environmental issues than local firms are (Mallampally & Sauvant, 1999).

Exploitation of Natural Resources

Graham (1995) added that environmental and natural resources costs may also be involved, requiring careful consideration of the short-term advantages to be gained from FDI and the longer-term implications for the country’s resource base and general state of the environment. The large-scale exploration and exploitation of natural resources is often associated with large-scale environmental damage. Graham further argues that sometimes, and even more importantly, politico-strategic interests could also be at stake when FDI comprises a large component of the total investment and involves a loss of control over strategic sectors of the economy, vital infrastructure, and natural resources. Moreover, in some circumstances, the country’s sovereignty may be at stake.

Foreign Control of Economies

One of the main fears, particularly among developing nations, is that they can essentially be brought and controlled by foreign powers. Land, labor, and capital are relatively cheap in countries, such as Vietnam or Taiwan. Therefore, Russia or other developed nations can come in with significant sums and buy up vast sums of the country. This is the reason why some countries place strict restrictions on FDI. Very often, investors must join a partnership with a local business in order to enter. There is still a level of domestic control; Zimbabwe has achieved this through its indigenization policy.

Loss of Domestic Jobs

When significant sums of money are transferred to another, it is an investment that would have been used in the home market. Consequently, FDI may boost employment in foreign nations, but may temporarily reduce
it at home. Instead of the funds being invested in new factories and creating jobs, it is sent abroad instead. As we have seen in the US, manufacturing jobs have been lost to the likes of Mexico, which can manufacture motor vehicles at a lower cost. Whilst this provides cheaper goods for the consumer, it can come at the cost of domestic jobs.

**Political and Economic Changes**

When investing abroad, particularly in backward states, there is huge risk that is associated. For instance, there may be huge political upheavals, or a regional war involving a new government that is not so favourable to investors from emerging powers, such as China and Russia. We only need to look at the Middle East and Africa as examples. Nevertheless, even in many Asian countries, there is a possibility of the unknown. With rising tensions between China and Japan, there are risks of conflict as well as political uncertainty which are likely to impact on FDI flows to Africa and other emerging economies of the world. Karombo (2015) observed that a significant increase in the number of Chinese companies operating in Zimbabwe does not reveal corresponding records showing that these firms were remitting tax revenue to government or the treasury. About 20% indicated that mislead specialisation is another cost of trade arrangements. This was supported by Schiff and Winters (1998) when they noted that there is a danger of distortion of comparative advantages and of misled specialisation if relatively inefficient manufacturers in developing countries that are protected by the association’s high barriers to trade benefit from trade diversion. This was also supported by Stiglitz (2001) when he argued that free trade agreements (FTAs) are not right for developing countries because they are not negotiable but rather an imposition.

**World Bank Estimates of FDI and GDP of African Countries**

Figure 2 demonstrates the patterns of FDI and GDP given by the World Bank to some African countries between 2000 and 2018.

![Figure 2. World Bank Estimates of FDI and GDP Estimates of Countries (Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, International Debt Statistics, and World Bank and OECD GDP estimates).](image-url)

FDI measured as net capital inflows (% of GDP) in Zimbabwe was 2.40 as of 2018. Its highest value over the past 48 years was 6.94 in 1998, while its lowest value was -0.45 in 1987. From the period under review,
shown by the graph, there was an increase in FDIs and decrease in GDP. This means that there is no benefit Zimbabwe is getting from the bi- and multi- lateral economic and political arrangements by Russia and China. The increase in FDIs and GDP shows that there was a benefit in bi- and multi- lateral relationships.

![Figure 3. Chinese FDI Levels and Inflation Statistics for 2000-2018 (Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, International Debt Statistics, and World Bank and OECD GDP estimates.)](image)

**Reduced Regional and Global Tensions**

Historically, Zambia and China have enjoyed good relations. For instance, China lent assistance in building the Zambia-Tanzania railway to by-pass trade routes opposed to black majority rule when neighboring countries were under white minority rule. Other donors refused. Zambia in turn co-sponsored the United National General Assembly resolution in 1971 to restore China’s seat on the Security Council. Today, the Zambia-China relationship has come to focus more on business and trade than ideology. In 2006, the Forum on China-Africa Cooperation published “China’s African policy”, which includes the Chinese government’s support for competent Chinese enterprises to cooperate with African nations in various ways. The policy was mainly centred on the principle of mutual benefit and common development, to develop and exploit rationally their resources, with a view to helping African countries to translate their advantages in resources to competitive strength and realize sustainable development.

**Sharing Technology, Knowledge, and Culture With Russia**

Foreign direct investment allows the transfer of technology, knowledge, and culture. For instance, when a firm from the Russia invests in another from Zimbabwe, it has a say in how the firm is run. It is in its interest to ensure the most efficient use of its resources is strictly adhered to. What happens as a result is that useful techniques or ways of conducting business are transferred (Ali, 2011; Anyanwu, 2011). By coming in from a different cultural background and perspective, often, efficiencies can be achieved. Furthermore, there is the case of technology. It can be transferred over in several ways. Firstly, employees benefit from having first-hand access to the new technology. They may then be able to use this to start their own ventures. Secondly, the technology could be outright purchased from a foreign nation. For instance, copyright technology could be sold
from Company A in the Russia to Company B in Zimbabwe. Finally, the technology could be reverse-engineered or provide inspiration for domestic development.

Conclusions and Recommendations

The 21st century FDI from emerging superpowers, such as Russia and China has really come in handy in trying to fight poverty and grow the backward economies of Africa, such as Zimbabwe. It can be undoubtedly stated, based on this research that these superpowers have filled in the shoes that had been left by the deserting European and American giants following the humanitarian crises of the late 20th century (Blanton & Blanton, 2012). Although these superpowers have really contributed immensely to the economic emancipation of Africa, backward African economies have also suffered consequences as ransom for the FDI they have received. In any case, these superpowers are also aiming to further grow their economies and prove their worth to their world rivals, such as the USA and the UK. Coming to Africa is not some sort of charity, but is a well calculated business move, which is motivated by the underexplored natural resource based on the continent. Some of the terms they bring in might not be favourable, but it goes without saying that these superpowers have brought a lot to the African continent.

Many African countries have already done much to create a more business-friendly environment to promote both local and foreign direct investment (FDI). Many have also made impressive progress towards political and economic stability. In their efforts to revive economic activity, they have scaled down bureaucratic obstacles and interventions in their economies, embarked on privatization programs and are putting in place pro-active investment measures. Some countries that not so long ago been torn apart by civil unrest or war have recovered and are growing again, although this growth has to be nurtured, given recent developments in the world economy.

FDI, in Africa which can make an important contribution to the economic development of the continent, has increased only modestly in recent years, as the image of Africa among many foreign investors still tends to be one of a continent associated mainly with political turmoil, economic instability, diseases and natural disasters. However, although these problems persist in some African countries and although they are a serious impediment to the development of these countries, little attempt is often made to differentiate between the individual situations of more than 50 countries of the continent. As a result, many African countries are not even listed for consideration by TNCs and MNCs, let alone make it on to the “short list” of most emerging superpowers when it comes to locational decisions for FDI, despite offering a number of attractions to foreign investors. The study concluded that a number of “frontrunners” has emerged which has attracted above average amounts of FDI not only in traditional sectors of developing nations, such as mining and petroleum, but also in manufacturing and service industries. Most importantly, from the viewpoint of foreign companies, investment in Africa seems to be highly profitable, more profitable indeed than in most other regions of the world.

In light of the above research conclusions, we recommend that Zimbabwe should employ policies that direct the economy towards self-reliance and sustainable development, limited borrowing, producing mineral and agricultural commodities that are processed to realise value beneficiation. The country should also address domestic ills such as use of bogus currency or repressed financial system, greed, corruption, nepotism, political instability, policy inconsistencies, inflation and unemployment rates and all competitive imbalances created by one-sided trade practices which destroy the local industries and scare genuine and rational providers of FDI. Zimbabwe has to make its Monetary Authority and Electoral Commission autonomous and independent to be able to bargain for collective ownership of the economy by all nationals for growth towards sustainable
development and political stability (Sigh et al., 2008). Serious tightening of screws is required at the border controls for anti-smuggling of minerals and externalisation of proceeds to China through informal corridors.

Unfair protection tendencies by the government have been noticed in remittance of taxes by Chinese companies, thereby, short-changing revenue collection by the country. It was alleged that Chinese and Russian nationals and companies were characterised by unfair labour practices corruption, product dumping and counterfeiting, natural resource exploitation, tax evasion, externalisation of foreign currency, smuggling of minerals such as gold, coal, chrome and diamonds and fabrication of work permits in Zimbabwe. It is recommended that trade agreements should be debated in parliament before they signed, especially in African countries where there is democracy, so that the pros and cons of each agreement are fully scrutinized. This will prevent a nation from entering in agreements that are substandard that is which benefits the initiator of the agreement alone, but all parties to the agreement rather. It is also recommended further that Africans must engage in Regional Trade Arrangements. The government of Zimbabwe for instance must be transparent and have well written contracts which stipulate the terms and conditions which can be easily retrieved by both parties as and when need arises.

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