

**Economics School of Louvain - ESL
Economics School of Namur - ESN**

**Title: Africa-China Trade Relations and
Economic Growth: Evidence from the
Democratic Republic of the Congo.**

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Thesis Reader:

Academic Year 2022-2023

Master in Economics – 60 credits

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Acknowledgment

I would like to express my heartfelt gratitude to my esteemed professor Trimarchi Lorenzo, for guiding me through the journey of completing my thesis with unwavering patience and invaluable support. Your expertise, insightful feedback, and dedication to my growth have been instrumental in shaping the outcome of this work.

I would also like to extend my deepest appreciation to my family and friends. Your constant encouragement, belief in my abilities, and unconditional love have been my pillars of strength throughout this endeavor.

To my dearest girlfriend Jade, your unwavering faith in me and your unending love have been my motivation during the highs and lows of this academic pursuit. Your understanding and encouragement have been a source of solace, and I am truly grateful for your presence in my life.

With heartfelt thanks,

Matthieu.

I. Introduction

In an era marked by unprecedented globalization and evolving economic interdependence, the intricate dynamics of international trade and investment relationships have taken center stage. One such prominent partnership is the multifaceted interaction between the Democratic Republic of Congo (DRC) and China. This thesis embarks on a comprehensive exploration of this intricate relationship, delving into the contours of China's Foreign Direct Investment (FDI) in the DRC and the consequential implications for both nations.

As the world's second-largest economy and a burgeoning global player, China's quest for resources, markets, and strategic influence has led to a substantial presence in various parts of the world. The DRC, a country rich in mineral resources, has emerged as a focal point in China's strategic engagement on the African continent. The bilateral ties between China and the DRC are characterized by a complex tapestry of economic partnerships, agreements, and interactions, with significant implications for both nations' economic trajectories and their respective developmental aspirations.

Amidst this backdrop, this thesis endeavors to dissect the multifaceted nature of China-DRC relations, with a specific focus on the intricate web of economic exchanges, investments, and trade activities. By delving into the mechanisms and outcomes of China's FDI in the DRC, this study seeks to unravel the extent to which these engagements have translated into tangible benefits for the DRC's economic growth, social development, and long-term sustainability.

The analysis revolves around critical findings that shed light on the nature of the relationship. These include the overwhelming import of mineral resources by China, concerns over adherence to agreements, the impact of Chinese firms on local job creation and development, the potential repatriation of profits, and the recent insights gleaned from the Inspection Générale des Finances (IGF) report in 2023¹.

¹ IGF, is a government agency responsible for conducting financial audits, investigations, and assessments related to public finances, economic activities, and government expenditures within the DRC. The report can be found here : <https://igf.gouv.cd/uploads/rapports/CONCLUSIONS-DE-L-IGF-SUR-LE-CONTRAT-CHINOIS-63ed1783e8c65.pdf>.

Informed by these findings, this study culminates in an exploration of policy recommendations and measures that could foster more balanced and mutually beneficial economic interactions between China and the DRC. Ultimately, this thesis aims to contribute to a nuanced understanding of the complex interplay between global economic powerhouses and resource-rich nations, offering insights into how such relationships can be harnessed for sustainable development and equitable growth.

II. China-Africa: A literature review

This section provides an overview and critical analysis of existing literature on China-Africa trade relations, examining the key findings that have emerged from scholarly research in this field. But before to dive into it, it is important to have a brief history of China-Africa relations.

II.1 A brief history of China-Africa relations

China-Africa trade relations have a long history that dates back centuries, but the modern era of economic engagement between the two regions gained momentum in the late 20th century. Since the conclusion of the Chinese civil war in 1947, Africa has played a vital role in China's foreign policy. Throughout the cold war, China actively supported various liberation movements in Africa.

In 1971, the support of African countries played a crucial role in securing the People's Republic of China (PRC) control over China's seat in the UN General Assembly and Security council. This resulted in the displacement of representatives from the Chinese nationalist forces, who had lost the civil war and were governing Taiwan at that time. In the subsequent decades, China shifted its focus in Africa to eradicating any remaining recognition for the government of Taiwan. Several African countries switched their recognition from Taiwan to the PRC. As of 2023, Eswatini remains the sole African nation that still recognizes Taiwan's government.

China initiated its "Going out" strategy in 1999, which aimed to promote investments by Chinese companies beyond the border of China. This strategy served as a declaration of China's increasing economic strength and triggered a fresh wave of Chinese involvement in Africa. It also played a significant role in generating employment opportunities for Chinese citizens working on various infrastructure projects. In November 2003, the inaugural tri-annual Forum for China-Africa Cooperation (FOCAC) summit took place in Beijing. FOCAC was established with the purpose of enhancing collaboration between China and African nations and represented China's expanding strategic endeavors on the African continent.

In 2013, President Xi Jinping launched China's Belt and Road initiative (BRI) with the aim of revitalizing the ancient Silk Road trade route, particularly along the East African coast.

Initially, Chinese investment was expected to be concentrated in East Africa, but many other African countries also sought opportunities through the BRI, leading to the rapid expansion of the initiative in terms of scope and ambition. Under the BRI, numerous significant infrastructure projects were undertaken across Asia and Africa, primarily financed through Chinese loans. However, the size, nature, and origins of these loans often lacked transparency. Consequently, some African nations found themselves heavily reliant on Chinese lending during this period.

Chinese investment reached its peak around 2016 but has since declined significantly as we can see in the graph 1 below. Chinese loans to African governments dropped from \$28.4 billion in 2016 to \$1.9 billion in 2020. This decline can be attributed, in part, to shifting priorities in Chinese domestic politics and, partly, to the challenges faced by African countries in repaying their loans.

Figure II.1 Chinese loans to Africa

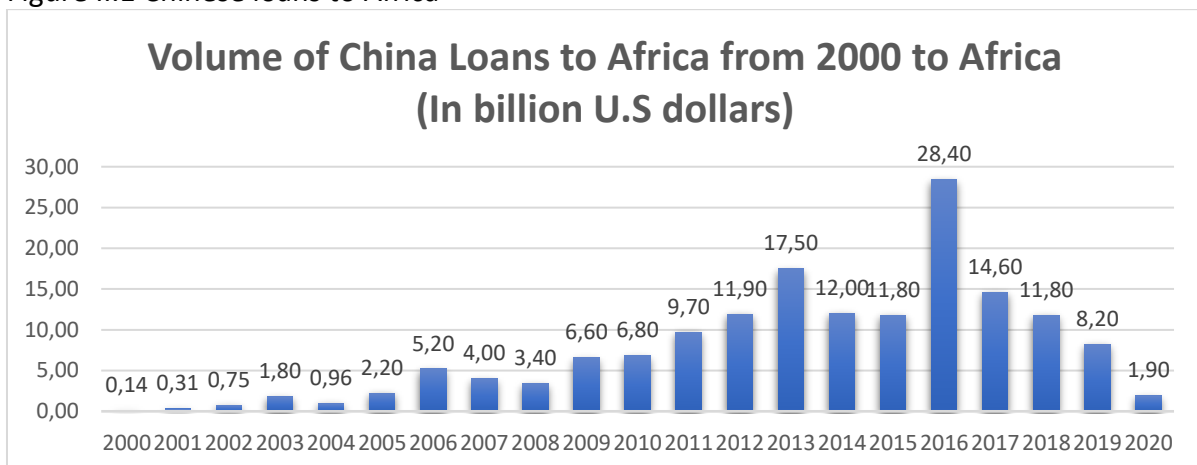


Figure 1 Chinese loans to Africa

Source: Made by us²

China's approach to African investment differs from that of Western governments. China portrays its loans as a form of mutually advantageous cooperation between developing nations, pledging not to interfere in the internal politics of the countries it lends to. In this regard, China positions itself in opposition to Western countries, which China and some African governments accuse of exhibiting arrogant and democratic posturing. These

² Author's calculation using the data from "The Statistical Bulletin of China's Outward Foreign Direct Investment" published by China's MOFCOM. It is usually updated in September or October of the year, <http://fec.mofcom.gov.cn/article/tjsj/>. The 2020 data is obtained from MOFCOM via the CEIC database.

accusations often stem from the historical context of former colonial powers, who are criticized for exploiting African resources during the 18th and the 19th centuries.

According to US commentators, Chinese policy in Africa is frequently labeled as a “deb trap” suggesting that it is a deliberate strategy to lend excessive amounts to African countries, thereby bringing them under China’s influence and imposing unfair obligations on them. It is true that certain African nations have significant Chinese loans and are grappling with overwhelming debt burdens. However, it would be unfair to attribute their predicaments solely to Chinese loans because African countries have mismanaged their debt across all creditors, not just China. The notion that China might strategically employ debt to enhance its influence in Africa and ensure resource access cannot be entirely disregarded. As an emerging superpower in a strategic rivalry with the US, it would be reasonable for China to pursue stronger economic ties in Africa as part of its broader ambitions to become a global power.

II.2 Empirical literature review

In recent years, the trade relations between China and Africa have attracted significant attention. This literature review provides an overview of findings and themes in academic research and literature concerning China-Africa trade relations.

In this line of thought, Wenjie Chen, David Dollar, and Heiwai Tang (2018)³ investigated a particular aspect of China’s involvement in Africa, especially its outward direct investment (ODI). They began by analyzing overall data on Chinese direct investment across different countries and compare its distribution to the total foreign direct investment (FDI). They challenged several common misconceptions about China’s engagement in Africa using aggregated data on China’s direct investment in each African country under study. Contrary to popular belief, China’s investment in Africa accounts for only approximately 3% of the total stock of direct investment in the continent. While it is true that China’s investment is growing rapidly, it still remains relatively small in comparison. They also pointed out that Chinese investment is attracted to countries with abundant natural resources, but no more so than western investment. Additionally, a noteworthy observation regarding the allocation of Chinese investment overall is that it shows no preferences for countries with strong

³ The World Bank Economic Review “Why is China investing in Africa? Evidence from a Firm Level”, 32(3), 2018, 610-632.

property right or rule of law, unlike Western investment, which tends to avoid investments with poor governance, leading to higher share of Chinese investment in areas with weaker governance. They also argued that the utilization of the Ministry of Commerce's (MOFCOM) database, which provides information on Chinese firms that invested in Africa from 1998 to 2012, offers a more accurate representation of the activities of small and medium sized private Chinese firms in Africa. Contrary to the aggregate data, the MOFCOM database reveals that a relatively small number of investments are made in the natural resources sectors. Instead, investment in the service sector dominates, and there is a noteworthy presence of investments in manufacturing as well. Furthermore, these investments are spread across the entire continent rather than being concentrated in specific regions. Finally, the dominance of Chinese outward direct investment (ODI) in the services sector seems to be prevalent in host countries, regardless of their economic size and trade costs. However, there is a negative correlation between the prevalence of Chinese ODI in services and the skill level and natural resource endowments of these countries. In other words, Chinese investment in services is widespread across various host countries, irrespective of their economic factors and trade barriers, but tends to be lower in countries with higher skill levels and abundant natural resources.

Another paper from Deborah Brautigam, Tang Xiaoyang, and Ying Xia (2018)⁴, presents an initial analysis of Chinese manufacturing investments in Africa, with a specific focus on four countries: Ethiopia, Nigeria, Tanzania, and occasionally mentioning examples from other countries for illustrative purposes. The study investigates the various forms of Chinese manufacturing presence and the specific sectors where Chinese companies are investing. Their findings challenge the perception that Chinese manufacturing in Africa is rapidly increasing. They argued that the official data on investment approvals, both from China and the recipient countries, significantly exaggerates the actual number of investments on the ground. While some investors conform to the model of Akamatsu's "flying geese," which involves large companies establishing new production locations as part of global networks and value chains, they have also identified three other types of "geese" in their study. These include large firms targeting strategic positions in local markets, companies seeking access to raw materials, and smaller firms that operate collectively in clusters. Each type of firm

⁴ Journal of African Economies, "What Kinds of Chinese 'Geese' Are Flying to Africa? Evidence from Chinese Manufacturing Firms", 2018, Vol.27, AERC Supplement 1, i29-i51.

presents different opportunities for development and poses distinct challenges for structural transformation in Africa. In the four countries examined, Chinese manufacturing companies have established a significant and growing presence. These firms tend to occupy the “missing middle” category, not being small-scale enterprises but also not large multinational corporations. However, the findings of their study indicate that these Chinese manufacturing investors are primarily following the footsteps of earlier foreign investors, such as Indians, Lebanese, and previous generations of Chinese from Hong Kong. Their primary focus is on targeting local markets, aiming to replace imported goods and hoping that lower transportation costs and local knowledge will enable them to achieve higher profit margins. While there is a small but notable group of firms that could be considered as pioneers of the “flying geese” model, relocating to Africa to benefit from lower costs and integrating African producers into global value chains, such firms are currently limited in number.

One more paper we want to highlight is Carlos Oya and Florian Schaefer (2023)⁵ that examined in Angola and Ethiopia wage differences between Chinese and non-Chinese firms. The increasing presence of Chinese companies in Sub-Saharan Africa has sparked discussions regarding the working conditions provided to African employees. However, the existing evidence supporting many claims about wages in Chinese firms in this region is not convincing. This paper addresses the shortcomings of previous research and presents new comparative findings on wages in Chinese firms, as well as other foreign and domestic firms in Angola and Ethiopia. Through analyzing data from over 1400 worker interviews, the authors demonstrate that Chinese firms do not consistently offer lower wages compared to similar firms. By employing a multi-scalar labor regime framework, the authors highlight that a combination of individual worker characteristics, sector-specific factors, and firm attributes is necessary to explain wage variations in both countries. Merely considering the national origin of firms cannot account for the observed differences in wages. They argued that there is a lack of comprehensive and detailed research that quantitatively compares the working conditions in Chinese companies operating in Africa. To understand differences in wages in both countries, it is essential to consider a mix of factors including the unique characteristics of individual workers, specific features of the sector they work in, and attributes of the

⁵ World Development, “Do Chinese firms in Africa pay lower wages? A comparative analysis of manufacturing and construction firms in Angola and Ethiopia”, Volume 168, 2023, 106266.

company beyond just its national origin. Their findings indicate that Chinese firms do not consistently offer lower wages than similar firms.

Last but not least, the paper of Luigi Benfratello, Anna D'Ambrosio, Alida Sangrigoli (2023)⁶ that examined the factors influencing Chinese and non-Chinese foreign direct investment (FDI) in Africa at the investment level. They found that Chinese FDI is less dependent on factors such as prior firm experience, country-of-origin agglomeration, and international investment agreements (IIA). Instead, market size and human capital play significant roles in driving Chinese FDI to Africa. Surprisingly, natural resources and political stability do not emerge as distinctive determinants for Chinese FDI. These findings align with the notion that the State plays a role in mitigating risks and providing information, thereby influencing Chinese investment patterns in Africa. Given the significant increase in Chinese investments in Africa following Deng Xiaoping's "Go Global" policy, their study examines whether the location choices of greenfield investors in Africa differ between Chinese and non-Chinese firms. Especially, we focus on factors related to risk and information, including investment protection offered by investment agreements, as well as country-of-origin, industry, and internal agglomeration. They argued that Chinese firms possess ownership advantages that mitigate their concerns regarding risk. Their findings indicate that Chinese firms are less sensitive to factors aimed at risk mitigation compared to firms from advanced economies and other emerging economies. Notably, they exhibit a lower reliance on internal agglomeration as a distinguishing feature in their internationalization strategy. They attribute this result to the comprehensive involvement of the Chinese government, which extends beyond state ownership and reduces the challenges associated with operating in foreign markets ("liability of foreignness"). Chinese firms also demonstrate a stronger inclination towards seeking new markets and engaging in manufacturing activities, actively pursuing knowledge transfer. Contrary to common perceptions, their findings suggest that Chinese firms are not notably driven by resource-seeking motives or a preference for investing in politically unstable countries.

⁶ Journal of Business Research "Foreign Direct Investments in Africa: Are Chinese investors different?", Volume 155, Part A, 2023, 113383.

III. Economic and trade evolution of China and The Democratic Republic of the Congo (DRC)

The economies under study in this paper are China and The Democratic Republic of the Congo. Analyzing the trade relationship between them is crucial for understanding the economic, environmental, political, and social impacts of their interactions. It helps inform decision-making, shape policies, and ensure that the trade relationship is mutually beneficial and sustainable.

In this section, we examine the economic performance of China and the DRC between 1995 and 2021, specifically focusing on their economic growth and international trade activities. We start by providing an overview of the economic growth experienced by both countries during this period. After that, we delve into the analysis of the exports and imports behavior of these nations.

III.1 Economic growth

Facts on The DRC side:

The Democratic Republic of the Congo is the largest country in Sub-Saharan Africa, spanning an area similar to that of Western Europe. It possesses abundant natural resources⁷, such as cobalt, copper, hydropower potential, fertile land, diverse ecosystems, and the second-largest rainforest globally.

However, despite this wealth, the majority of the Congolese population has not reaped its benefits. The country has a long history of conflict, political instability, and authoritarian rule, which has resulted in an ongoing humanitarian crisis. Additionally, forced displacement of people has been a prevalent issue, and these challenging circumstances have persisted since the conclusion of the Congo Wars in 2003.

DRC ranks among the five poorest countries globally. In 2022, nearly 62% of Congolese, approximately 60 million individuals, lived on less than \$2.15 per day. Furthermore, approximately one in six people living in extreme poverty in Sub-Saharan African resides in the DRC.

⁷ See the United Nations Human Rights INFO NOTE 5 “Democratic Republic of the Congo UN Mapping Report”, section II, Chapter 3.

Between 1995-2003, The Democratic Republic of the Congo experienced a period of economic decline and instability rather than significant growth⁸. The DRC faced a protracted civil war, commonly known as the First Congo War⁹ (1996-1997) and the second Congo war (1998-2003-). These conflicts resulted in widespread destruction, displacement of populations, and the disruption of economic activities, leading to a severe setback in economic growth. The GDP of the DRC contracted during this period. The destruction of infrastructure, including roads, factories, and agricultural facilities, contributed to a decline in production and productivity across various sectors. The conflict and political instability deterred foreign direct investment and hindered domestic investment in the Country. The uncertain business environment, coupled with concerns over security and governance, limited economic activities, trade and growth potential.

Economic growth in the DRC has revived since 2002 as we can see from figure III.1, reaching an average of 5.8%¹⁰. And nowadays the Democratic Republic of the Congo experienced a significant increase in economic growth, reaching 8.6%, building upon the strong momentum of the previous year, which was 6.2%. This growth was primarily driven by investments and exports in the mining sector, benefiting from capacity expansion and recovering global demand. However, the growth in non-mining sectors, especially services, was modest, with a slowdown to 3.0% in 2022 from 4.5% in 2021. Despite stronger export earnings, the higher costs of food and fuel outweighed the gains, resulting in a wider current account deficit estimated at 2.9% of GDP in 2022 compared to -1.0% in 2021. Nevertheless, foreign direct investments and external financing played a role in building up reserves, which increased to 7.9 weeks of imports in 2022 from 5.4 weeks in the previous year. This helped to limit excessive fluctuations in the exchange rate.

⁸ African Development Bank “Democratic Republic of the Congo 2013-2017 Country Strategy Paper”, 2013, P2.

⁹ See the history on the Congo War, [First Congo War - Wikipedia](#), accessed April 10th, 2023.

¹⁰ Congo, Trading Economics, [Congo Indicators \(tradingeconomics.com\)](#), accessed March 12th, 2023.

Figure III.1: Evolution of the DRC GDP

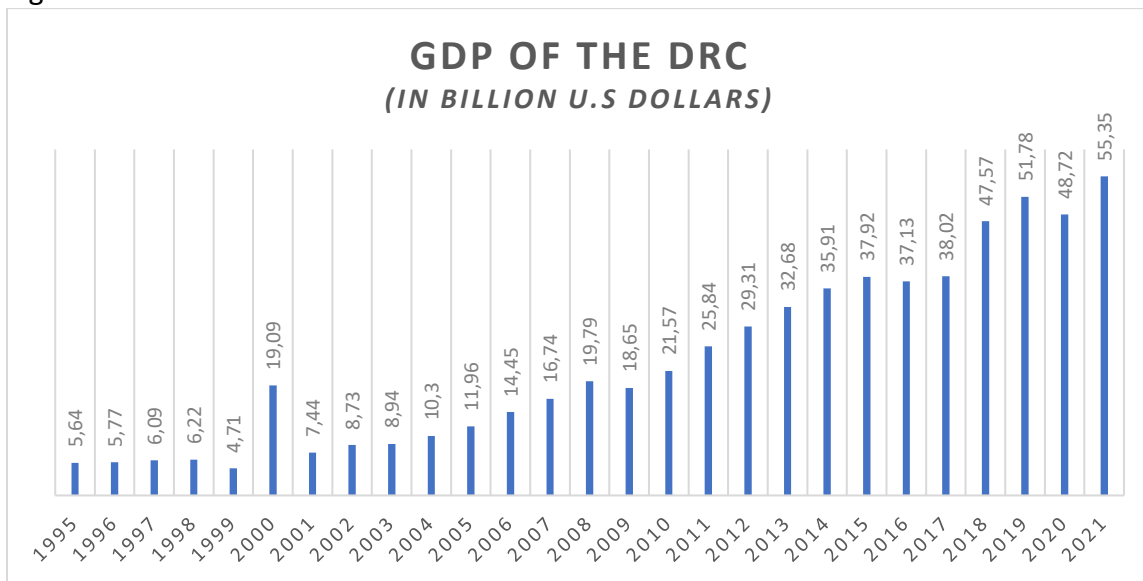


Figure 2 Evolution of the DRC GDP

Source: World Bank¹¹

The economy of the Democratic Republic of the Congo is diverse (Onésime Falash 2015), with multiple sectors making significant contributions to its Gross Domestic Product (GDP). Some key sectors that play a crucial role in the DRC's economy include:

- Mining: The DRC possesses abundant natural resources, including extensive mineral reserves such as copper, cobalt, gold, diamonds, and tin. Mining is a vital sector that greatly contributes to the country's GDP. In fact, the DRC is among the largest global producers of cobalt and important producer of copper.
- Agriculture: Agriculture holds immense importance in the DRC's economy, providing employment to a substantial portion of the population and making significant contributions to the GDP. The country benefits from fertile land and favorable climatic conditions for agriculture. Key agricultural products include coffee, cocoa, palm oil, rubber, cotton, as well as staple crops like maize, rice, and cassava.
- Manufacturing: Although the manufacturing sector in the DRC is still in its development phase and faces challenges, it contributes to the country's GDP. Industries involved in food processing, textiles, cement production, and beverage manufacturing are among those that contribute to the DRC's economic output.

¹¹ Author's calculation using the data from "the World Bank", <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=CD>.

- Services: The services sector encompasses a wide array of activities, including trade, transportation, finance, telecommunications, and tourism. The services sector has experienced steady growth and serves as a significant contributor to the DRC's GDP.
- Informal Economy: Apart from the formal sectors mentioned above, the DRC has a substantial informal economy, consisting of small-scale businesses, informal trade, and subsistence farming. While quantifying the exact contribution to the GDP is challenging, it is estimated to play a significant role in employment and overall economic activity.

It is important to acknowledge that the DRC faces various socio-economic challenges, including political instability, armed conflict, and infrastructure deficiencies. These factors can impact the overall performance and stability of the DRC's economy. We can from here understand why it is important to analyze the impact of trade in the DRC's GDP because the important part of trade is made within two of the formal sectors: Mining and Manufacturing (Sumata Claude 2014)¹².

Facts on The China side:

China is one of the major global economic powers in the World with around 17963.17 USD billion¹³. The history of China's economy is rich and complex, spanning thousands of years. China has a long history of agricultural civilization, with farming serving as the foundation of its early economy. The ancient Chinese economy was characterized by the dominance of agrarian production, extensive trade along the Silk Road, and the invention of various technologies such as paper, printing, and gunpowder. Throughout various dynasties, China's economy experienced periods of growth and stability. The economy was primarily agrarian, with the government implementing policies to ensure self-sufficiency in food production. The imperial era also witnessed advancements in arts, literature, and trade, including the establishment of maritime trade routes.

During the Qing Dynasty (1644-1912), China faced internal turmoil and external pressures, including the Opium Wars with Britain. These conflicts weakened the Chinese economy and

¹² Sumata Claude, « La gestion macroéconomique de la République Démocratique du Congo durant et après la transition démocratique », HARMATAN, Musée royal de l'Afrique, 2014, P.76.

¹³ Trading economics, [China GDP - 2023 Data - 2024 Forecast - 1960-2022 Historical - Chart - News \(tradingeconomics.com\)](https://tradingeconomics.com), accessed March 15th, 2023.

resulted in forced trade concessions and the opening of ports to foreign powers, leading to the gradual integration of China into the global economy. The early 20th century marked a turbulent period for China's economy. The fall of the Qing Dynasty in 1912 led to the establishment of the Republic of China. However, political instability, regional conflicts, and foreign invasions hindered economic development. In 1949, the Communist Party led by Mao Zedong came to power, and China underwent a radical transformation with the implementation of a planned economy and collectivization of agriculture. Under Mao Zedong's leadership, China pursued ambitious economic and social campaigns, including the Great Leap Forward (1958-1962). However, these efforts, aimed at rapidly industrializing the country and collectivizing agriculture, resulted in economic inefficiencies, famine, and significant human costs. China's economy struggled during this period.

Following Mao's death in 1976, Deng Xiaoping initiated economic reforms in 1978, shifting China towards a market-oriented economy. The reforms introduced elements of capitalism, including private enterprise, foreign investment, and the establishment of Special Economic Zones (SEZs). These policies fueled rapid economic growth, transforming China into a major global economic player. Since the late 1970s, China's economy has experienced extraordinary growth rates. The government implemented a series of economic liberalization measures, encouraged foreign investment, and opened up trade. China became a global manufacturing hub and emerged as the world's second-largest economy.

Figure III.3: Evolution of Chinese GDP

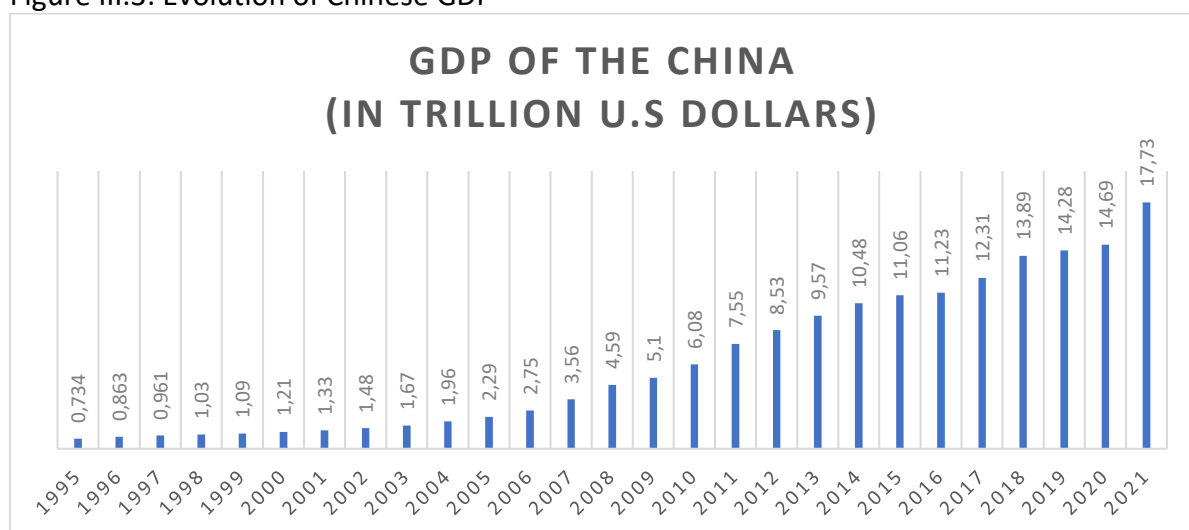


Figure 3 Evolution of Chinese GDP

Source: World Bank¹⁴

In recent years, China has faced various economic challenges, including debt accumulation, environmental degradation, and trade tensions with other countries. The government has responded by implementing reforms to address these issues, shifting towards a more sustainable growth model, promoting innovation, and opening up sectors of the economy to foreign investment. China has been actively promoting innovation and technological advancements to drive its economic growth. The government launched initiatives such as “Made in China 2025”¹⁵ and “Internet Plus”¹⁶, focusing on sectors like advanced manufacturing, artificial intelligence, biotechnology, and clean energy. This shift aims to move China up the global value chain and foster a knowledge-based economy. While China’s economic growth has slowed down compared to the earlier years of its transformation, it continues to be one of the fastest-growing major economies globally. Its focus on domestic consumption, technological innovation, and structural reforms reflects a shift towards quality growth and long-term sustainability.

III.2 International trade

The Democratic Republic of the Congo and China have engaged in significant international trade in recent years. China is one of the DRC’s largest trading partners and has played a crucial role in the country’s economy. Their trade relationship might be surely significant for both countries. China’s demand for the DRC’s mineral resources has provided economic opportunities for the DRC, but concerns persist regarding trade imbalances, sustainable practices, and the long-term development of the DRC’s economy beyond resource extraction. International trade plays a crucial role in both countries in promoting their economic growth and development.

III.2.1 Exports of goods and services

The DRC Side:

From Figure III.4 we can see the evolution of Exports in the Democratic Republic of the Congo that has experienced changes in its export composition over the years. Historically,

¹⁴ Author’s calculation using the data from “the World Bank”, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=CN>.

¹⁵ Center for strategic and international studies, [Made in China 2025 \(csis.org\)](https://www.csis.org/press/2015/04/01/made-in-china-2025), accessed March 15th 2023.

¹⁶ China services Info, [Internet Plus | govt.chinadaily.com.cn](http://www.govt.chinadaily.com.cn), accessed March 15th, 2023.

the DRC has been a significant exporter of minerals, particularly copper and cobalt. These minerals have long been the backbone of the country's export file, attracting foreign investment and generating revenue. Following decades of political instability and conflicts, the DRC experienced a decline in exports. The disruptions to mining operations and infrastructure, as well as the insecurity in some regions, negatively impacted the country's export capacity. In recent years, the DRC has witnessed a recovery and resurgence in its export sector. This has been driven by several factors, including improved political stability, increased foreign investment, and rising global demand for key commodities. Copper and cobalt remain the dominant exports of the DRC¹⁷. The country is one of the world's largest producers of these minerals, with significant reserves. Copper is used in various industries, including construction and electronics, while cobalt is essential for batteries, particularly for electric vehicles and renewable energy storage.

Figure III.4: Evolution of Exports in the DRC

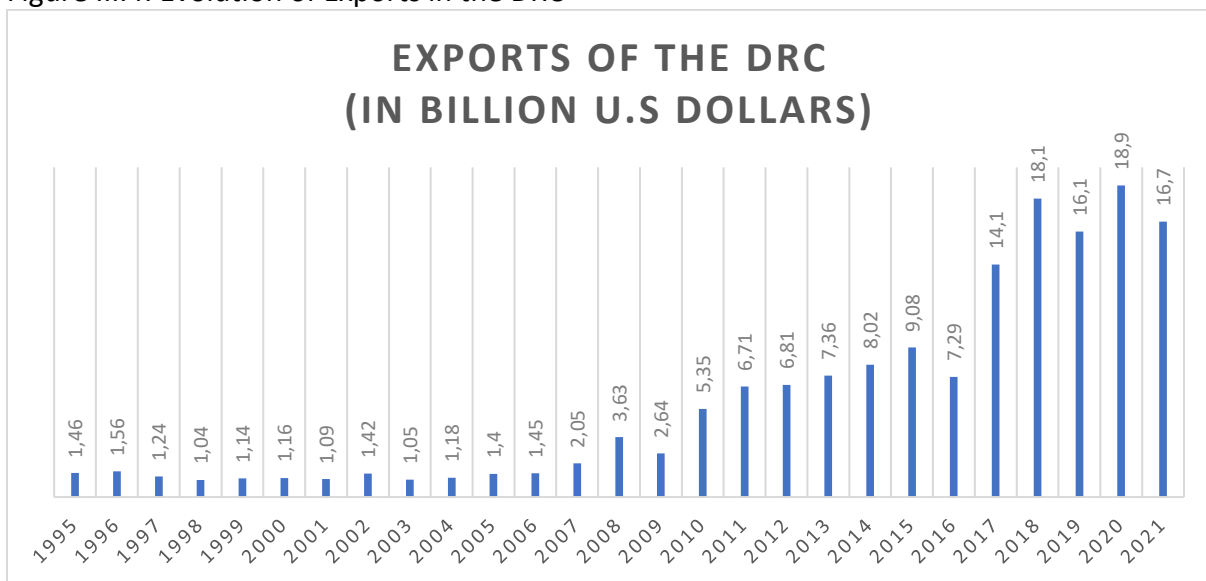


Figure 4 Evolution of Exports in the DRC

Source: OEC¹⁸

In addition to copper and cobalt, the DRC exports a range of other minerals. This includes gold, diamonds, tin, tantalum, tungsten, and coltan. These minerals are used in various

¹⁷ The Observatory of Economic Complexity, [Democratic Republic of the Congo \(COD\) Exports, Imports, and Trade Partners | OEC - The Observatory of Economic Complexity](https://oec.world/en/profile/country/cod/?yearSelector1=1995), accessed on March 20th, 2023.

¹⁸ Author's calculation using the data from "the Observatory of Economic Complexity", <https://oec.world/en/profile/country/cod/?yearSelector1=1995>.

industries, such as jewelry, electronics, aerospace, and telecommunication. The DRC has also significant agricultural potential, but the sector remains largely underdeveloped. However, agricultural products such as coffee, cocoa, palm oil, and timber have emerged as export commodities. Efforts are being made to enhance the productivity and competitiveness of the agricultural sector to diversify the export base.

The DRC's export sector faces various challenges, including infrastructure deficiencies, corruption, and logistical constraints. Efforts are being made to address these challenges and create a conducive environment for trade and investment. The DRC also has untapped potential in sectors such as renewable energy, tourism, and manufacturing, which could contribute to future export diversification. The DRC is a member of several regional trade blocs, including the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community of Central African States (ECCAS). The country has been exploring opportunities for regional and continental trade integration, participating in initiatives like the African Continental Free Trade Area (AFCFTA).

Overall, the DRC's exports have been dominated by mineral resources, particularly copper and cobalt. Efforts are being made to diversify the export base, improve infrastructure, and address challenges to further enhance the country's export performance and contribute to sustainable economic development.

The China side:

From figure III.5 we can see that China's export profile has evolved significantly over the years, reflecting the country's economic transformation and global integration. China's export sector started to expand rapidly in the 1980s as the country embarked on market-oriented reforms. Initially, exports were dominated by low-cost labor-intensive products, such as textiles, garments, and light manufacturing goods. China capitalized on its abundant labor force and competitive production costs to become a major exporter in these sectors. During the 1990s and 2000s, China's export composition shifted towards more complex manufacturing and electronics. The country became known as the "factory of the world," as it became a major exporter of goods such as electronic devices, machinery, automobiles, and consumer electronics. China leveraged its manufacturing capabilities, skilled workforce, and economies of scale to drive these exports.

Figure III.5: Evolution of exports in China

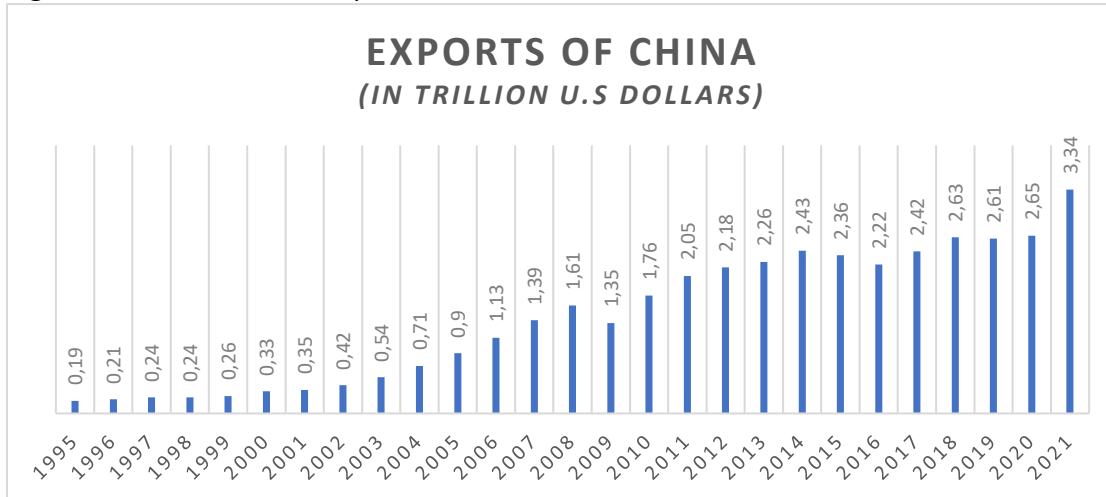


Figure 5 Evolution of exports in China

Source: OEC¹⁹

As China advanced technologically and invested heavily in research and development, the country started to export more high-tech and advanced manufacturing products. This included telecommunications equipment, computer hardware, integrated circuits, and industrial machinery. China aimed to move up the value chain, foster innovation, and increase its global competitiveness in these sectors. While manufacturing exports continue to be a significant part of China's export profile, the country has also experienced growth in service exports. This includes areas such as tourism, transportation services, financial services, and information technology services. China's services exports have been boosted by the country's growing middle class, increased domestic consumption, and the development of service sectors to meet domestic and global demand.

The Belt and Road initiative (BRI)²⁰, launched in 2013, has further influenced China's export composition. The Belt Road Initiative aims to enhance connectivity and trade between China and countries along the Belt and Road routes. It has led to increased infrastructure exports, such as railway construction, ports, and energy projects. China has also sought to export its industrial overcapacity in sectors like steel and cement to countries involved in the BRI.

Another point that transformed China's export landscape is the rise of e-commerce. Online platforms and digital marketplaces have provided new opportunities for Chinese businesses to reach global consumers directly. Cross-border e-commerce has facilitated the export of

¹⁹ Author's calculation using the data from "the Observatory of Economic Complexity", <https://oec.world/en/profile/country/chn/?yearSelector1=2021>.

²⁰The World Bank, [Belt and Road Initiative \(worldbank.org\)](https://www.worldbank.org/), accessed on March 17th 2023.

goods such as consumer electronics, clothing, and cosmetics, with Chia becoming a prominent player in this domain.

China has been actively involved in regional and global trade agreements. The country's participation in initiatives like the Regional Comprehensive Economic Partnership (RCEP) and the World Trade Organization (WTO) has influenced its exports patterns. These agreements have provided China with enhanced market access, reduced trade barriers, and facilitated trade diversification.

Overall, China's export profile has shifted from labor-intensive goods to higher value-added products, reflecting its progress in industrialization, technological advancement, and increasing consumption. The country continues to adapt to changing global dynamics, seeking opportunities in emerging sectors and markets while addressing challenges such as trade tensions, environmental concerns, and intellectual property rights protection.

III.2.1.1 Main goods and services exported

The DRC Side:

From table III.1 we can see that the DRC's export profile is largely focused on mineral resources that revolves around the country's heavy reliance on the extraction and export of natural resources, particularly minerals. In 2021, Democratic Republic of the Congo exported a total of \$16.7B, making it the number 78 exporter in the world. During the last five reported years the exports of Democratic Republic of the Congo have changed by \$9.43B from \$7.29B in 2016 to \$16.7B in 2021. The most recent exports are led by Refined Copper (\$8.95B), Cobalt (\$4.44B), Raw Copper (\$779M), Copper Ore (\$618M), and Crude Petroleum (\$582M).

The heavy dependence on mineral exports contributes to an economy that is not sufficiently diversified. This reliance on a limited range of commodities makes the country vulnerable to fluctuations in global commodity prices, exposing it to economic volatility and potential revenue instability. Also, The DRC primarily exports raw or minimally processed minerals, which limits the potential value addition within the country. By exporting these commodities without significant processing or refinement, the DRC misses out on opportunities to capture more value, create higher-skilled jobs, and foster the growth of downstream industries.

Table III.1: Main exports of goods of the DRC in 2021

Item	Share in total exports of goods
Refined Copper	53,6%
Cobalt	26,6%
Raw Copper	4,66%
Copper Ore	3,7%
Crude Petroleum	3,48%

Table 1 Main exports of goods of the DRC in 2021

Source: The Observatory of Economic Complexity²¹

The extraction and processing of minerals can have significant environmental impacts, including deforestation, water pollution, and habitat destruction. Critics argue that the DRC's focus on mineral exports may contribute to environmental degradation and insufficient efforts to mitigate these impacts or promote sustainable practices. And they are concerns regarding labor rights, occupational health and safety, and working conditions in the mining sector. Some critics argue that the DRC needs to improve labor standards and ensure the well-being of workers in the mineral extraction industry. They also raise concerns about issues such as child labor, forced labor, and inadequate compensation for workers.

- *Exports to China*

From table III.2 We see that in 2021, The DRC exported \$11.3B to China. The main products exported from the DRC to China were Refined Copper (\$4.72B), Cobalt (\$4.4B), and Raw Copper (\$779M). During the last 26 years the exports of Democratic Republic of the Congo to China have increased at an annualized rate of 41.2%, from \$1.45M in 1995 to \$11.3B in 2021.

Table III.2. Exports from the DRC to the China in 2021

Item	Share in total exports of goods
Reffined Copper	41,6%
Cobalt	38,8%
Raw Copper	6,87%
Crude Petroleum	3,95%
Copper Ore	3,5%

Table 2 Exports from the DRC to the China in 2021

Source: The Observatory of Economic Complexity²²

²¹ The Observatory of Economic Complexity, [Democratic Republic of the Congo \(COD\) Exports, Imports, and Trade Partners | OEC - The Observatory of Economic Complexity](#), accessed on 25th April 2023.

²² The Observatory of Economic Complexity, [China \(CHN\) and Democratic Republic of the Congo \(COD\) Trade | OEC - The Observatory of Economic Complexity](#), accessed on March 25th, 2023.

The figure III.6 shows that in 2020, Democratic Republic of the Congo exported \$153M worth of services. The top services exported by Democratic Republic of the Congo in 2020 were Business travel (\$80.8M), Government services (\$28.4M), Transportation (\$23.5M), Other personal, cultural, and recreational services (\$8.97M), and Merchanting and other trade-related services (\$4.41M).

Figure III.6. Evolution of Service Exports of the DRC

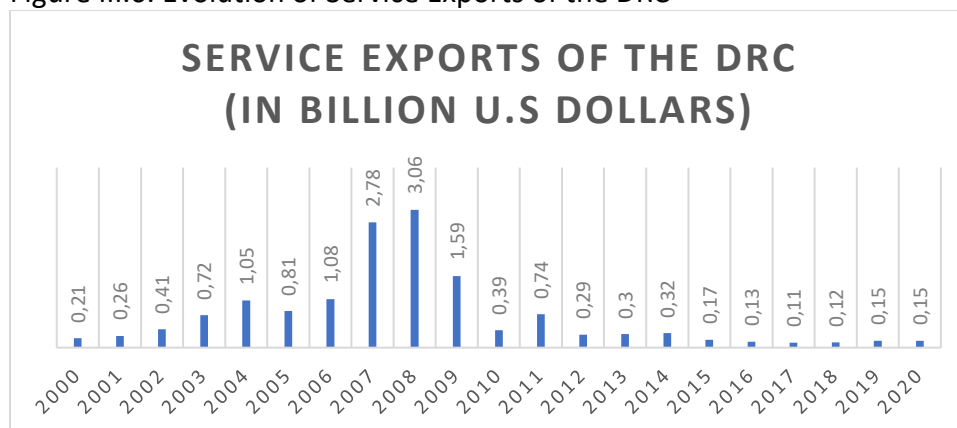


Figure 6 Evolution of Service Exports of the DRC

Sources: The Observatory of Economic Complexity²³

The China Side:

As we can see from table III.4 The top exports of China are Broadcasting Equipment (\$231B), Computers (\$192B), Integrated Circuits (\$158B), Office Machine Parts (\$101B), and Telephones (\$53.9B). In 2021, China was the number 2 economy in the world in terms of GDP (current US\$), the number 1 in total exports, the number 2 in total imports, the number 58 economy in terms of GDP per capita (current US\$) and the number 25 most complex economy according to the Economic Complexity Index (ECI).

Table III.3: Main exports of goods of China in 2021.

Item	Share in total exports of goods
Broadcasting equipment	6,91%
Computers	5,74%
Integrated circuits	4,72%
Office machine parts	3,04%
Telephone	1,62%

Table 3 Main exports of goods of China in 2021

Sources: The Observatory of Economic Complexity²⁴

²³ The Observatory of Economic Complexity, [Democratic Republic of the Congo \(COD\) Exports, Imports, and Trade Partners | OEC - The Observatory of Economic Complexity](#), accessed on March 25th, 2023.

²⁴ The Observatory of Economic Complexity, [China \(CHN\) Exports, Imports, and Trade Partners | OEC - The Observatory of Economic Complexity](#), accessed on March 25th 2023.

China's exports of goods have played a crucial role in its economic growth, employment generation, and global influence. The country's manufacturing prowess, global market reach, and efforts to innovate and upgrade its export products have positioned it as a leading exporter in the global economy. However, China has been accused of maintaining large trade surpluses and running significant trade imbalances with various countries, including the United States and several European nations. These imbalances are the result of unfair trade practices, including currency manipulation, subsidies, and intellectual property theft, which give Chinese exporters an unfair advantage.

China has faced criticism for inadequate protection of intellectual property rights. Critics argue that China's lax enforcement of intellectual property right laws and regulations allows for the widespread infringement and theft of intellectual property, negatively impacting foreign companies' competitiveness and discouraging innovation. Apart from that, China seems to maintain barriers to market access for foreign companies. The China's regulatory environment and policies create obstacles and unfair advantages for domestic companies, making it challenging for foreign firms to compete on a level playing field. These barriers include restrictive regulations, local content requirements, and limited access to certain sectors.

China has been also accused of providing extensive subsidies and state support to its export-oriented industries. These subsidies distort global markets and create unfair competition by allowing Chinese companies to sell goods at artificially low prices. Such practices are known to lead to overcapacity in certain industries, creating global market disruption. China's export sector has faced scrutiny over labor rights and human rights issues. Critics point to concerns such as low wages, poor working conditions, violations of worker rights, and limited freedom of association. These issues contribute to a race to the bottom in global supply chains and undermine workers' rights and well-being.

China's export-oriented industries have been associated with significant environmental consequences. Critics raise concerns about pollution, deforestation, and unsustainable resource extraction linked to the production of export goods. And so, China's exports contribute to global environmental challenges and that more stringent environmental regulations and sustainable practices are needed.

- *Export to the DRC*

From table III.5 We can see that In 2021, China exported \$2.76B to Democratic Republic of the Congo. The main products exported from China to Democratic Republic of the Congo were Delivery Trucks (\$146M), Iron Structures (\$120M), and Stone Processing Machines (\$108M). During the last 26 years the exports of China to Democratic Republic of the Congo have increased at an annualized rate of 17.6%, from \$41M in 1995 to \$2.76B in 2021.

Table III.4. Exports from China to the DRC in 2021

Item	Share in total exports of goods
Delivery trucks	5,3%
Stone Processing Machines	3,92%
Large construction vehicles	3,43%
Other electrical machinery	2,56%
Insulated wire	2,29%
Broadcasting equipment	2,28%

Table 4 Exports from China to the DRC in 2021

Source: The Observatory of Economic Complexity²⁵

Figure III.7 Chinese Services

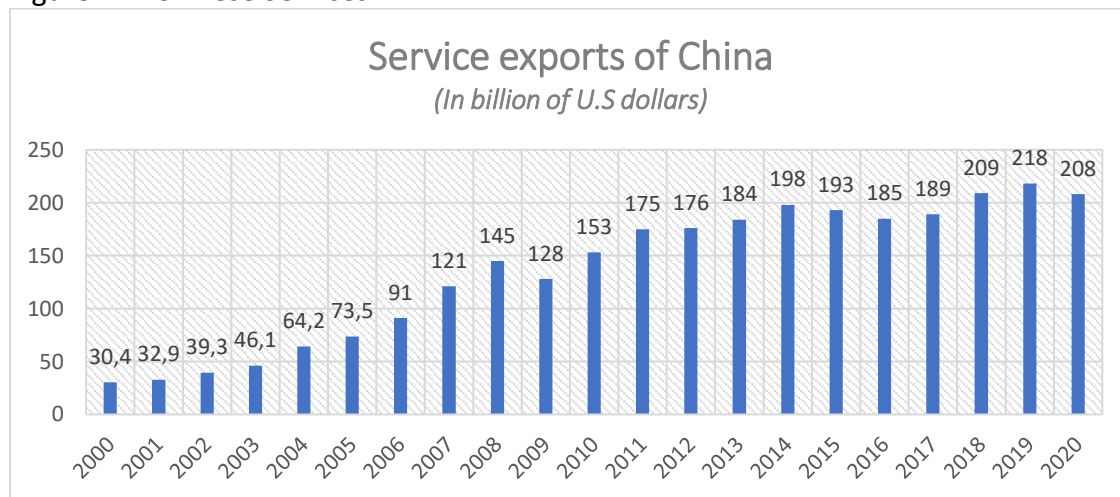


Figure 7 Chinese Services

Source: The Observatory of Economic Complexity²⁶

²⁵ The Observatory of Economic Complexity, [China \(CHN\) and Democratic Republic of the Congo \(COD\) Trade | OEC - The Observatory of Economic Complexity](#), accessed on May 20th, 2023.

²⁶ The Observatory of Economic Complexity, [China \(CHN\) Exports, Imports, and Trade Partners | OEC - The Observatory of Economic Complexity](#), accessed on May 20th, 2023.

III.2.1.1.1 Main exports destinations

The DRC side:

Following the figure III.6 We can see that The most common destination for the exports of Democratic Republic of the Congo are China (\$11.3B), United Arab Emirates (\$1.13B), South Korea (\$822M), Saudi Arabia (\$583M), and Italy (\$486M).

Table III.5: Main exports destinations of the DRC.

Item	Share in total destinations
China	67,8%
United Arab Emirates	6,73%
South Korea	4,92%
Saudi Arabia	3,49%
Italy	2,91%

Table 5 Main exports destinations of the DRC

Source: The Observatory of Economic Complexity ²⁷

The Republic Democratic of the Congo has various destinations for its exports, with different countries and regions serving as primary trading partners. China is one of the largest export destinations for the DRC. The primary reason is the strong demand for the DRC's mineral resources, particularly copper and cobalt. China's rapid industrialization and infrastructure development have fueled its demand for these commodities, making it a major importer of DRC's minerals.

The China side:

As we can see from the table III.7, the most common destination for the exports of China are United States (\$530B), Hong Kong (\$323B), Japan (\$168B), South Korea (\$140B), and Germany (\$134B).

Table III.6: Main exports destinations of China.

Item	Share in total destinations
Hong Kong	9,69%
Japan	5,04%
South Korea	4,2%
Germany	4%

²⁷ The Observatory of Economic Complexity, [Democratic Republic of the Congo \(COD\) Exports, Imports, and Trade Partners | OEC - The Observatory of Economic Complexity](#), accessed on May 20th, 2023.

Netherlands	2,65
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Table 6 Main exports destinations of China

Source: The Observatory of Economic Complexity

As we can see, China's exports to the Republic Democratic of the Congo are relatively limited compared to its imports from the country. Several factors contribute to this, such as the fact that the DRC is primarily known for its exports of natural resources. China, on the other hand, has a highly diversified export-oriented economy, with a strong manufacturing base. The difference in economic structures and specialization leads to a limited scope for Chinese exports to the DRC. Another reason might be the fact that China is a major global importer of minerals, including copper and cobalt, which are abundant in the DRC. China sources a significant portion of its mineral needs from the DRC, meeting its requirements through direct investments in mining projects and importation of minerals. This import dependency reduces the need for China to export similar minerals back to the DRC.

We can also look at the market size and purchasing power. The DRC has relatively small domestic market compared to China. The purchasing power of the DRC's population is lower compared to that of China's vast consumer market. As a result, the demand for Chinese manufactured goods and consumer products may be limited in the DRC. Let us notice that the DRC faces infrastructure and logistical challenges, which can affect the ease and cost of importing goods. Limited transportation networks, inadequate ports, and bureaucratic procedures may pose hurdles for Chinese exporters, making it less attractive for them to export a significant volume of goods to the DRC.

It is worth noting that while China's exports to the DRC may be relatively limited, Chinese companies are involved in infrastructure projects, mining investments, and other forms of economic engagement in the country. Chinese investment and involvement in the DRC's economy primarily focus on extracting and securing access to natural resources rather than exporting finished goods.

III.2.2 Imports of goods and services

The DRC Side:

In the early stages of the DRC's economic development, imports were primarily focused on basic goods and consumer products. This included items such as food products, textiles, clothing, household goods, and personal care items. These imports catered to domestic

consumption needs and filled gaps in local production capacity. As the DRC aimed to develop its infrastructure and industries, there was a growing need for machinery and capital goods. Importing machinery and equipment became essential to support construction projects, mining operations, manufacturing, and other sectors. This included heavy machinery, vehicles, industrial equipment, and technology for infrastructure development and industrialization.

The DRC's industrial sector required intermediate goods and components for local production processes. This included items like raw materials, semi-finished goods, parts, and components used in manufacturing processes. Importing these goods allowed local industries to produce finished goods or add value to the supply chain. In the same line, the DRC has had a significant reliance on imported energy sources and fuel. Due to limited domestic refining capacity, the country has imported petroleum products, including gasoline, diesel, and other fuels, to meet energy needs and support transportation, power generation, and industrial activities. With the rise in consumer demand and the growing presence of digital technology, the DRC has witnessed an increase in imports of consumer electronics and technology products. This includes items such as smartphones, computers, televisions, and other electronic devices.

On the agricultural side, the DRC imports certain agricultural products to supplement domestic production and meet consumer demand. This includes items such as wheat, rice, vegetable oils, processed foods, and other food products that are not locally produced in sufficient quantities. The DRC also imports pharmaceutical products, medical equipment, and supplies to meet healthcare needs. This includes medicines, vaccines, medical devices, diagnostic equipment, and other healthcare-related products.

The top imports of Democratic Republic of the Congo are Refined Petroleum (\$406M), Delivery Trucks (\$255M), Packaged Medicaments (\$254M), Poultry Meat (\$215M), and Stone Processing Machines (\$170M), importing mostly from China (\$2.76B), Zambia (\$1.11B), South Africa (\$1.07B), Rwanda (\$587M), and India (\$575M)²⁸.

²⁸ The Observatory of Economic Complexity, [Democratic Republic of the Congo \(COD\) Exports, Imports, and Trade Partners | OEC - The Observatory of Economic Complexity](#), accessed on May 28th, 2023.

It is important to note that the DRC's import patterns are influenced by a variety of factors, including domestic production capabilities, infrastructure development, industrial requirements, and global market dynamics. The composition of imports can change over time as the country's economy evolves and its needs and priorities shift.

The China side:

China's imports have undergone significant changes over the years, reflecting the country's economic development, changing consumption patterns, and evolving global trade dynamics. As we can see from figure III.8 in the early stages of China's economic reform and opening up in the late 1970s and 1980s, China was highly dependent on imports for technology, machinery, and capital goods. This was aimed at supporting the country's industrialization and modernization efforts as it sought to upgrade its manufacturing capabilities. As China's economy expanded, the country's demand for energy and raw materials increased substantially. China became a major importer of commodities such as crude oil, coal, iron ore, copper, and other minerals to fuel its growing industries and meet domestic consumption needs. Securing access to global resources became a key priority for China.

Figure III.8: Evolution of imports of China

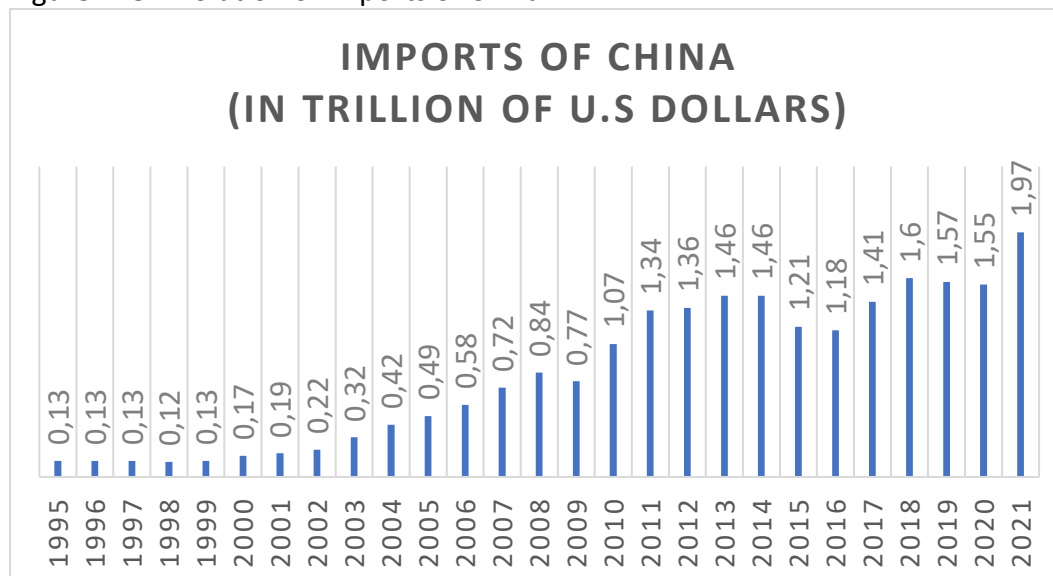


Figure 8 Evolution of imports of China

Source: The Observatory of Economic Complexity

With the development of China's manufacturing sector, there was a shift towards importing intermediate goods and components. China relied on imports of parts, components, and

semi-finished products to support its production processes and supply chains. This allowed Chinese manufacturers to assemble and produce finished goods for both domestic and export market. As China's middle class grew and consumer purchasing power increased, the demand for consumer goods expanded. China started importing a wide range of consumer products, including automobiles, electronics, luxury goods, fashion items, and household goods, to meet the needs and preferences of its domestic consumers.

China's imports have also extended into the services sector. This includes sector such as tourism, education, healthcare, financial services, and professional services. As China's economy has become more service-oriented and its population's demand for services has grown, imports of services have expanded. China has actively sought to diversify its import sources to reduce dependence on specific countries or regions. The country has expanded its trade relationship with various countries and regions, including Southeast Asia, Africa, Latin America, and the Middle East. China's Belt and Road Initiative has also facilitated trade and investment with partner countries along its strategic routes.

The top imports of China are Crude Petroleum (\$208B), Integrated Circuits (\$171B), Iron Ore (\$146B), Petroleum Gas (\$56.6B), and Copper Ore (\$52.4B), importing mostly from South Korea (\$158B), Japan (\$153B), United States (\$151B), Australia (\$138B), and Chinese Taipei (\$126B). In 2021, China was the world's biggest importer of Crude Petroleum (\$208B), Iron Ore (\$146B), Petroleum Gas (\$56.6B), Copper Ore (\$52.4B), and Soybeans (\$44.2B).

The evolution of China's imports reflects the country's economic transformation, increasing domestic consumption, shifting industrial needs, and its position as a global economic powerhouse.

IV. Comparison between China and The Democratic Republic of the Congo (DRC): Foreign Direct Investment analysis

In recent decades, the global economic landscape has witnessed a significant surge in Foreign Direct Investment (FDI) flows, with China emerging as a pivotal player in this intricate web of international capital movement. Particularly noteworthy is China's engagement with the Democratic Republic of Congo (DRC), a resource-rich African nation grappling with developmental challenges. This analysis delves into the multifaceted relationship between China and the DRC, unraveling the motivations behind China's FDI endeavors, assessing the impact of these investments on the DRC's economy and development. As FDI continues to shape the pathways of economic growth and geopolitical influence, understanding the specifics of the China-DRC dynamic serves as a microcosm of the broader trends shaping the modern era of international investment and cooperation.

In this section, we examine the economic performance of China and the DRC between 1995 and 2021, specifically focusing on their economic growth and international trade activities. We start by providing an overview of the economic growth experienced by both countries during this period. After that, we delve into the analysis of the exports and imports behavior of these nations.

IV.1 Global Foreign Investment

Foreign Direct Investment (FDI) theory refers to a set of economic principles and hypotheses that aim to explain the motivations, patterns, and impacts of cross-border investments made by companies or individuals from one country into another. FDI theories provide frameworks for understanding why and how firms choose to invest in foreign markets, the factors that influence these investment decisions, and the resulting effects on the economies involved. There are several prominent FDI theories that offer different perspectives on this phenomenon such as **Market Imperfections Theory (Internalization Theory)**, **Product Life Cycle Theory**, **Internalization Advantage Theory** etc.

One primary benefit of global business is that money flows from one country and is invested in companies in another country. That mechanism is called Foreign Direct Investment. And FDI consists of both Inflows and Outflows. So, when China invests in The Democratic

Republic of the Congo, it is both an inflow in the DRC and an outflow in China. FDI is then essential for the economic help of developed nations. These investments support innovation, job creation and economic development.

The Net flow of the FDI is basically:

Net flow = Inflow – Outflow

Assume that China invests in the DRC, if the net flow between China and the DRC is positive it means that Companies in China invest more money in the DRC than companies in the DRC invest in China. And if the net flow is negative, it means that companies in the DRC invest more in China than companies in China invest in the DRC.

IV.2 China and the DRC FDI

The Democratic Republic of Congo (DRC) has emerged as a significant focal point for Chinese investment, particularly in the mining sector, earning the distinction of being characterized as "the central hub of Chinese economic engagements in Africa" by the South China Morning Post. Noteworthy corporate players engaged in this economic relationship include Chengtun Mining, China Molybdenum Company, China Nonferrous Metal Mining Group, and Huayou Cobalt²⁹.

During June 2000, a telecommunications venture named China-Congo Telecom was established through collaboration between ZTE and the Congolese government, supported by a financial package of RMB³⁰ 80 million in concessional funding from China EXIM Bank. However, in April 2009, the South African telecommunications conglomerate MTN Group expressed interest in purchasing ZTE's 51 percent stake in the company for a sum of US\$200 million³¹.

²⁹ Jevans Nyabiage, "Why China is making a big play for Congolese cobalt and other critical minerals", Article available on the South China Morning Post website. Accessed on June 08th, 2023.

³⁰ Chinese Yuan RMD stands for the Chinese currency.

³¹ The Rockefeller Foundation, "Why China is making a big play for Congolese cobalt – and other critical minerals", a report by the Centre for Chinese Studies Prepared for the Rockefeller Foundation, January 2010.

Between the years 2002 and 2008, the trade volume between China and the DRC experienced a substantial upswing. This growth can be primarily attributed to a remarkable surge in the DRC's exports of raw materials to China. Notably, in 2007³², the DRC's cobalt exports reached a value of US\$304.8 million, which soared to a staggering US\$1.13 billion in 2008. Furthermore, exports of copper ore and valuable hardwoods to China also registered significant increases during this period. However, it is pertinent to mention that as of January 2010, China has not yet extended Approved Destination Status (ADS) to the DRC, largely due to the ongoing civil conflict prevailing in the country.

As we can see from the chart IV.1, The DRC has quite almost a positive net flow position. This means that the country is receiving more investment from foreign sources than it is investing in foreign countries. There are several potential consequences and implications of having a larger inflow than outflow of FDI:

- **Economic Growth:** A higher inflow of FDI can contribute to economic growth by providing additional capital, technology, and expertise. This can lead to increased production, job creation, and improved productivity in the host country.
- **Infrastructure Development:** FDI inflows can support the development of infrastructure, such as roads, ports, and utilities. This can enhance connectivity, facilitate trade, and contribute to overall economic development.
- **Skills and Knowledge Transfer:** When foreign investors bring advanced technologies, management practices, and skills, the local workforce can benefit from learning and adopting these techniques, leading to improved human capital and innovation.
- **Job Creation:** More FDI can lead to the establishment of new businesses or expansion of existing ones, resulting in more job opportunities for the local population.
- **Trade Balance:** If the FDI inflow is directed towards export-oriented industries, it can help improve the trade balance by increasing exports and reducing reliance on imports.

³² Johanna Jansson, Christopher Burke & Wenran Jiang, "Chinese Companies in the Extractive Industries of Gabon & the DRC: Perceptions of Transparency", A research undertaking by the Centre for Chinese Studies, prepared for the Extractive Industries Transparency Initiative (EITI) & Revenue Watch Institute (RWI), Centre for Chinese Studies, University of Stellenbosch August 2009.

- **Foreign Exchange Reserves:** FDI inflows can boost a country's foreign exchange reserves, which are essential for maintaining stability in the currency and meeting external financial obligations.

Figure IV.1 DRC FDI

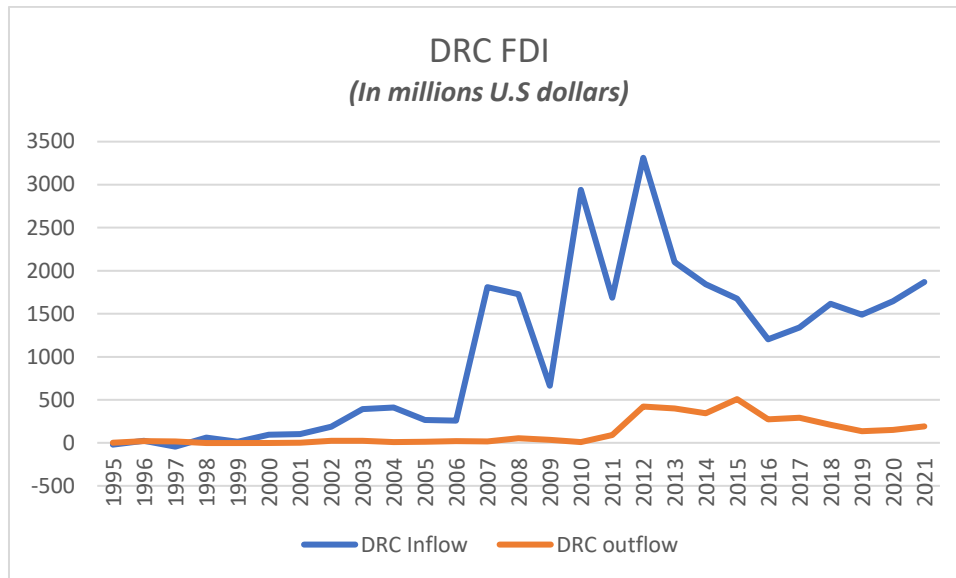


Figure 9 DRC FDI

Source: United Nations Conference on Trade and Development

Overall, while a larger FDI inflow than outflow generally offers numerous benefits, careful management and strategic planning are necessary to ensure that the country maximizes the positive impacts while mitigating potential risks.

On the other hand, we can see from chart IV.II that China had a positive net flow position during 1995-2014. This can be interpreted in the same way with the comments made above regarding the DRC. Between 2015 and 2018 we can see that China shows a negative net flow position. Having outflow larger than inflow can have potential consequences and implications:

1. **Resource Security:** China's rapid industrialization and urbanization demand vast quantities of natural resources, such as minerals, energy, and agricultural products. Investing abroad allows China to secure access to these resources and reduce its dependence on volatile global commodity markets.

2. **Global Market Access:** Outbound investments enable Chinese companies to access foreign markets directly, helping them diversify their customer base and reduce reliance on a single market.
3. **Technology Acquisition:** China seeks advanced technologies and know-how to enhance its domestic industries and foster innovation. Investing in foreign technology companies or forming strategic partnerships provides access to cutting-edge technologies.
4. **Capacity and Overcapacity:** In sectors facing overcapacity domestically, such as steel and construction, Chinese companies seek overseas projects to utilize excess production capacity and export surpluses.
5. **Belt and Road Initiative (BRI):** China's ambitious BRI aims to promote connectivity, trade, and infrastructure development across Asia, Africa, Europe, and beyond. This initiative involves substantial investment in various countries to build ports, railways, roads, and other infrastructure.

Figure IV.2 China FDI

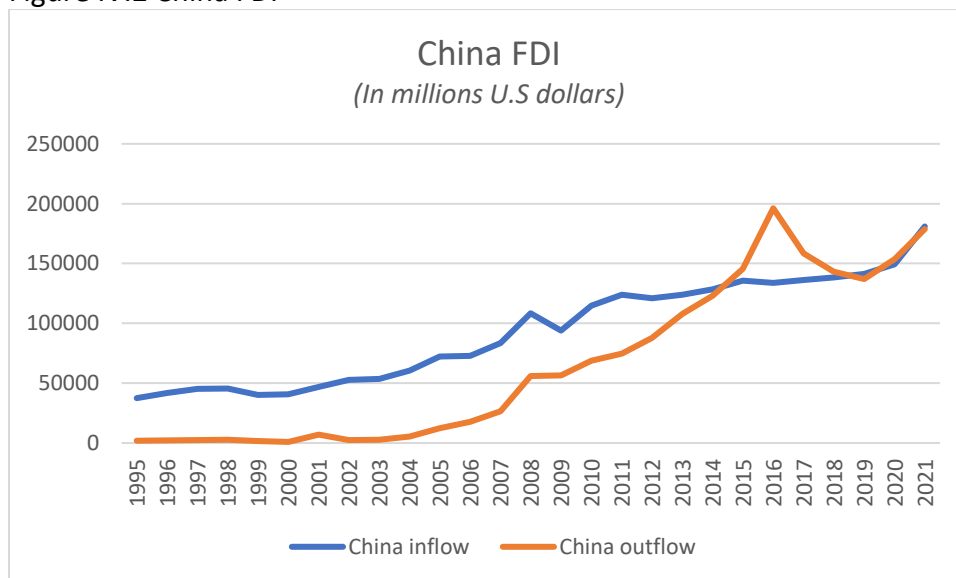


Figure 10 China FDI

Source: United Nations Conference on Trade and Development

It's important to note that a negative net FDI position doesn't necessarily imply a dire situation. Some countries with negative net FDI positions might have specific reasons for outward investment, such as seeking strategic assets or accessing global markets. However,

countries should carefully monitor and manage their FDI flows to ensure a balanced approach that aligns with their economic goals and development strategies.

IV.3 The resource for infrastructure agreement

To gain a comprehensive understanding of China's Foreign Direct Investment (FDI) in the Democratic Republic of Congo (DRC), we have chosen to have a look to the resource-for-infrastructure agreements that was called "Contrat du siècle" by Medhi Meddeb³³, established between the two nations, a thorough assessment is imperative. This analysis seeks to delve into the intricacies of these FDI engagements, evaluating their economic, geopolitical, and developmental implications, while also examining how the resource-for-infrastructure framework shapes the dynamics of this collaboration.

In April 2008, an agreement was forged between a consortium of Chinese enterprises known as Sicominex (comprising Sinohydro and China Railway Engineering Corporation) and the Congolese government. This accord centered on granting mineral concessions within the Katanga province to the Chinese consortium, in exchange for substantial infrastructure investments. Originally valued at a staggering US\$9 billion and financed by China EXIM Bank, this pact allocated US\$6 billion toward the development of critical infrastructure, while the remaining US\$3 billion was earmarked for investment in mining operations within Katanga. The ownership distribution was set at 68% for Sicominex and the remaining 32% for Congo's state-owned mining company, Gécamines.

Initially, the US\$6 billion was intended to facilitate the construction or restoration of a total of 6,600 kilometers of roads, alongside the establishment of two hospitals and two universities. The mining concessions in Dima (Dikuluwe) and Mashamba West presented Sicominex with access to substantial mineral deposits, including 10.6 million tons of copper and over 600,000 tons of cobalt. Among these deposits, 6.8 million tons of copper and 427,000 tons of cobalt were already confirmed. The prospective commencement of mining operations was anticipated to be as early as 2013.

³³ Medhi Meddeb, rfi, <https://www.rfi.fr/fr/afrique/20230526-quel-avenir-pour-le-contrat-du-si%C3%A8cle-entre-la-rdc-et-la-chine>, accessed on 08th June, 2023.

Critics of the initiative have raised allegations that the project significantly undervalues the mineral deposits located in the Katanga region. The International Monetary Fund (IMF) has expressed reservations about the potential adverse impacts of this arrangement on the Democratic Republic of Congo's (DRC) debt sustainability. The concern arises from the fact that this agreement would render the country ineligible for the IMF's foreign debt relief initiative under the aegis of the World Bank Group's Highly Indebted Poor Country (HIPC) program. This paradox stems from the fact that while the DRC would ostensibly receive debt relief, it would concurrently incur new debts, a scenario which contradicts the program's goals. The IMF contends that for the DRC to maintain its eligibility and for the deal to be executed, a substantial reduction in the value of the Sicominex deal would be imperative. In a move to address these concerns, the Congolese government decided in May 2009 to temporarily suspend a portion of the deal valued at US\$3 billion, pending the finalization of a feasibility study for the mineral concessions³⁴.

As of October 2017, the ownership of Sicominex is vested in "Sinohydro Corp. and China Railway Construction," who collectively hold a 68 percent stake. Originally, the government of the DRC instructed these Chinese enterprises to cease exporting unprocessed copper and cobalt and instead refine these metals within the country. However, this directive was subsequently reversed.

A report published by the Carter³⁵ Center in 2017 underscored that approximately \$685 million in loans designated for Sicominex' infrastructure projects appeared to be unaccounted for, with no discernible evidence of the funds being utilized for their intended purpose. This has raised apprehensions about potential misappropriation of Chinese funds and corruption associated with these investments.

³⁴Burke, Christopher; Jansson, Johanna; Jiang, Wenran, https://web.archive.org/web/20110726212315/http://www.ccs.org.za/wp-content/uploads/2009/11/Chinese_Companies_in_the_Extractive_Industries_of_Gabon_and_the_DRC_CCS_report_August_2009.pdf, accessed on June 15th, 2023.

³⁵ The Carter Center, "A State Affair: Privatizing Congo's Copper Sector", November 2017.

IV.3.1 Evolution of the resource for infrastructure agreement

China's commitment to fulfilling its obligations under the resource-for-infrastructure agreement with the DRC encountered setbacks, with instances of unmet targets and challenges arising in the execution of designated infrastructure projects.

At its core, this narrative revolves around a monumental agreement involving Sicominex, the Sino-Congolese Mining Consortium, a collaborative venture forged in the former Katanga province. This partnership united the Congolese state-owned entity, Gécamines, with the GEC, a consortium of Chinese enterprises.

The Congolese government, orchestrated a trade of cobalt and copper mining rights in exchange for comprehensive infrastructure development, encompassing essential projects like roads and railways.

However, when actualized, the much-anticipated contract of unparalleled significance unveiled itself as a colossal disappointment, echoing more of a grand heist than a transformative agreement. This registers as the swindle of the century. The reasoning? Essentially, China committed to a credit line amounting to 6 billion US dollars. This sum was halved post the IMF's intervention, driven by concerns over insurmountable debt and the practical viability of the undertaking. Thus, the financial resources were at hand. On the opposing front, China's aspiration to access mineral resources prompted the DRC to assert the presence of substantial reserves, with Gécamines estimating a cache of 10 million tons of copper and 600,000 tons of cobalt. Such was the crux of this intricate pact.

Despite the ambitious blueprint, the ground reality reflects a stark contrast. The anticipated transformative infrastructure, including road networks, hydroelectric installations such as the Kakobola and Katende dams, and a multitude of social housing units and health centers, has been considerably lagging. Notably, after the passage of fifteen years, the actual contribution by the Chinese counterpart remains rather minimal. In 2023, and in the present, the observation stands that China's actual financial infusion, amounting to a mere 30%, equivalently 822 million dollars, has been channeled toward the intended infrastructure initiatives.

V. Conclusion

In summation, the intricate exploration of China-DRC trade relations and Chinese Foreign Direct Investment (FDI) unearths a multifaceted narrative marked by imbalances, unfulfilled commitments, and a nuanced impact on the Democratic Republic of Congo (DRC). Several critical findings emerge from this analysis, shaping a comprehensive understanding of the evolving dynamic between these two entities.

Firstly, the overwhelming import of mineral resources by China underscores a significant aspect of this relationship. The DRC's role as a major supplier of raw materials to China highlights the country's strategic importance in China's resource supply chain. This dynamic amplifies the need for the DRC to effectively manage its mineral resources to ensure equitable benefit and long-term sustainability.

Secondly, the examination of the 2007 Sino-Congolese agreement reveals a disconcerting breach of commitments. China's failure to uphold the promises made in this contract illustrates the complexities of international agreements and the challenges of ensuring mutual compliance and accountability, particularly when power imbalances exist between the contracting parties.

Additionally, the limited impact of Chinese firms on job creation and local development becomes evident. The practice of importing Chinese workers rather than engaging the local workforce impedes the potential positive spillover effects that FDI could bring to the DRC, thereby inhibiting the broader societal and economic benefits that such investments could generate.

The possibility of profit repatriation to China without substantial benefits accruing to the DRC serves as a reminder of the necessity for comprehensive oversight and clear regulatory frameworks. Ensuring that investments lead to sustainable local development and capacity-building requires a harmonious balance between the interests of both parties.

The significance of the 2023 report from the Inspection Générale des Finances (IGF) further underscores the need for diligent monitoring and enforcement of agreements. This report

serves as a critical resource for assessing the progress of China-DRC economic engagements, serving as a foundation for informed policy decisions and course corrections.

Ultimately, this study underscores the imperative for the Congolese government to take proactive measures to redress these disparities. Strengthening regulatory frameworks, enhancing transparency, and fostering collaboration between Chinese entities and local stakeholders are crucial steps toward ensuring that economic relationships between China and the DRC are truly mutually beneficial. By leveraging these findings, the DRC can negotiate more equitable terms, stimulate sustainable local development, and maximize the potential benefits of its resource wealth while safeguarding its long-term interests.

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