Chinese Foreign Direct Investment in sub-Saharan Africa: a risk for democratization?

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1. Introduction

Over the past two decades, Chinese Foreign Direct Investment (FDI) in Africa has rapidly increased. While China invested 491 million US dollars in 2003, the investments went up to 46 billion US dollars in 2018 (SAIS-CARI, 2020). This growth in FDI started when in 1996, a new relationship between China and Africa was established which was driven by increased demand from China for resources. These resources were necessary for China's fast-growing economy. Moreover, when China manufactures goods in, and exports goods from African states, they have better access to Europe and America. So, local African markets are used to avoid trade barriers to the European and American markets (Klaver & Trebilcock, 2011, p. 168). Therefore, for the first time, China became the largest trading partner of Africa, ahead of France, the United Kingdom and the United States (MOC, 2010).

During his visit to Gabon in 2004, President Hu Jintao emphasized the freedom of political conditions for this relationship, especially the mutual benefit that constitutes this relationship (Alden, 2005, pp. 147-164). Thus, this new relationship was not only to help China, but also African countries in terms of development and growth (Donou-Adonosou & Lim, 2018, pp. 63-64). But, according to Klaver and Trebilcock (2011, pp. 168-169) Chinese investments are self-interested. The investors encourage African states to liberalize investment laws to allow them to operate locally. The projects have limited benefits and high costs. Chinese FDI does not transfer the skills, employment and technology as expected (ibid.).

This paper goes further than the impact on economic performance and development in Africa, it analyses the effect Chinese FDI has on democratization. Various studies research how Chinese investments contribute to development and the economy in Africa (see e.g. Donou-Adonosou & Lim, 2018; Klaver & Trebilcock, 2011; Busse, Erdogan & Mühlen, 2016). But studies on how Chinese investment contributes or affects democratization are lacking. Being a relatively new subject and with new data becoming available every year, this thesis will use a newer timeframe in relation to other studies (see e.g. Rui, 2010; Klaver & Trebilcock, 2011; Lee, 2015). By focusing on the aspect of democratization and using a new timeframe the following research question will be studied: How does Chinese FDI affects democratization in sub-Saharan Africa?

The results, using a linear regression analysis that is based on 44 countries over the period 2003-2018, indicate that Chinese FDI does not have an impact on democracy. The analysis

shows, however, that Western FDI does promote democracy. Further on, two case studies demonstrate that it depends on the quality of the domestic government whether Chinese FDI has a positive effect on sub-Saharan African democracies.

The findings provide important implications. It enables a better understanding of the effect of Chinese FDI on sub-Saharan democracies. The findings provide a warning to countries that are not free and that are high in natural resources, which suggests that NGOs should pay close attention to, and try to strengthen, the domestic governance of sub-Saharan African countries. The results of this study should also help African government authorities to better choose or diversify their economic partners.

The rest of this paper proceeds as follows. The next section reviews existing literature on the effect of investments on development and democratization and develops hypotheses. The third section introduces the research design to test the hypotheses. The fourth section presents the results of the analyses. Thereafter, to examine the effect of Chinese FDI on democracy in more detail, two case studies are conducted with an additional regression analysis. The final section concludes and gives implications for further research.

2. Literature Review

2.1 The rise of China

Being the second largest economy in the world, that is constantly growing, China demands more natural resources every day (World Bank Group, 2020). This hunger for resources increased after China joined the World Trade Organization in 2000 and exports grew steadily (Dollar, 2016, p. 14). For this reason, investments in manufacturing and equipment from China increased (ibid.). Starting with its 'Going Global' policy in 2002, it tried to get these resources from countries overseas (Cheung et al., 2012, p. 5). Therefore, China's outward stock Foreign Direct Investment (FDI) went from $33 US billion in 2003 to almost $2.000 US billion in 2018 (SAIS-CARI, 2020). These FDIs are defined by Jensen (2003, p. 588) as private capital that flows from a parent company to a location outside the parent company's home country. A large share of this FDI from China goes to Hong-Kong. Sub-Saharan Africa receives a relatively small, but significant part (SAIS-CARI, 2020).

Figure 1 shows the growth of Chinese FDI in sub-Saharan Africa. By receiving half of a billion US dollars in 2003 from China, the investments in sub-Saharan Africa went up to $46 US billion in 2018. With currently more than 10.000 Chinese firms operating in Africa, China is a leading investor in Africa (Sun, Jayaram & Kassiri, 2017, pp. 9-10). Since 2000, trade between China and Africa has also been increasing around 20 percent per year (ibid.). Furthermore, China is the largest and fastest-growing source of construction finance and aid in Africa (ibid.).

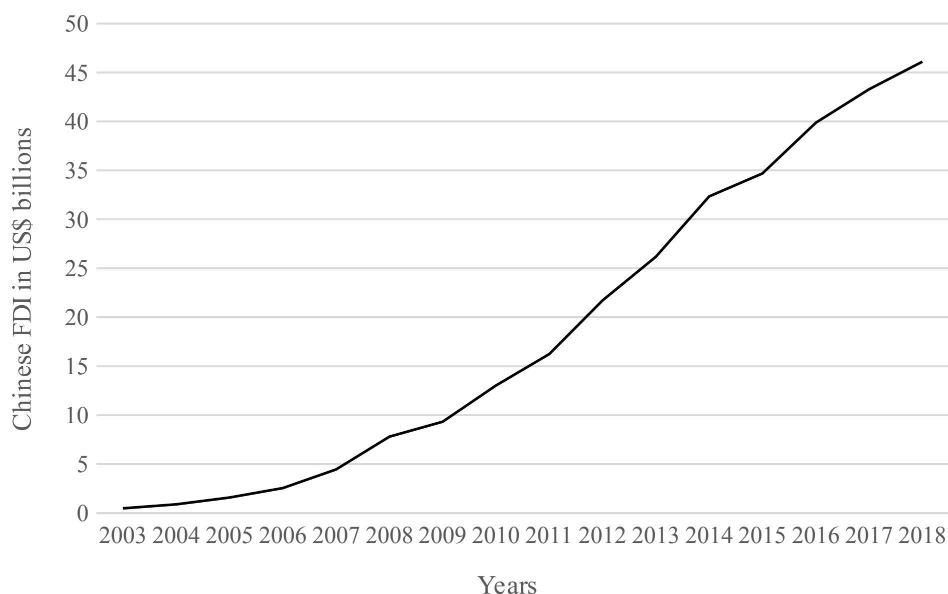

Figure 1: Chinese stock FDI in sub-Saharan Africa (US$ billions) (SAIS-CARI, 2020)

2.2 Chinese objectives FDI

It is important to start with an overview of the motivation of Chinese FDI in Africa. Cheung et al. (2012, p. 20) confirm that the resource-seeking investment motive is foremost important in attracting Chinese FDI to Africa. Therefore, countries with large natural resource endowments receive large flows of Chinese FDI (Busse et al., 2016, p. 255). This demand for natural resources, with in particular minerals and oil, is quickly increasing. In 2013, the average oil consumption was ten million barrels a day (Lee, 2015, p. 132). At this moment, consumption is doubled as opposed to a decade before. After the Middle East, Sub-Saharan Africa has the world's largest oil reserves. This means that China draws around 30% of its oil from Africa (ibid.).

A secondary motivation is that the liberal investment climate of African states facilitates China's growing investments. According to Klaver and Trebilcock (2011, pp. 170-171), the reason why this liberal investment climate is formed is because International Financial Institutions (IFIs), such as the World Bank and the International Monetary Fund, encouraged African states to adopt liberal investment laws. The IFIs imposed conditions on African loans to encourage African states to adopt Economic Recovery Programs (ERPs). To stimulate growth and productivity in African countries, the programs deregulated trade regulations in order to attract Foreign Direct Investment. For this reason, when China manufactures goods in, and exports good from Africa, they can overcome trade barriers to European and American markets. Thus, the liberal investment laws that now attract Chinese investors were encouraged by IFIs.

China wants to encourage African states to establish an even more liberal investment climate (Klaver & Trebilcock, 2011, p. 172). It seeks to stimulate investment by using bilateral investment treaties (BITs) and special economic zones (SEZs). Besides liberalizing the investment climate in Africa, the Chinese state is closely linked to Chinese FDI in three other ways (Klaver & Trebilcock, 2011, pp. 173-176). The first way is by financial assistance. The Chinese state provides resource backed loans to African states, which are defined by Adam et al. (2020, p. 3) as "loans provided to a government or a state-owned company, in which the repayment is made in the form of natural resources". Angola received the largest amount of these loans in sub-Saharan Africa (Adam et al., 2020, p. 10). Between 2000 and 2016, they received over 24$ US billions worth of oil-backed loans (ibid.).

Most of these loans are 'tied', which is the second way the Chinese state is linked to Chinese FDI (Klaver & Trebilcock, 2011, pp. 173-176). This means that African states that accept Chinese loans must hire Chinese companies when spending these loans. Finally, the Chinese state controls and owns large Chinese companies investing in Africa (ibid). Chinese state-owned enterprises are involved in important sectors such as infrastructure, mining and tele-communications. Thus, by providing African states with loans, stimulating Chinese companies to invest in Africa and by owning or controlling large Chinese enterprises that invest in Africa, the Chinese state is closely linked to Chinese FDI in Africa.

2.3 Chinese FDI impact on development

The qualitative study of Klaver and Trebilcock (2011, pp. 181-188) points out different ways Chinese investment contributes to African development. First of all, the Chinese demand for resources raises commodity prices, which is an important source of income for African governments. The raise of oil prices due to Chinese demand explains the growth in oil exporting countries. Secondly, the Chinese investments contribute to infrastructure. Furthermore, the capacity to extract reserves, raising employment of Africans, granting market access, benefiting African consumers and the development of manufacturing all contribute to African growth (ibid.). But Klaver and Trebilcock (2011, pp. 188-196) find that these benefits come with some disadvantages. The Chinese infrastructure projects come with high costs, which means that the benefits of the contribution to the infrastructure may be exceeded by the costs. Furthermore, Chinese FDI does not transfer as much spillover in skills, technology and employment as expected. Finally, given that African manufacturing is already weak, Chinese FDI may de-industrialize Africa by defeating African firms (ibid.).

Klaver and Trebilcock (2011, p. 196) find that the corresponding exploitation of natural resources also comes with its disadvantages. The Chinese exploitation of natural resources causes economies with poor governance to reduce output in Africa. Corrupt politicians use resource revenues to reduce taxation of earned income, since taxation lowers demands for accountability (Klaver & Trebilcock, 2011, pp. 196). The exploitation also causes the country's currency to rise in value against other currencies which makes the country's other export activities less competitive. This so-called resource curse undermines the legal system and transparency necessary to prevent corruption.

Lee (2015, p.158) confirms these findings with a quantitative study. By looking at Chinese oil investments in sub-Saharan Africa he concludes that the governance effects are harmful or neutral. The recipient's countries are less likely to have good governance with lower levels of corruption control and political accountability. This harmful political effect seems to be from only Chinese oil investments, and not from Western oil investment. He finds, however, that the presence of Chinese oil investments do have beneficial economic effects. The recipient countries are more likely to have a faster growing economy.

These findings are in line with the results of Donou-Adonosou and Lim (2018, p. 71). They compare the impact of Chinese FDI and that of Africa's traditional partners on the standard of living in Africa. The results of their study indicate that Chinese investment is beneficial for both China and Africa in terms of economic growth. However, they find that investment from the United States and Germany, raised income per capita more than China. Soumaré et al. (2016, p 175) also compare the differences between FDI inflows in Africa from China versus Western countries. By looking further than economic growth, they conclude that the role played by good governance is the main difference between Chinese and Western investments (ibid.).

2.4 Chinese FDI impact on democracy

The effect of foreign direct investment on democracy is debated in a general way by Li & Reuveny (2003). They make a distinction between neoliberalists and dependency theorists, that both have different views on the impact of FDI on democracy. The neoliberalists argue that by encouraging economic development and transparency, globalization promotes democracy (Li & Reuveny, 2003, pp. 32-35). But, according to the dependency theorists, FDI obstructs democracy. The FDI keeps the governments from being accountable to its citizens and it causes social polarization. Li and Reuveny (2003) confront these theoretical positions with cross-sectional data. They find that foreign direct investment inflows positively affect democracy, but this effect becomes weaker over time.

To study the Chinese sub-Saharan relation more specific, Adam et al. (2020) look in their study at eleven different countries across sub-Saharan African who received in total $66 billion US dollars of resource backed loans from China. They analyzed the quality of government in the loan recipient countries. The countries who received the resource backed loans are Angola, Chad, the Democratic Republic of Congo, Ghana, Guinea, Niger the

Republic of Congo, São Tomé and Príncipe, (South) Sudan and Zimbabwe. Adam et al. (2020, p. 7) find that eight of these countries have poor or failing democracy scores. These countries fall into the bottom half of the regional ranking for democracies. Since Adam et al. (2020) only study the resource backed loans and do not look at the Chinese FDI itself, this literature comes short.

With a cross-sectional analysis, Davidsson (2020, pp. 861-867) studies the economic interaction with China and democracy in Africa. This economic interaction is captured with different variables being imports, exports, foreign direct investment and aid. The focus on his study, however, is mostly on imports and exports since the data used on aid and FDI is collected from unofficial sources and subject to underreporting. Davidsson (2020, p. 877) finds that imports have a weak but positive relation to democracy. The relationship with exports to China seems to be lacking. He concludes that Chinese economic activities, on purpose or not, do not have a negative impact on democracy in African states.

So, the literature has looked at the impact of China on African democracy through loans, imports and exports, but not at Chinese FDI specifically. The impact of Chinese FDI, however, is studied on economic growth, corruption and political accountability, but misses democratization. Corruption and low political accountability undermine development, yet it may also undermine democracy. Since Chinese FDI is linked to resource backed loans that lower democracy scores (Adam et al., 2020), Chinese FDI probably has a negative effect on democratization. Therefore, the following hypotheses can be drawn:

H_0: Chinese FDI has no effect on democratization in sub-Saharan Africa.

H_1: Chinese FDI has a negative effect on democratization in sub-Saharan Africa.

In order to compare the effect of Chinese FDI on democratization in Africa to the rest of the world, the investments from Western countries are also taken into account. While Chinese investments are almost in all African countries, Western countries will require host countries to comply with good governance practices (Soumaré et al., 2016, p. 169). Western investments tend to hold off from countries with poor governance in terms of rule of law (Chen, Dollar & Tang, 2018, p. 612). On the other hand, Chinese investments are mostly made in African countries with more natural resources such as minerals and coal. These investments tend to be indifferent to the quality of the governance (ibid.). Knowing that Western FDI are particularly in countries with good governance, the following hypotheses can be made:

H_0: Western FDI has no effect on democratization in sub-Saharan Africa.

H_1: Western FDI has a positive effect on democratization in sub-Saharan Africa.

3. Methodology and data

The Freedom House Ratings have provided two sets of ratings for all countries and regions each year since the early 1970s (Freedom House, 2020). It is a global report composed of descriptive texts and numerical ratings for each country and a select group of territories. One set is about political rights and the other is about civil liberties. These ratings have been used by different researchers in democratization (e.g. Knack, 2004). Countries have a score of 1 to 7, with lower values indicating higher degrees of freedom. In the analyses, the ratings are reversed so that a higher value indicates a more democratic country. On an equally weighted basis, the combination of the overall score for political rights and the overall score for civil liberties determines the status of not free, partly free or free.

The political rights index analyses the electoral process, political pluralism and participation and the functioning of government in any given country (Freedom House, 2020). The civil liberties index analyses the freedom of expression and belief, associational and organizational rights, the rule of law and personal autonomy and individual rights. According to Knack (2004), the political rights index approaches the standard definition of democracy better than the civil liberties index, but according to USAID (1988) civil liberties are still an important part of democracy (Knack, 2004, p. 254). Civil liberties such as freedom of speech, freedom of association and freedom of assembly are necessary conditions for free and fair elections (USAID, 1998). Therefore, civil liberties are a component of democracy and used in the analysis. In the analysis the two sets of ratings are used. They are used as a combined index with a value ranging from 2 to 14, and separately, with a value ranging from 1-7. To look at potential growth of democracy scores, the change between 2003 and 2018 in democracy scores is taken as the dependent variable. Therefore, the Freedom House Ratings from 2018 are subtracted from the 2003 Freedom House Ratings. Subsequently, the ratings are reversed so that a higher value represents a more democratic country. Therefore, a negative value means that the country has become less democratic.

As well as the Freedom House Ratings, an alternative index is controlled for in the analyses. This alternative index is a revised combined Polity5 score. This dataset covers all independent states over the period 1800-2018 and constantly monitors regime changes (The Polity Project, 2018). Consisting of six component measures, the polity score measures key qualities of executive recruitment, constraints on executive authority and political

competition and changes in the institutionalized qualities of governing authority. The dataset provides a 10-point scale of democracy and a 10-point autocracy scale, with higher scores representing a more democratic country and lower scores representing a more authoritarian country. By taking the difference in the democracy and autocracy scores, the Polity5 score can vary from a -10 to 10, respectively from autocracy to democracy. In the analysis the difference between the 2003-2018 Polity5 score is taken. This difference shows the positive or negative change in the Polity5 score. A positive value indicates that a country has become more democratic whereas a negative value indicates that a country has become less democratic.

SAIS-CARI (2020) has combined Overseas Foreign Direct Investment figures from the Statistical Bulletins of China's Outward Foreign Direct Investment and the China Statistical Yearbooks of various years. The earliest year for reports of Chinese Investment is 2003, when China's national budget first became publicly available online. This is also the year the statistical analysis starts. The dataset has a few limitations as it does not capture smaller investors and does not record acquisitions that include African assets, but that took place in another jurisdiction. Yet, the SAIS-CARI dataset is the only one available on Chinese investments and is therefore used in the statistical analysis. The data on Chinese FDI has been converted to millions of US dollars. To use the data in the analysis, the Chinese FDI is taken as a percentage of GDP, which is gathered from the World Development Indicators (World Bank Group, 2020a). Thereafter, an average of these percentages is taken over the years 2003-2018. This is done for the Chinese flow investments, as for the Chinese stock investments.

In 1964, the United Nations Conference on Trade and Development (UNCTAD) is established as a permanent intergovernmental body. UNCTAD (2020) compiles, validates and processes various data collected from international and national sources, including data on foreign direct investments. In order to compare Chinese investment to Western investment, this data is used. The UNCTAD (2020) data consists of 195 countries, including China. Therefore, China is subtracted from the FDI data. Because Western countries and China are the largest investors in Africa (UNCTAD, 2019) the UNCTAD data with the subtracted Chinese investments is considered as Western investments.

Knack (2004, p. 256) found in his study that changes in democracy may be related to changes in per capita income. Economic development is seen as beneficial for the emergence of democracy. Therefore, control variables include the growth in per capita income from 2003 to 2018 and the initial level of per capita income (Knack, 2004). An initial democracy index is added as control variable to control for the limited opportunity of highly democratic countries to increase their democracy ratings (ibid.). For the likelihood that democracy ratings will decrease when a country is in conflict, a control variable for the years a country is in conflict, is added. This data about conflicts is gathered from the Uppsala Conflict Data Program (UCDP, 2020). Since an abundance of natural resource is mostly associated with the neglection of good governance (Klaver & Trebilcock, 2011, p. 196), the presence of natural resources in a country are controlled for in the analysis. This is done with the initial natural resource rents, taken as percentage of GDP, from the World Development Indicators (World Bank Group, 2020a). These natural resources rents are the sum of oil, natural gas, coal, mineral and forest rents (ibid.).

Limited information is available on GDP for Djibouti and Eritrea. Therefore, these two countries are not used in the analysis on sub-Saharan African countries. The remaining 44 sub-Saharan countries are taken into the regression analysis. The Polity5 score has no information on São Tomé & Principe and Seychelles and are therefore not taken into account for the regression with the substituted democracy index. This means that the Polity5 score has 42 observations. Since Sudan split into North and South Sudan in 2011, South Sudan is left out of the analysis. So, from 2011 onwards the numbers about Sudan only involve North Sudan.

In the regression analyses there is a distinction between flow and stock investments. The methodology for these investments is from UNCTAD (2020). Foreign direct investment is seen as an investment made by a resident enterprise of one economy, with the purpose of establishing lasting interests in another economy. Hereby, flow investments are considered as all the transaction made during the years and comprise mainly three components: the acquisition or disposal of equity capital, the reinvestment of earnings and inter-company debt. Stock investments are the accumulated value held at the end of the year (ibid.).

4. Results

Variable	N	Mean	Minimum	Maximum
Chinese stock FDI as % of GDP	44	1,74	0,01	6,48
Chinese flow FDI as % of GDP	44	0,26	0,00	2,00
Western stock FDI as % of GDP	44	40,93	3,78	329,73
Western flow FDI as % of GDP	44	4,57	0,16	17,78
Change in Freedom House Ratings reversed	44	-0,27	-4	6
Change in Political Rights reversed	44	-0,11	-2	3
Change in Civil Liberties reversed	44	-0,18	-2	3
Change in Polity5 index	42	1,57	-7	9
Initial Freedom House score	44	7,84	2	14
Initial Polity score	42	1,76	-6	10
Annual growth of per capita income as % of GDP	44	4,63	1,03	9,66
Initial per capita income	44	1918,45	194,87	10923,50
Years of conflict	44	3,07	0	16
Initial Resource Rents	44	12,80	0,01	59,56

Table 1: Descriptive Statistics

The descriptive statistics of the variables are presented in table 1. Figure 2 shows the insignificant and low bivariate correlation ($r = 0.23$) between the 2003-2018 change in Freedom House Ratings and Chinese stock FDI as percentage of GDP, averaged over 2003-2018. The same results apply when Chinese flow FDI is used. Linear regression analyses, described below, confirm that Chinese stock and flow FDI is ineffectual in promoting democracy.

Table 2 and 3 present these results. In model 1, the dependent variable is the change in the reversed Freedom House Ratings from 2003 to 2018. Model 2 and 3 are there to look for any differences in the two categories of the Freedom House democracy index. Therefore, in model 2, Political Rights are set as dependent variable and Civil Liberties in model 3. Model 4 substitutes the Policy V democracy index for the Freedom House Ratings. In this model the initial Freedom House democracy score is changed into the original Polity5 score.

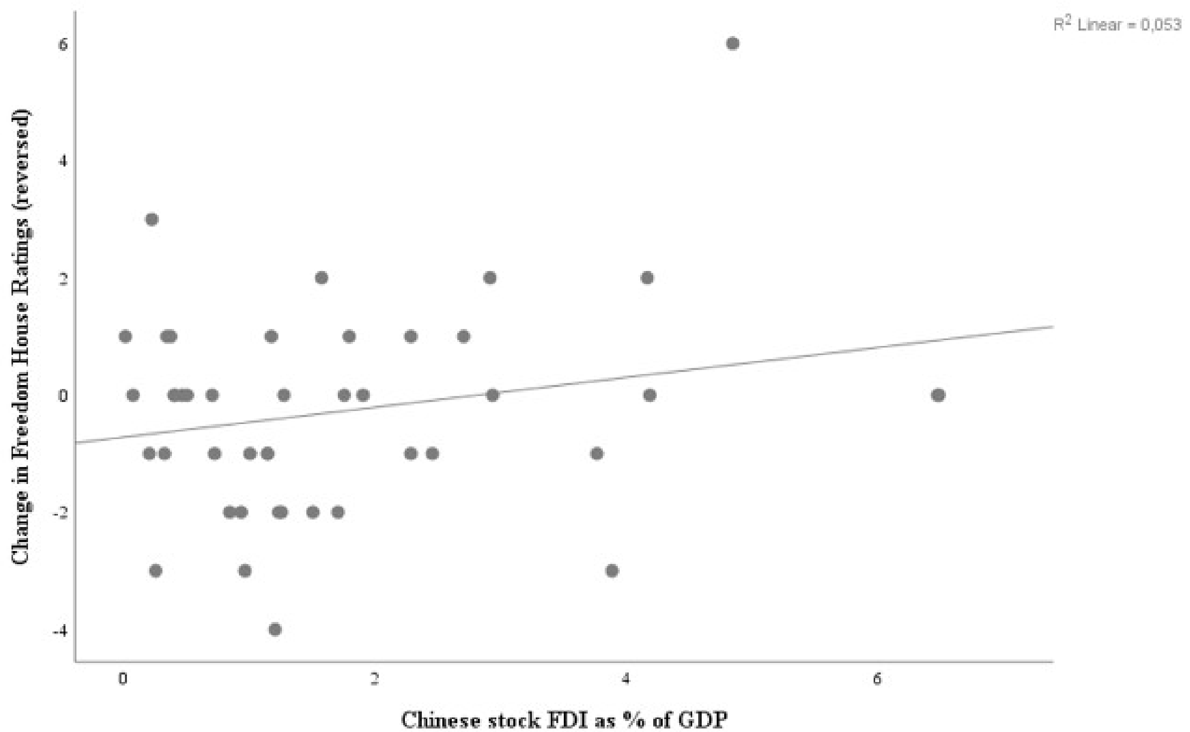

Figure 2: Chinese stock FDI and change in Freedom House Index (SAIS-CARI, 2020 and Freedom House, 2020)

First, the regressions are run for the flow investments (see table 2). Since there is no concern for multicollinearity between Chinese FDI and Western FDI as a percentage of GDP, with VIF-values below 2, both are taken together in the analyses. In these regressions, the Chinese FDI coefficients are of varying size, small, and do not reach statistical significance in the different models. Of the control variables the years of conflict is the strongest predictor of changes in the democracy indexes. As expected, the coefficients are negative and significant in every regression. So, when conflict in a certain country rises with one year, the Freedom House index decreases with 0,209 ($p<0,01$). Among the control variables, the initial democracy score also reaches statistical significance in all models. These coefficients are also

negative, which means that when a country is more democratic, there is less opportunity to increase their democracy ratings.

	Model 1	Model 2	Model 3	Model 4
(Constant)	2,675** (1,117)	1,700** (0,643)	0,991 (0,630)	3,957** (1,642)
Chinese flow FDI as % of GDP	0,173 (0,805)	0,287 (0,463)	-0,080 (0,454)	3,024 (2,179)
Western flow FDI as % of GDP	0,070 (0,066)	0,009 (0,038)	0,061 (0,037)	-0,011 (0,134)
Initial Freedom House score	-0,290*** (0,102)	-0,181*** (0,059)	-0,114* (0,058)	
Initial Polity score				-0,400*** (0,104)
Annual growth of per capita income	0,077 (0,172)	0,071 (0,099)	0,012 (0,097)	-0,184 (0,318)
Initial per capita income	0,000 (0,000)	0,000* (0,000)	0,000 (0,000)	0,000 (0,000)
Years of conflict	-0,209*** (0,065)	-0,127*** (0,038)	-0,093** (0,037)	-0,170* (0,121)
Initial Resource rents	-0,037 (0,026)	-0,019 (0,015)	-0,017 (0,014)	-0,066 (0,046)
R^2	0,376	0,392	0,296	0,380
Adjusted R^2	0,255	0,274	0,159	0,252
N	44	44	44	42

Table 2: Flow investments as independent variables

Note: unstandardized regression coefficients with standard errors between brackets

****p < 0,01, **p<0,05, *p<0,10*

Model 1: Freedom House Ratings, Model 2: Political Rights, Model 3: Civil Liberties, Model 4: Polity5 Index

In these models, a one percent increase in Chinese flow FDI as percentage of GDP does not lead to a significant effect on the freedom house ratings. This also applies for Western FDI as percentage of GDP. Since the scale of The Polity index is larger, this index tends to have larger coefficients. Chinese flow FDI has a large positive effect on the polity index, while Western flow FDI has a smaller effect. However, this index is not significant as well.

Table 3: Stock investments as independent variables

	Model 1	Model 2	Model 3	Model 4
(Constant)	2,288**	1,641***	0,659	4,236**
	(0,998)	(0,598)	(0,578)	(1,634)
Chinese stock FDI as % of GDP	-0,027	-0,040	0,024	0,123
	(0,151)	(0,090)	(0,087)	(0,352)
Western stock FDI as % of GDP	0,015***	0,007**	0,008***	0,010
	(0,005)	(0,003)	(0,003)	(0,011)
Initial Freedom House score	-0,291***	-0,193***	-0,102*	
	(0,089)	(0,053)	(0,052)	
Initial Polity score				-0,406***
				(0,106)
Annual growth of per capita income	0,149	0,099	0,055	-0,208
	(0,153)	(0,092)	(0,089)	(0,317)
Initial per capita income	0,000	0,000*	0,000	0,000
	(0,000)	(0,000)	(0,000)	(0,000)
Years of conflict	-0,198***	-0,118***	-0,091**	-0,145
	(0,057)	(0,034)	(0,033)	(0,120)
Initial Resource rents	-0,050**	-0,029**	-0,021	-0,078
	(0,022)	(0,013)	(0,013)	(0,047)
R^2	0,507	0,478	0,413	0,369
Adjusted R^2	0,411	0,376	0,299	0,238
N	44	44	44	42

Note: unstandardized regression coefficients with standard errors between brackets

$^{***}p < 0{,}01$, $^{**}p<0{,}05$, $^{*}p<0{,}10$

Model 1: Freedom House Ratings, Model 2: Political Rights, Model 3: Civil Liberties, Model 4: Polity5 Index

When stock FDI instead of flow is used in the regressions, the results of the Western and Chinese FDI change, while the control variables, besides the natural resources rent, remain mostly the same (see table 3). In this regression, as expected, a rise of 1 percent in natural resources rents, lowers the Freedom House Ratings with -0,050 ($p < 0{,}05$). The Western FDI coefficients show low, yet positive and significant relations, regarding the Freedom House index. This means that Western stock investments are effectual in promoting democracy, which confirms the hypothesis. The Chinese FDI coefficients are small and show negative coefficients. Yet, the coefficients of Chinese FDI remain insignificant. This means that Chinese stock FDI is ineffectual in promoting democracy in sub-Saharan Africa.

Since stock FDI is the accumulated total of FDI flows, stock is a better variable for understanding Chinese FDI. Therefore, stock FDI will be taken as the main variable in this study. This means that Western FDI can be seen as effectual in promoting democracy, while Chinese FDI is ineffectual in promoting democracy.

5. Additional case studies

To examine the impact of Chinese FDI more closely, two additional case studies are conducted. One of a resource rich country and the other of a country with close to no natural resources. This way, the effect of the Chinese exploitation of natural resources can be studied more closely. Zimbabwe is used as a resource rich country, and Mauritius as a country with close to no natural resources.

5.1 The case of Zimbabwe: a resource rich country

Zimbabwe is a landlocked country, located in Southern Africa, with abundant natural resources and therefore a long history of mining (Moyo, 2005, p. 188). The primary natural resources include mostly gold, copper and nickel but also coal, ore and diamonds (ibid.). Because of these natural resources, Zimbabwe is a large receiver of Chinese FDI, with an average of 770$ million US dollars a year. In figure 3, this rising amount is seen together with positive changes in Freedom House Ratings. In the following paragraphs the influence of Chinese investments on politics and economic growth in Zimbabwe are discussed.

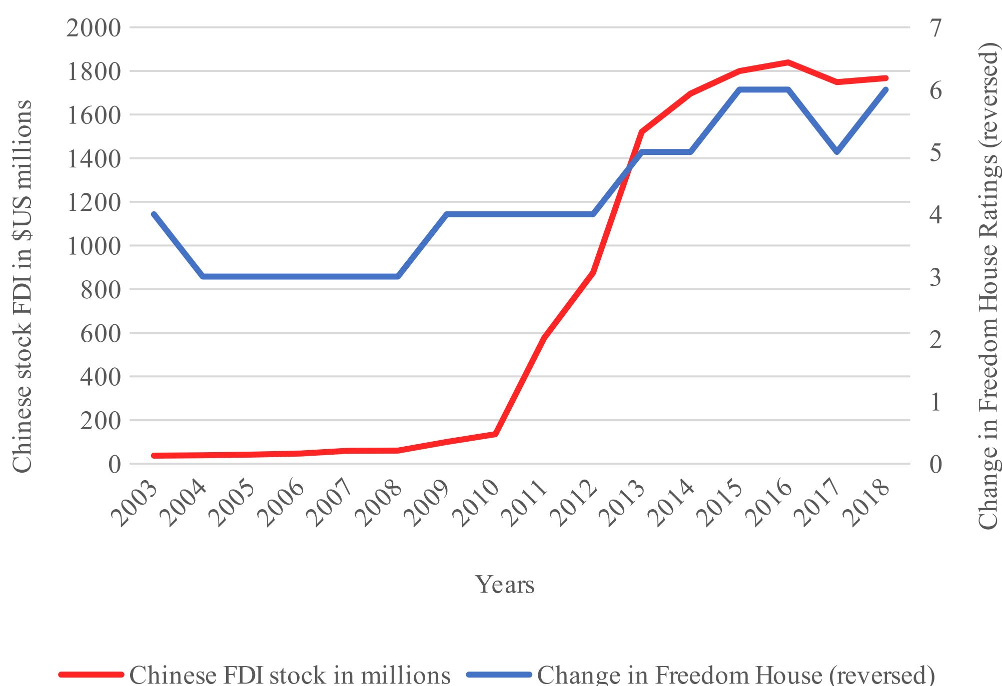

Figure 3: Chinese stock FDI and change in Freedom House ratings in Zimbabwe (SAIS-CARI and Freedom House)

In the early 2000s, Zimbabwe faced political and social-economic challenges (Chun, 2014, p.8). After being accused of undermining the rule of law and human rights violations, the

country became subjected to sanctions by Western governments (ibid.). The government of Zimbabwe, the Zimbabwe African National Union-Patriotic Front (ZANU-PF), was criticized for violating the principles of democracy, rule of law, human rights and governance. This, alongside with high unemployment levels of 90 percent, political instability, high poverty levels and hyperinflation, caused trade and investment from the West to become difficult (Ojakorotu & Kamidza, 2018, p. 29). This led to negative effects on Zimbabwe's development and economic growth (Chun, 2014, p. 8). Therefore, in 2003, the government of ZANU-PF introduced the Look East Policy (LEP). This program was introduced to promote relations between Zimbabwe and China, as a sign of commitment to support each other against Western governments (Ojakorotu & Kamidza, 2018, p. 18). The Look East Policy became a strategy that provides policy space and options to reduce the negative impact of imposed sanction-related pressures from the West.

The bilateral relation between Zimbabwe and China started during the cold war era when China assisted Zimbabwe with arms and training of freedom fighters (Ojakorotu & Kamidza, 2018, p. 20). After the liberation war was fought in 1979, and Zimbabwe gained independence, the two countries instantly established formal economic and political relations (ibid.). But the fall of communism left Western governments as the biggest supporter of social and economic development in developing countries. However, the relationship between Zimbabwe and China remained strong (ibid.). This relationship consists of benefits for the ruling elites of Zimbabwe in return for access to their extractive minerals. This means that the government of Zimbabwe allows the Chinese to operate in a tax-free environment in the mining, agricultural and commercial sectors (Ojakorotu & Kamidza, 2018, p. 23). This causes Zimbabwe to lose millions of dollars in form of tax revenue (ibid.). This way, China is making huge profits and profiting tremendously from the bilateral relationship.

According to Ojakorotu and Kamidza (2018), this relationship can be seen as a purely exploitative relationship. China has been able to extract a large number of natural resources but does not provide sustainable development in return. The Chinese business entrepreneurs do not consider human rights, governance and democratic values. They bring in workers from their own country, instead of employing Zimbabweans. Their investments are flooding the local Zimbabwean market by offering cheap products. Since national industries do not have the ability to produce quality and competitive goods, local industries are destroyed. This

results into even more unemployment. Moreover, they argue that the leader of the ZANU-PF, Mugabe, turns a blind eye towards the concerns of the citizens of Zimbabwe.

In return for the exploitation of the natural resources, China protects Zimbabwe using its veto power in the UN Security Council (Chun, 2014, p. 9). For example, in 2005, when the Security Council wanted to impose sanctions against the Zimbabwean government, China partnered with Russia to block these sanctions (ibid.). The block of these sanctions is only beneficial for the ruling elites of ZANU-PF, since the sanctions were meant to be against them (Ojakorotu & Kamidza, 2018, p. 24). These ruling elites do not want to accept that the policy is hurting the political economy of the country and therefore the Zimbabwean citizens. China also has enabled Mugabe to remain in power for almost four decades. But, in 2017, divisions in the ZANU-PF increased tensions in the party (Schütz, 2018, pp. 134-138). China sticks with the ZANU-PF but wants political and economic stability. It does not tolerate the internal disputes in the ZANU-PF. Therefore, China helped with the transition to the former Vice-President, Mnangagwa (ibid.). This end of the Mugabe era, however, does not end the control of the ruling ZANU-PF.

But despite the power of the ruling ZANU-PF, Zimbabwe is rising on the freedom house ratings and the polity5 score (see figure 3). Zimbabwe started with 4 out of 14 points on the Freedom House score in 2003 and went up to 6 in 2018. The Polity5 score even went up with 8 out of 20 points. Hogwe and Banda (2017, p. 245) argue that the non-interference policy of China might have caused this. The lack of conditions the Chinese investments have, can be beneficial for Africa's development. For this reason, African countries can formulate their own policies in line with their economic interests. Rather than serving foreign policies which have further worsened poverty in Africa. As opposed to Western countries, China also invests in infrastructure. This infrastructural development is important for poverty relief and economic growth. Thus, according to Hogwe and Banda (2017, p. 246) China cannot be blamed for neglecting good governance. Good governance remains a domestic issue which needs to be addressed by African governments themselves.

But the rise in the freedom house ratings is foremost caused by a rise in political pluralism and participation, paired with increased freedom of expression and belief (Freedom House, 2020a). Corruption levels and the rule of law are still left behind. According to Freedom House (2020a), the country still faces 'endemic' corruption. The ZANU-PF consists of a

dozen officials and businesspeople who are corrupt (ibid.). Thus, even though the freedom house ratings rise, corruption, weak rule of law, and poor workers protections remain amongst Zimbabwe. Ojakorotu & Kamidza (2018, pp. 36-37) argue that if the Zimbabwean government develops a foreign policy which protects its citizens from exploitation of their natural resources, the Look East Policy could be effective. Now, the lack of accountability and transparency in the policy has harmed any intended benefits to the local economy.

5.2 The case of Mauritius: a resource low country

By focusing on Zimbabwe, we have seen that a resource rich country can gain from Chinese investments, but at costs of corruption and weak rule of law. To see how a country with no commodity base and no natural resources responses to Chinese investments, Mauritius is studied. The independent island in Eastern Africa receives large amounts of Chinese investments yet has almost no changes in democracy scores (see figure 4). Corruption remains a problem in Mauritius since the political leadership is dominated by a small number of families (Freedom House, 2020b). But the open, multi-party system in Mauritius allows for the regular transfer of power between political parties through free and fair elections, and civil liberties are usually maintained (ibid.). The country has overall high scores on the Freedom House ratings (13 to 14), which means it is harder for the country to have positive changes in democracy ratings.

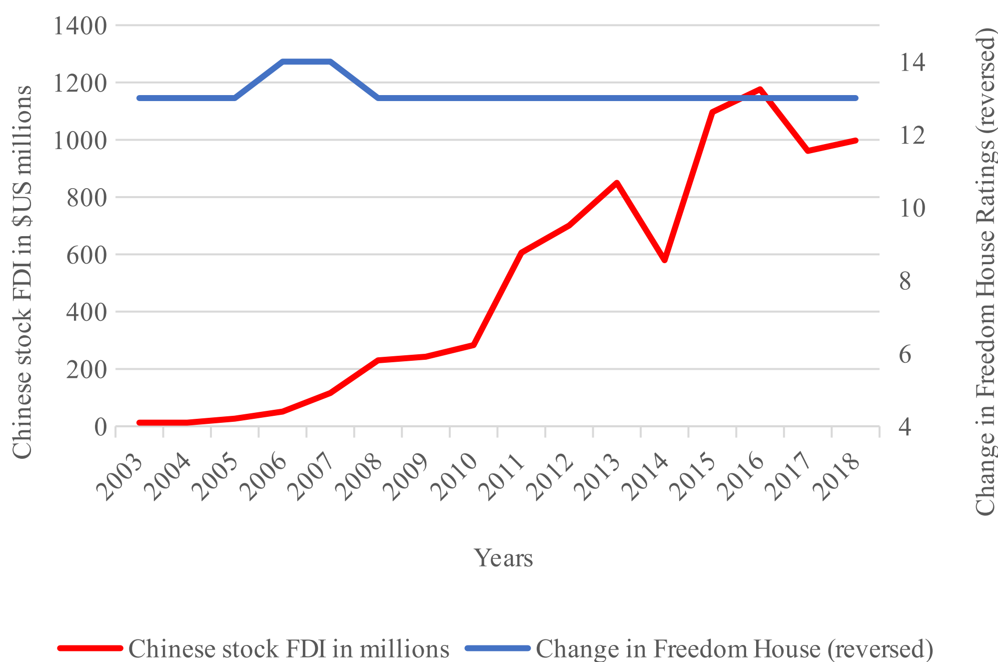

Figure 4: Chinese stock FDI and change in Freedom House ratings in Mauritius (SAIS-CARI and Freedom House)

In 1970, Mauritius adopted an export-oriented trade strategy and established an Export Processing Zone (Ancharaz, 2009, p. 4-5). For this reason, the country has low or zero tariffs on a large variance of products with a boasting liberal trade regime. When a sugar boom in 1973 led to massive fiscal and payments deficit, Mauritius adopted a set of structural adjustment programs that helped diversify the export base (ibid.). This diversification led to the production of a broad range of products, especially in the textile industry. The adoption of

structural adjustment programs responds to the increased dynamism and elasticity of the export sector. This helps to soften the adverse effects of external shocks, including the dominance of China.

The location of Mauritius in the Indian Ocean offers a strategic base for regional and international trade (Ancharaz & Mintarsingh, 2010, p. 17). Mauritius is a member of the Southern African Development Community (SADC), a free trade area, and of the Common Market for Eastern and Southern Africa (COMESA). These memberships offer access to large markets, which China can use through Mauritius (ibid). Therefore, China uses Mauritius as a base to enter the African markets. On the other hand, Mauritius benefits from China through technical assistance in infrastructure and agriculture projects (ibid.). This cooperation can be labelled as a win-win situation because the maturity and resilience of the Mauritian economy will reduce the opposed effect of China's growing control (Ancharaz, 2009, p. 6). The Mauritian laws protect foreign investors against dispossession and other risks (Ancharaz & Mintarsingh, 2010, p. 24).

Since 2002, a large part of the Chinese FDI has gone in the textile industry. But the Mauritian government has asked Chinese investors to invest into more upcoming industries such as light engineering, ICT, and pharmaceuticals. Which, in 2007, the Chinese investors did (ibid.). The Mauritian government has been important in the win-win situation between the two countries since it encouraged opening up the economy and embraced globalization (Ancharaz, 2009, p. 25). Local firms were promoted to be more competitive which opened new options for unemployed workers. The measures the government has taken enhanced the resilience of the country against external incentives.

As one of five countries, the Mauritian government is banning travelers from Taiwan due to COVID-19 (Everington, 2020). They continue to include Taiwan in their China travel ban because the Mauritian government labels Taiwan as part of China's epidemic area (ibid.). This support for the 'one China' policy, where China sees Taiwan as part of the Chinese government, is consistent with the findings of this study, where Mauritius supports China.

So, even though there are no natural resources in Mauritius, the Chinese investments keep emerging because Mauritius has the right conditions. These right conditions include fiscal incentives, semi-skilled labor and, most importantly, tax free access to the African market

through trade agreements (Ancharaz, 2009, p. 19). Because of the response to globalization from the Mauritian government, the country is resilient to external factors. For this reason, Chinese FDI does not negatively influence the democracy of Mauritius. The domestic government of an African country can thus influence the effect of Chinese FDI on democracy.

6. The cases compared

Figure 5 shows the significant (p<0,01) relation between Freedom House Ratings and the percentage of Resource Rents of GDP. It tells us that countries with high percentages of resource rents of GDP tend to have low Freedom House Ratings. On the other hand, countries with close to no natural resource rents, have high Freedom House Ratings.

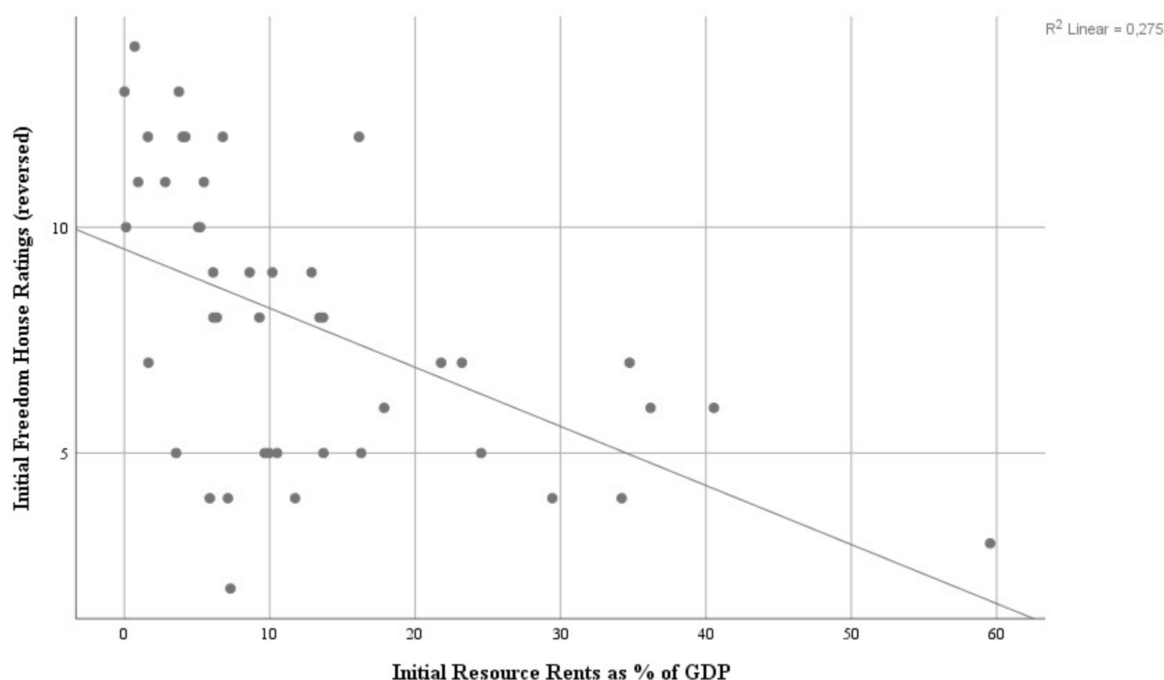

Figure 5: Initial reversed Freedom House Ratings and initial Resource Rents as percentage of GDP (Freedom House and WDI)

The connection between the high presence of natural resources and low democracy ratings is supported by the so called 'resource curse', as mentioned in the literature review. The exploitation of natural resources causes the country's currency to rise in value against other currencies (Klaver & Trebilcock, 2011, p. 196). This causes the other export activities to be uncompetitive. Moreover, the resource curse undermines the legal system and transparency necessary to prevent corruption (ibid.).

In Zimbabwe, the government allows Chinese investors to operate in a tax-free environment. The government turns a blind eye towards the concerns of the Zimbabwean citizens and enjoys the benefits for the ruling elites (Ojakorotu & Kamidza, 2018, p. 24). This country with high rents in natural resources and a low initial democracy score, has neglected good

governance. The lack of political accountability and transparency negatively influences the effect of Chinese FDI in the country.
In Mauritius, a country with almost no natural resources, the government installed a mature economy by political stability, a stable investment environment and reliable logistics (Ancharaz, 2009, p. 19). Furthermore, the government made the economy resilient to external factors, including Chinese investments (ibid.). This means that the good governance in Mauritius caused Chinese FDI to have a positive effect on the country.

So, according to the cases of Zimbabwe and Mauritius, in order for Chinese FDI to be effective and have a positive influence on the country, good governance is necessary (Ancharaz, 2009). To see whether this is true for the whole of sub-Saharan Africa, linear regressions analyses are run for stock investments with interaction variables (see table 4). Freedom House (2018) provides a freedom status for each country, which contains a free, partly free and not free status. This status is determined by the average of the political rights and civil liberties ratings. The regressions are only run for the Freedom House Ratings since this is the main dependent variable in this thesis. They are also only run for the stock investments since these capture the investments better.

In model 1, with a dummy variable for free countries, an interaction variable is created between Chinese stock FDI and free countries. By adding this interaction variable in the linear regression analysis, the effect of Chinese stock FDI in sub-Saharan African countries with a free status on Freedom House Ratings is analyzed. When the main effect is added to the linear regression analysis, the effect of Chinese FDI in free countries on the Freedom House Ratings is found. For free countries a one percentage increase in Chinese stock FDI leads on average to a positive change of 0,388 on the Freedom House Ratings. This means that in free countries, Chinese investment has a positive effect. The results are reversed for countries that are not free. This means that a one percentage increase in Chinese stock FDI leads on average to a negative change of -0,069 on the Freedom House Ratings. Even though this is insignificant, a relation is found. Thus, Chinese stock FDI has a positive effect in free countries, and a negative effect in countries that are not free.

In model 2, an interaction variable for the effect of resource rich countries on the change in Freedom House Ratings is added. The World Bank Group (2014) defines a country as resource rich when it has natural resource rents that exceed 5 percent of their GDP. Since the

dummy variable for resource rich countries has too high multicollinearity, an interaction variable for countries that have less than 5 percent of their GDP is added in the analysis. For these countries a one percentage increase leads to a positive change of 0,130 on the Freedom House Ratings. This means that Chinese stock FDI has a positive effect on countries that are not resource rich. For countries that are resource rich, the results are reversed. Here the interaction effect is 0,008. This means that Chinese stock FDI has a less positive influence on countries that are resource rich.

Thus, by comparing Zimbabwe and Mauritius, and by conducting a regression analysis, a warning to countries that are not free and have resource rents of 5 percent or higher of their GDP should be given. Resource rich countries tend to score low on democracy ratings (figure 5), which means the countries neglect good governance. But, in order for Chinese FDI to be effective and have a positive influence on the country, good governance is necessary (Ancharaz, 2009, table 3).

Table 4: Interaction effects

	Model 1	Model 2
(Constant)	0,537	2,841**
	(0,886)	(1,251)
Chinese stock FDI as	-0,069	0,008
% of GDP	(0,191)	(0,198)
Western stock	0,015***	0,011***
FDI as % of GDP	(0,005)	(0,005)
Initial Freedom House		-0,271***
score		(0,091)
Free Countries	-1,250	
	(0,858)	
Annual growth of per	0,005	0,079
capita income	(0,163)	(0,154)
Initial per capita	0,000**	0,000**
income	(0,000)	(0,000)
Years of conflict	-0,153**	-0,202***
	(0,062)	(0,061)
Initial Resource rents	-0,021	
	(0,023)	
Low resources		1,004
countries		(0,749)
Interaction Free *	0,457	
Chinese stock FDI	(0,496)	
Interaction Resources *		0,122
Chinese stock FDI		(0,328)
R^2	0,397	0,488
Adjusted R^2	0,260	0,371
N	44	44

Note: unstandardized regression coefficients with standard errors between brackets

****p < 0,01, **p<0,05, *p<0,10*

Model 1: free countries, Model 2: not resource rich countries

7. Conclusion

As China's presence in Africa grows, this paper examines the impact of Chinese FDI on democracy in Sub-Saharan Africa and compares it with Western FDI over the 2003-2018 period. With a regression analysis of 44 countries, and a distinction between flow and stock FDI, the results show that Chinese FDI is ineffectual in promoting democracy. The absence of a significant relationship between Chinese FDI and democracy ratings does not imply that Chinese FDI does not negatively influences democracy ratings. However, the results of the regression analyses do imply that the impacts of Chinese FDI on democracy in sub-Saharan Africa are small, or are balanced by other democracy-undermining influences, like conflicts and natural resources. Western FDI, however, is significant in promoting democracy in sub-Saharan Africa, as far as the stock investments are concerned. The existence of evidence that Western FDI raises democracy ratings, while Chinese FDI does not, should help African governments picking their economic partner. The findings partly correspond to the formed hypotheses. Chinese FDI is expected to have a negative effect on democratization in sub-Saharan Africa, while in fact, Chinese FDI has no effect on democratization in sub-Saharan Africa. The positive effect of Western stock FDI on the 44 investigated countries, does correspond to the formed hypotheses.

The cases of Zimbabwe and Mauritius indicate that it depends on the quality of the domestic government whether Chinese FDI has a positive effect on sub-Saharan African democracies. A resilient economy and transparency are necessary to benefit from Chinese FDI. A regression analysis shows that when a country is free, Chinese stock FDI positively influences Freedom House Ratings. The other way around, when a country is not free, Chinese stock FDI has a negative influence on democracy scores. An analysis on resource rich countries shows that Chinese stock FDI has a less positive influence on countries that are resource rich. This means that these countries should be careful with accepting Chinese stock FDI and be aware that Chinese investors are known for high corruption levels and neglection of human rights (Ancharaz & Mintarsingh, 2010, p. 44). Therefore, this study provides a warning to not free countries and countries that are high in natural resources. These countries should have a stable economic base and good governance before accepting Chinese foreign direct investments.

A weakness of the study relates to the data. China is known for withholding its information which means that the selected data on Chinese foreign direct investment might not be correct.

The data from John Hopkins (SAIS-CARI, 2020) does not include smaller investors or investments that took place in another jurisdiction. Another weakness relates to the difficulty of defining democracy. Democracy is a wide concept and has many underlying factors. For this reason, it is difficult to study the direct effect that Chinese foreign direct investment has on democracy.

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