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Resource-Driven Development or Dependency? Analysing Chinese Investment in Commodities in Emerging Markets

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Abstract

This thesis analyzes the impact of Chinese foreign direct investment (FDI) in commodity-exporting emerging markets, using Zambia and Sri Lanka as case studies. It explores how China's investment strategy—framed by the Belt and Road Initiative—affects economic growth, diversification, and dependency in resource-rich countries.

In contexts with structural inequality and limited industrialization, Chinese FDI offers opportunities for infrastructure development and trade but also poses risks related to debt sustainability, institutional weakness, and overreliance on exports. Through case-based and macroeconomic analysis, the study assesses how these investments influence each country's development.

The results confirm that Chinese FDI reinforces vulnerabilities when host countries lack strong institutions. While generating short-term gains, it may entrench long-term dependency if not accompanied by diversification policies and governance reforms.

Keywords: Chinese FDI, emerging markets, resource dependency, Belt and Road Initiative, Zambia, Sri Lanka, economic diversification.

Chapter 1

1.0. Introduction

Does Chinese Foreign Direct Investment (FDI from here on) in commodity-exporting drive sustainable economic development, or does it reinforce structural dependency in emerging markets? Emerging economies often benefit from their abundant natural resources, as they are important assets that support economic diversity and growth when properly handled. But these resources may also act as a double-edged sword, making a country overly reliant on raw material exports and leaving it vulnerable to changes in the global market. Consequently, long-term development may be hindered by this dependence on developed countries, which frequently turns into unequal trade agreements with resource-rich states (Golini et al., 2020).

Despite the ambiguous effects of trade in a relationship between unequally developed countries, FDI has become a crucial and key driver for economic growth in emerging markets, particularly in those who are commodity-exporting (IMF, 2010). In this context, China has become one of the major players influencing global FDI flows, among the group of key actors shaping international economic relations. Due to its need for raw materials to support its fast industrialization, commodities including oil, minerals, and agricultural products have been the main targets of Chinese foreign direct investment (FDI) in resource-rich developing countries, greatly impacting their economic development (Varela, 2022).

Chinese capital's increasing influence in commodities industries has presented emerging economies with both possibilities and difficulties. While it can boost infrastructure, create jobs, and stimulate growth, it can also lead to increased dependency on foreign capital and raw material exports, especially in countries with limited economic diversification (IMF, 2024). On the one hand, Chinese FDI provides significant infrastructure development, technological transfers, and access to global markets, which can foster trade and economic integration in sectors beyond commodities, such as road and ports as seen in Latin America (Coria, 2021). On the other hand, it can exacerbate economic dependency by reinforcing reliance on raw material exports, making countries more vulnerable to global commodity price fluctuations and limiting the development of value-added industries (Pérez and Santos, 2022). Although financial inflows, improved trade flows, and infrastructure development have made economic growth easier, worries about long-

term reliance, inadequate industrial diversification, and debt sustainability have also emerged. A prime example of China's strategic investment approach is the Belt and Road Initiative (BRI), which connects foreign direct investment (FDI) with agreements for resource exploitation and infrastructure development (Tully, 2024). It is still unclear, nevertheless, to what degree these investments strengthen structural dependence or promote sustainable economic growth.

Chinese FDI's growing presence in commodity-exporting emerging markets creates a paradox: while it creates economic opportunities through infrastructure development and trade expansion, it also raises concerns about limited domestic industrialization, excessive reliance on Chinese demand, and financial vulnerabilities brought on by debt-financed projects. This paper aims to assess whether Chinese investments in commodities industries make emerging nations more economically dependent or promote long-term growth. It specifically investigates how host countries' industrial diversification, trade balances, and economic resilience are impacted by the pattern of Chinese FDI. The findings of this research are relevant to policymakers, economists, and development professionals seeking to understand the long-term impacts of Chinese FDI in emerging markets. It highlights how resource-rich economies can leverage foreign investment while mitigating dependency risks, contributing to the broader discussion on FDI's role in economic sovereignty and sustainable development.

1.1. Objectives

The broad objective of this thesis is to evaluate how Chinese foreign direct investment affects economic growth and dependency in commodity-exporting emerging nations. The following specific objectives will serve as the basis for building the arguments and the findings of the research:

i. To examine how Chinese FDI affects or restricts economic diversification in emerging economies with abundant natural resources.
ii. To investigate the effects of infrastructure and resource extraction projects financed by China on debt sustainability.

iii. To assess how institutional frameworks influence how Chinese investments affect development.

1.2. Methodologies

This study employs a mixed-methods approach to explore the impact of Chinese FDI on economic growth and dependency in commodity-exporting emerging economies. The research reveals how Chinese investments impact economic diversification, debt sustainability, and institutional governance by combining qualitative case studies with quantitative analysis of important macroeconomic variables, including GDP growth, debt-to-GDP ratios, trade balances, and FDI inflows. The study looks at two important cases: Zambia's Chambishi copper mine and Sri Lanka's Hambantota Port, using information from national statistics agencies, international financial institutions, and policy reports. Despite their differences in geography and industry, these cases have important structural parallels: they both entail substantial Chinese investments in strategically important industries, are connected to debt-financed development, and raise issues of governance and dependency. Their parallel dynamics are particularly useful for understanding how Chinese FDI can bolster growth yet entrench long-term vulnerabilities in emerging economies.

These examples emphasize both the transformational potential and the structural vulnerabilities that Chinese FDI may reinforce, shedding light on the intricate dynamics of this investment in resource-driven economies. Through this comparative framework, the study provides a deeper understanding of the geopolitical and economic implications of China's increasing influence in commodity-exporting countries.

Chapter 2

2.0. Conceptual Framework

2.1. Conceptual Foundations of Dependency Theory

Dependency Theory, initially developed by Prebisch and Singer in 1949, argues that the export of raw materials perpetuates underdevelopment and dependency in resource-rich countries, which are incorporated into a global economy dominated by wealthier industrialized nations (the core). This dependence is often exacerbated by the very natural resource wealth that these countries possess. The theory is based on three key tenets: First, it highlights the structural trade imbalances in which developing nations often export low-value commodities while importing high-value manufactured goods, leading to unequal trading and economic stagnation in the periphery (Moyo, 2020). Second, it points to the economic vulnerability of resource-dependent countries, which are exposed to instability from volatile commodity prices, a phenomenon linked to *Dutch disease*, where resource booms lead to currency appreciation that harms other industries (Hilmawan & Clark, 2021). Finally, it suggests political subordination, where elite collaboration with industrialized economies further cements dependency by enacting policies that benefit the core's interests. While natural resource wealth offers growth potential, it also deepens dependence on external capital, technology, and markets, perpetuating a cycle of underdevelopment (Hout, 2023).

In contrast, *resource-driven development theory* provides a more optimistic view, suggesting that the exploitation and export of natural resources can be the primary driver of a country's industrialization and economic progress (Szalai, 2018). In resource-rich emerging economies, such as those with abundant minerals, oil, or agricultural products, the strategic use of these resources can stimulate domestic industries, attract FDI, and drive national development. However, the outcomes depend heavily on how these resources are managed. If they are used efficiently and transparently, they can propel the economy forward. Yet, if individual interests take root in the management of resource wealth, the very same resources can generate a dependency dynamic, reinforcing reliance on external markets and limiting the development of diversified economies. In this case, the resource wealth becomes a source of long-term vulnerability, influencing economic trajectories and policy decisions in negative ways (Tully, 2024).

Resource-driven development theory is at the same time based on classical economic theories, more specifically on the *Ricardian comparative advantage theory* for national economic growth. This theory contends that countries need to sustain economic growth on areas in which they are naturally advantageous (Costinot and Donaldson, 2012). This strategy has been embraced by numerous resource-rich emerging economies, which prioritize commodities exports, frequently with the help of foreign investors looking to get raw resources. This is achieved through capital reinvestment and institutional quality, which allows wider economic expansion if surplus from exports is reinvested in sectors like infrastructure and education (Hilmawan & Clark, 2021), creating a sustainable development. This idea is at the same time closely related to the *resource curse*, which postulates that nations that rely too heavily on natural resources may face increased political instability, weak industrial diversification, and slower economic growth (Szalai, 2018). Focusing FDI inflows into these resource-rich industries often limits the growth of other productive industries and exacerbates reliance on volatile commodity markets.

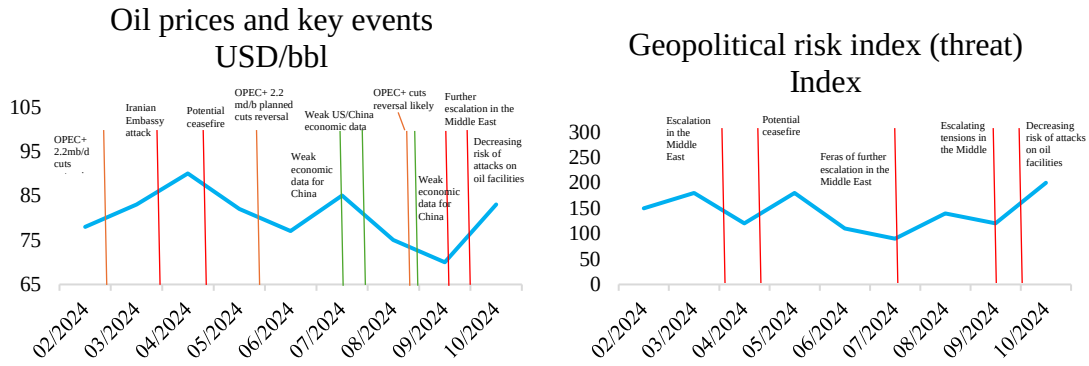
2.2 Commodity Investment: A global overview

Understanding the functioning of commodities markets and their global impact across sectors requires a previous understanding of commodities as such and how they are traded globally. These markets create an attractive and influential market for the International Community and macroeconomics. Commodities can be divided into two main categories: hard and soft commodities (Ouma and Klinge, 2020). The first group refers to natural resources that must be extracted (gold, rubber, oil). Soft commodities are agricultural product or livestock (corn, wheat, coffee, sugar). Both are traded directly in spot markets or financial commodity markets through financial instruments such as futures contracts. Markets further classify them into three groups: industrial (primary base metals), energy and agricultural (Bain, 2013). Commodities impact international economy, politics and social development, given their **three main features**, according to the Chartered Financial Analysts (CFA) Institute:

Commodities are traded internationally without geographical restrictions, making global supply and demand the primary price determinants. Disruptions in one region, such as adverse weather in Brazil or rising demand in China or India, can ripple through global markets, influencing prices

worldwide. Major exchanges like CME, ICE, DCE, and TAIFEX facilitate these transactions across diverse production and consumption regions (Vesper Tool, 2024). This global interconnectedness contributes to the inherent volatility of commodity prices, which respond not only to supply and demand shifts but also to broader economic, geopolitical, and environmental factors. Historically, commodities have acted as inflation hedges, with price cycles aligning with macroeconomic trends (CFA Institute, 2024). Studies by Gorton & Rouwenhorst (2006) and Schroder (2024) show how inflationary periods often trigger commodity price surges, as seen in World Bank data linking coal and oil price fluctuations to global recessions, Chinese policy, and geopolitical tensions.

Figure 1. *Oil prices and key events*



Daily Brent prices. Last observation is October 18, 2024. Orange lines indicate events related to OPEC+ supply management, red lines indicate geopolitical events, and green lines display economic news.

Source: Own compilation from World Bank data based on Bloomberg; Caldara and Iacoviello (2022); International Energy Agency (IEA).

Monetary and fiscal policies significantly impact commodity markets. Interest rates, subsidies, and stimulus programs influence demand, while trade policies such as tariffs affect supply and pricing. Environmental regulations, including emission restrictions, alter resource availability, shaping market stability. Governments play a crucial role in maintaining equilibrium in these markets. Beyond these factors, commodities are constantly influenced by geopolitics, climate change, and macroeconomic conditions. The World Bank (2024) notes that emerging markets and developing

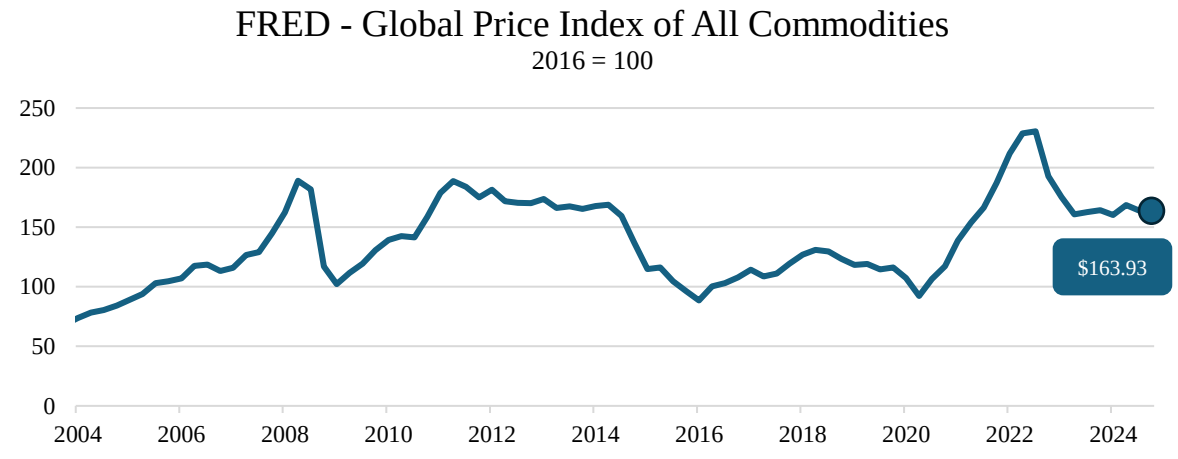
economies (EMDEs) are particularly vulnerable, as they often rely on a narrow set of commodities. Over the past 25 years, global demand shocks have accounted for 50% of commodity price variations, while supply shocks contributed 20% (World Bank, 2024).

Energy-related disruptions frequently trigger cascading market effects. For example, the COVID-19 oil demand shock caused a 10% drop in oil consumption in 2020, prompting OPEC+ to cut production by 9.7 million barrels per day in April of that year. Similarly, oil price surges in the mid-2000s—driven by EMDE demand, OPEC supply cuts, and geopolitical concerns—made shale oil extraction profitable, increased food production costs, and spurred biofuel policies. After the 2014 oil price collapse, food production costs declined, yet innovations in shale oil and biofuels maintained a permanent presence in the market (World Bank, 2024).

Most commodities are traded through futures contracts, which speculate on their future prices. However, they can also be traded at spot prices or through derivatives (FOREX, 2022). Market indices such as the Global Price Index of All Commodities and the IMF Price Index track price trends across sectors, offering valuable insights into market directions, risks, and opportunities (Hayes, 2024). As of Q3 2024, the Global Price Index stood at $163.93.

Figure 2. *Global Price Index of All Commodities.*

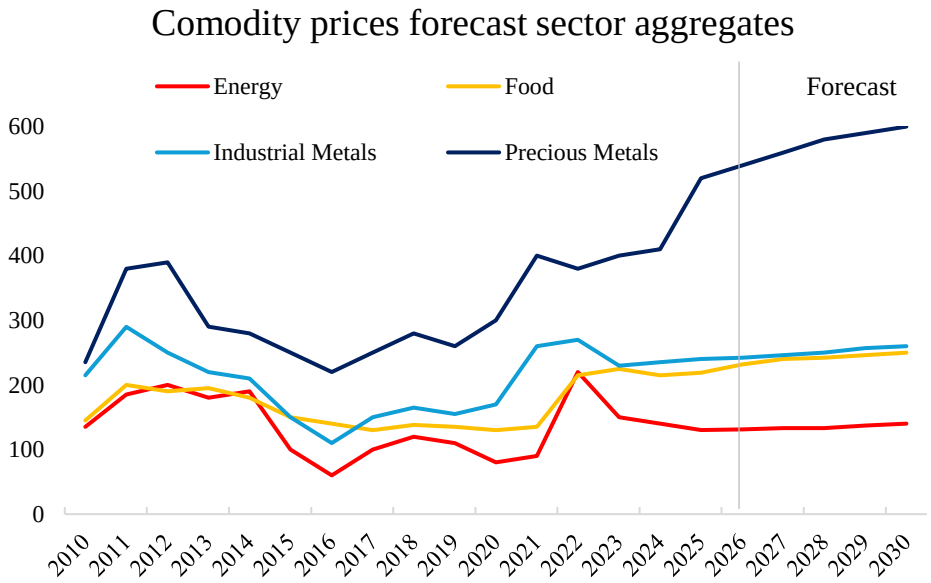
Source: Own Computation based on data from Fed. Reserve Bank of St Louis via IMF



Source: Own Computation based on data from Fed. Reserve Bank of St Louis via IMF

Commodities are powerful tools in international negotiations, as seen in recent conflicts in Ukraine and the Middle East. Supply chain disruptions and struggles for control over natural resources have directly impacted commodity prices and inflation, a trend expected to continue (Adriantomanga et al., 2023). Figure 3 highlights the worldwide price forecasts for precious metals versus other commodities, emphasizing their importance as strategic assets. A notable example is the failed rare-earth-backed Ukraine-US security deal, which underscored the role of commodities in geopolitical strategies.

Figure 3. *Commodity Price forecasts sector aggregates.*



Source: Own computation based on Oxford Economics data.

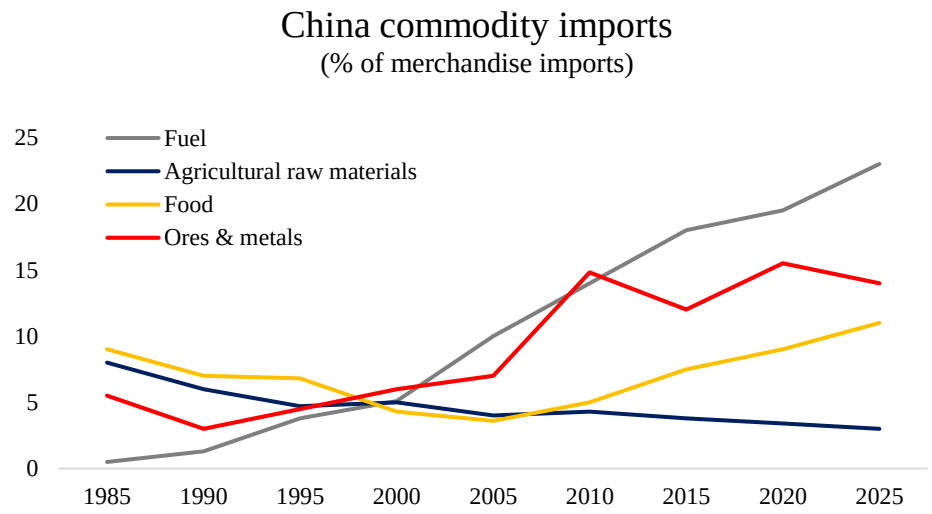
In conclusion, the commodities market is a fundamental pillar of the global economy, influenced by interconnectivity, price volatility, and policy interventions. As international trade, energy security, and financial markets continue to evolve, commodities will remain at the centre of macroeconomic and geopolitical dynamics.

2.3. Commodity Investment: A Chinese Case Study in Emerging Markets

Having examined the global commodities market and its underlying dynamics, the analysis can now be refined to focus specifically on the Chinese market. Investment dynamics in the country

can be preliminarily analysed through the country's commodity import and export throughout the years:

Figure 4. *China commodity imports.*



Source: Own computation from Fathom Consulting data.

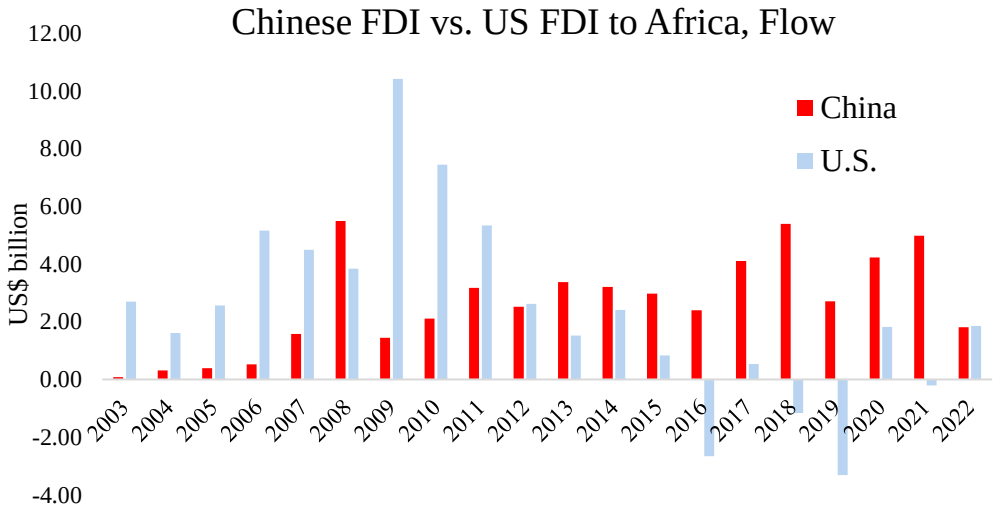
Figure 4 illustrates China's commodity imports from 1985 onward, revealing significant growth in energy and metal imports since the early 2000s. Energy rose from 6% in 2001 to 13.5% in 2022, while metals increased from 7.4% to 20.6%. In contrast, food and agricultural raw material imports declined, reflecting China's self-sufficiency strategy in key staples like rice and wheat (Fathom Consulting, 2024).

Similarly, Chinese commodity exports have surged since 1992. Data from the World Integrated Trade Solution (WITS) and the World Bank indicate a 65.39% increase in metal exports, with fuels and food growing by 12.7% and 11.5%, respectively. Raw agricultural exports saw a modest rise of 4.6%, consistent with China's domestic production policies. The sharp rise in metal exports is linked to their use in manufacturing goods for global markets (Huang et al., 2020), solidifying China's position as the world's largest metals exporter in 2022 (Observatory of Economic Complexity, 2024). However, recent policy shifts threaten this trend, as China announced in

December 2024 the cessation of export licenses for critical rare earths like gallium, germanium, and antimony to the United States (Le Monde, 2024).

Furthermore, Chinese FDI flow to the African continent saw an exponential increase around the mid-2000s, matching the global price rise of all commodities (Figure 2), and overall Chinese commodity imports (Figure 4). The Chinese commodity market holds significant influence in global trade, driven by its substantial demand for fuels, metals, and food, and less interest for agricultural raw materials. Figure 5 further supports this idea by comparing US FDI vs Chinese FDI flow to Africa throughout the past two decades.

Figure 5. *China commodity imports.*



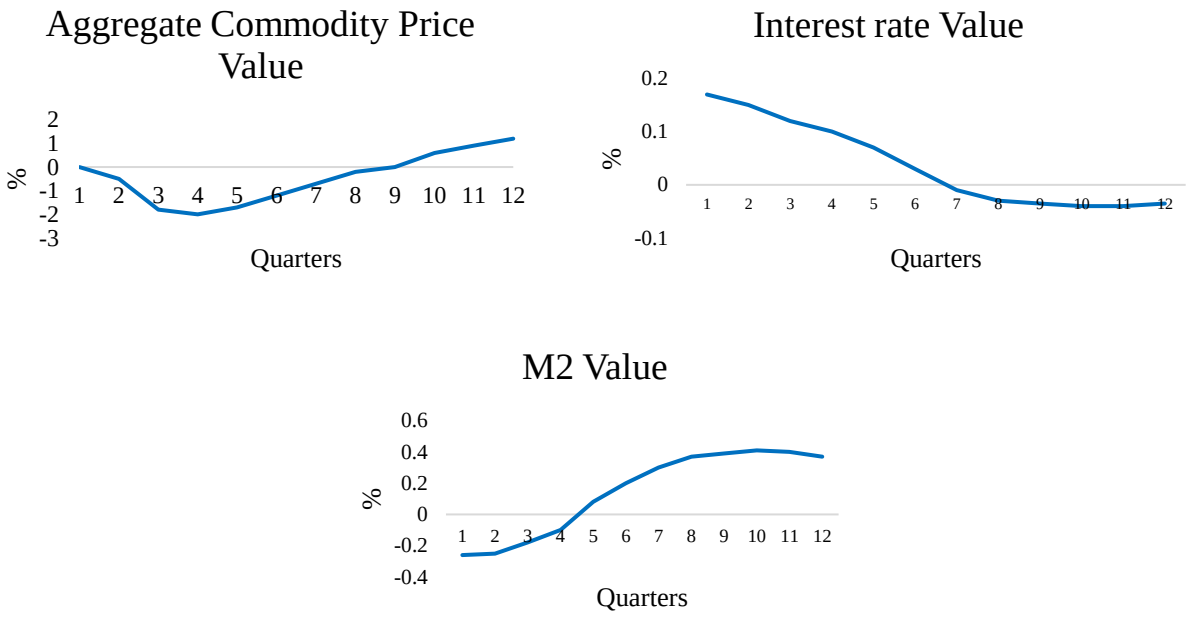
Source: Own computation from The Statistical Bulletin of China's Outward Foreign Direct Investment, U.S. Bureau of Economic Analysis data

This Chinese leading position is not incidental but rather the outcome of a long-term strategy shaped by deliberate and strategic motivations behind investment decisions.

China's economic reforms, rapid growth, and integration into global trade have fuelled international demand for commodities, leading to price booms (Prasad, 2004; World Trade Organization, 2018). Given China's significance in global economic expansion, its monetary policy has a profound impact on commodity prices (Hammoudeh et al., 2024). Unlike Western

central banks, the People's Bank of China (PBOC) utilizes both interest rates and money supply control to influence markets (Hammoudeh et al., 2024). An empirical study by Hammoudeh et al. (2024) reveals that increasing interest rates contracts economic activity, reducing commodity demand and lowering global prices (see Figure 6 below). Conversely, expanding the money supply drives commodity price inflation, making monetary expansion (M2 value: national monetary base plus demand deposits plus savings accounts) a more effective tool for influencing global commodity trends (Hammoudeh et al., 2024).

Figure 6. *Global commodity prices, interest rate and money supply shocks.*



Source: Own computation based on Hammoudeh et al.

Beyond monetary policy, China's global investment strategy is primarily framed within the Belt and Road Initiative (BRI), which aims to strengthen trade and infrastructure ties across Asia, Africa, Europe, and Latin America (European Bank for Reconstruction and Development, 2020). With over 140 participating countries and cumulative overseas direct investment surpassing $170 billion by 2023 (BRI, 2024), the BRI has become a key driver of global economic engagement (Nugent and Lu, 2021). China's strategic investments are deeply linked to its shift from an emerging to an upper-middle-income economy since 1978, a transformation aligned with Xi Jinping's economic vision- dominantly industrial dominance (Dhar and Mutalib, 2020).

As this industrial growth accelerates, however, China's increasing demand for key resources has highlighted a critical vulnerability: its limited domestic supply of essential raw materials. This resource gap has made FDI an indispensable tool for securing long-term access to inputs necessary for sustaining economic momentum. Many Chinese firms, often state-influenced, view FDI as a means to enhance global competitiveness by securing production inputs, acquiring advanced technologies, and achieving economies of scale (Deng, 2007). Consequently, Chinese investments are not merely financial but serve a broader strategic goal—ensuring long-term resource security, economic resilience, and global market influence. Sub-Saharan Africa and Latin America serve as case study examples that help properly evaluate this stated diverse impact.

Chinese FDI presents an opportunity if not a tool for Chinese economic growth. However, it equally has an impact on nations receiving this direct investment. Since the beginning of the 21st century, Chinese banks have made commitments of approximately US $132 billion in financing to African and Latin American governments (Bräutigam & Gallagher, 2014), which reflects the appeal of both regions to Chinese companies and the government.

For the purpose of a comprehensive analysis, three impacts will be analysed through the Sub-Saharan Africa and Latin America case studies: (i) economic impact and dependency risks, (ii) South-South cooperation and infrastructure development, and (iii) environmental and social considerations.

Since the early 2000s, China's commercial relations with Africa have expanded dramatically. For most African nations, China is currently their top export destination and greatest bilateral economic partner (Tang, Owusu & Ndubuisi, 2024). Since 2013, China has also emerged as Africa's largest bilateral source of FDI (Tang, Owusu & Ndubuisi, 2024). Commodity extraction represents 11.2% of all African FDI from China. Naturally, big commercial figures come in hand with big consequences in all scopes.

Firstly, economies in Sub-Saharan Africa (SSA) are heavily reliant on primary commodities for exports, making them vulnerable to commodity price volatility. Robinson and Sindzingre (2023)

analysed SSA trade data from 1995 to 2009 and found that exports were led by fuels (37%), manufactures (31%), ores and metals (15%), food (14%), and agricultural raw materials (3%). Despite trade liberalization, SSA countries remain trapped in poverty due to structural constraints such as low competitiveness and labour productivity. These economies suffer from fiscal shocks linked to commodity price volatility, which hinders long-term investment and development (Robinson & Sindzingre, 2023).

Chinese demand for commodities has directly influenced SSA economies. For instance, during the 2003–2008 commodity super cycle, China accounted for 40% of global base metal consumption, raising the price of lead, copper, and aluminium (World Bank, 2009). Zambia, which depends heavily on copper exports, benefited from higher prices but also became vulnerable to economic downturns when prices dropped. Despite China's investments, much of the revenue was not reinvested into local economic development. Instead, Chinese companies prioritized resource extraction over skills development or wage growth (Robinson & Sindzingre, 2023).

Secondly, China's investment strategy in Africa aligns with South-South Cooperation (SSC), which emphasizes mutual benefit and development partnerships. Chinese investments have facilitated infrastructure projects such as railways, roads, and ports, promoting domestic trade and resource extraction. Examples include Chinese-funded railways in Ethiopia and Angola that improve trade logistics. However, critics argue that these investments reinforce dependency rather than fostering economic diversification (UN, 2019; Robinson & Sindzingre, 2023).

Finally, China's resource-intensive investments in Africa have led to environmental degradation, including land depletion, water pollution, and deforestation (European Institute for International Relations, 2023). Furthermore, the Democratic Republic of the Congo has faced criticism for mining contracts that benefit elites rather than the broader population. Additionally, Chinese mining operations in Zambia have raised concerns about labour conditions and wages (Robinson & Sindzingre, 2023).

A similar dynamic is followed in Latin American countries regarding consequences of Chinese commodity investments. They have too experienced a surge in commodity exports to China since

the early 2000s. While facing competition from Chinese manufactured goods, the region has become a key supplier of raw materials and agricultural products (Wise & Quiliconi, 2007).

Firstly, the economic impact of this Chinese investment model in the region is illustrated by soybean exports (In the case of the American continent, soybean processing replaces African metal export). Argentina, for instance, exports 40% of its soybean oil to China, with demand fuelling mechanized and genetically modified soybean farming. The China Development Bank provided a $2.6 billion loan to upgrade Argentina's cargo railroads, improving the efficiency of soybean transport. However, due to limited domestic processing capacity, Argentina remains trapped in an export-oriented model that restricts industrial development (Giraudo, 2020), and which president Milei aims to mitigate in the upcoming years. The inability of many host economies to transition from exporting raw materials to value-added sectors has increased their susceptibility to changes in commodity prices and outside economic shocks (Kaplinsky & Morris, 2009).

Latin American economies also suffer from Dutch Disease[1], where heavy reliance on commodity exports strengthens local currencies, making other industries less competitive. Venezuela and Angola, for example, have struggled with economic diversification due to their dependence on Chinese commodity demand (Giraudo, 2020; Robinson & Sindzingre, 2023).

Secondly, China's investments in Latin America have contributed to infrastructure development and technology transfer though positive outcomes of South-South cooperation. The Chancay Port in Peru, co-funded by China, enhances trade efficiency. Additionally, Chinese expertise in renewable energy has supported Brazil's wind and solar energy projects (Robinson & Sindzingre, 2023). Agricultural cooperation has also increased soybean yields in Argentina (Giraudo, 2020).

Finally, environmental concerns are prevalent in Latin America due to China's investments in resource extraction. Large-scale soybean farming has led to deforestation in Argentina and Brazil, threatening biodiversity and local ecosystems. Additionally, Chinese mining projects in countries like Peru and Bolivia have raised concerns about water contamination and displacement of

[1] Dutch Disease: a term that broadly refers to the harmful consequences of large increases in a country's income (IMF, n.d.).

indigenous communities (Giraudo, 2020). These social and environmental costs increase poverty and relocation by posing long-term threats to the local community, enhancing the so-called *resource curse*.

Both case studies reflect positive and negative outcomes brought by Chinese FDI in commodities in their regions. Clearly, China's worldwide economic footprint has grown thanks in large part to its FDI policies, especially those implemented under the BRI. Assessing whether the benefits or the disadvantages have a stronger weight -–according to the Sub-Saharan Africa and Latin America examples–- can give a broad and preliminary conclusion on the impact Chinese FDI dynamics in commodities in emerging economies.

China has experienced remarkable success in its FDI, particularly through its BRI, which has facilitated strategic cooperation with host nations. In regions like Africa and Latin America, infrastructure projects such as railways, ports, and pipelines have been essential in improving connectivity and logistics. This collaboration has not only improved infrastructure in these developing countries but also promoted goodwill, making the implementation of these projects smoother (Areddy, Dubé & Ruiz, 2024).

The Chinese government has been a key factor in the success of these investments, providing financial support and ensuring investment consistency through robust policy frameworks (Zebregs & Tseng, 2002). This centralized approach has allowed for efficient strategic planning and effective resource mobilization, ensuring the long-term sustainability of projects. Additionally, Chinese firms have demonstrated a strong ability to adapt to local conditions, adjusting their investment strategies to the cultural and economic specifics of host countries, which has strengthened local partnerships and improved operational efficiency (Zhang, 2023).

However, despite these successes, several challenges have also emerged. Growing Chinese international presence have spiked complications in trade and FDI relations, complicating local operation in recipient countries. Furthermore, China's substantial investments in commodities have made it vulnerable to global demand fluctuations. As the commodity super cycle has ended due to China’s fast industrialization and urbanization, there has been a decreased demand for resources such as coal and iron ore, pushing China to seek alternative sources of economic growth (Hook,

Leahy & Ding, 2025). Moreover, the regulatory and cultural complexities of operating in foreign markets pose additional challenges. Navigating legal systems and cultural norms can be difficult, and due diligence, along with cultural sensitivity, is required to ensure compliance and foster beneficial relationships (Zhang, 2023).

Chapter 3

3.0. Methodology and Data

3.1 Methodology

To fulfil the broad objective of this thesis—which is to evaluate how Chinese FDI affects economic growth and dependency in commodity-exporting emerging nations—the analysis first examines how Chinese FDI influences or restricts economic diversification in resource-rich economies. Secondly, it investigates the impact of Chinese-financed infrastructure and resource extraction projects on debt sustainability. Lastly, it assesses the role of institutional frameworks governing Chinese investments in shaping economic development. This study employs a comparative framework of Sri Lanka and Zambia, highlighting the relevance of these two countries in addressing the broader objectives of the research.

The rationale for selecting Sri Lanka and Zambia lies in their strategic importance within China's Belt and Road Initiative (BRI), their high levels of commodity-related FDI, and their shared status as emerging economies facing challenges in balancing economic growth with financial and institutional dependency. While geographically and sectorally distinct—Zambia being a landlocked, mineral-rich nation, and Sri Lanka a maritime logistics hub—both represent instructive cases of how Chinese investments reshape national development trajectories.

The first case, the Hambantota International Port in Sri Lanka, exemplifies China’s strategic interest in maritime infrastructure. The port project aimed to transform a small fishing town into a logistical hub between Singapore and Dubai, framed by then-President Rajapaksa as a post-tsunami redevelopment plan for the country’s southern region (Carrai, 2019). The port is capable of handling mega vessels and various cargo types, including containerized goods, bulk commodities, RO-RO cargos, and liquid bulk—thus playing a crucial indirect role in global commodity trade.

Despite its ambition, Sri Lanka’s inability to repay Chinese loans for the Hambantota Port led to a controversial deal in 2017, in which a 99-year lease and a controlling equity stake were handed to China Merchants Port Holdings. China's official news agency heralded the event as "another milestone along path of #BeltandRoad" (Hillman, 2018). The port has since raised international

concerns, not only due to its limited economic rationale, given Colombo Port's capacity and expansion, but also for the geopolitical implications of potential Chinese naval use (Hillman, 2018). Though not a direct investment in extractive commodities, Hambantota's strategic role in facilitating commodity flows places it firmly within the scope of this study.

In contrast, the second case—the Chambishi Copper Mine in Zambia—represents a more conventional model of commodity-focused FDI. The Copperbelt region, which spans Zambia and the DRC, is a historic and economically vital zone where copper mining dominates the economy and employment (Aurélien et al., 2022). Zambia depends on copper for over 70% of its export revenues (Chipili, 2019), and the town of Chambishi, located in Kalulushi District, is a significant hub of Chinese mining activity.

Chinese investment in Chambishi began in the early 2000s, as state-owned enterprises pursued access to the region's rich mineral reserves. The Nonferrous China-Africa (NFCA) company, a subsidiary of China Nonferrous Mining Corporation (CNMC), operates the Chambishi mine and has since expanded by acquiring the nearby Lushaya Copper Mine in 2009 for $400 million, gaining an 85% stake (Li, 2010). These projects demonstrate China's deep integration into Zambia's extractive sector and present a clear example of how FDI can affect local employment, national export dependency, and broader economic diversification efforts.

Both case studies reflect distinct investment models under the BRI: resource extraction in Zambia and strategic infrastructure in Sri Lanka. These differences allow for a robust comparative analysis guided by three central questions: (i) To what extent does Chinese FDI promote or restrict economic diversification? (ii) What are the long-term implications for debt sustainability? (iii) How do institutional frameworks shape the developmental outcomes of such investments?

By embedding these case studies within a mixed-methods framework, combining macroeconomic data (such as GDP growth, debt-to-GDP ratios, trade balances, and FDI inflows) with qualitative policy analysis, this research aims to provide a nuanced understanding of how Chinese commodity-related FDI can simultaneously foster development and increase dependency in emerging economies.

3.2. Data

To fulfil the goal of examining how Chinese FDI affects or restricts economic diversification in emerging economies with abundant natural resources, data on economic indicators (GDP growth rates, GDP/debt ratios, trade flows) is sourced from the World Bank, the International Monetary Fund and the United Nations Conference on Trade and Development (UNCTAD) in reports containing macroeconomic statistics. Furthermore, market integration and bilateral trade dependencies information is sourced from studies from the World Trade Organization (WTO), the Observatory of Economic Complexity (OEC), Trading Economics and the Organization for Economic Co-operation and Development (OECD).

Additionally, the investigation of the effects of infrastructure and resource extraction projects financed by China on debt sustainability is based on data from Chinese, Zambian and Sri Lankan governments and national companies' annual reports and publications, such as the Sri Lanka Port Authority Annual Reports, as well as from the previously mentioned reports from international institutions. National statistics organizations and China Economic Information Centre (CEIC) Data provide country-specific information to further build the analysis. All sources combined disclose details on the ownership arrangements, long-term financial viability, and operational tactics of Chinese businesses involved in FDI.

Finally, to assess how institutional frameworks influence how Chinese investments affect development, data is gathered from peer-reviewed academic publications from diverse sources such as Research Gate, Science Direct and Google Scholar, and reports from the International Labour Organization (ILO), civil society and non-governmental organizations, along with labour and social indicators from the World Bank, the International Monetary Fund (IMF) and the Human Development Index (HDI). Overall, quantitative information is corroborated through policy briefs and research papers, which incorporate opinions on the strategic implications of Chinese FDI from academics, decision-makers, and business experts, whilst providing contextual depth through discourse analysis and historical analysis on investment patterns.

Chapter 4

4.0. Results and Discussion

4.1. Results

This section presents the empirical findings of the comparative case study between Sri Lanka and Zambia, focusing on the impact of Chinese FDI on economic growth, dependency, and institutional development. Drawing from the mixed-methods approach outlined in the methodology, the analysis is structured around three central themes: economic diversification, debt sustainability, and the role of governance and institutional frameworks in shaping development outcomes.

The findings highlight both converging and diverging patterns across the two cases. In Zambia, the data points to a strong correlation between Chinese investment in the copper mining sector and export dependency, raising questions about the country's ability to diversify its economy. In contrast, Sri Lanka's experience with large-scale infrastructure investment—most notably the Hambantota Port—illustrates the risks of debt-financed development and long-term economic entanglement. Both cases also reveal how institutional capacity, regulatory oversight, and political context play pivotal roles in shaping the benefits and risks associated with Chinese FDI.

The sections that follow explore each theme in detail, supported by macroeconomic indicators such as GDP growth, debt-to-GDP ratios, FDI inflows, trade balances, and employment trends, alongside qualitative evidence drawn from secondary sources. This multi-dimensional analysis enables a nuanced understanding of how Chinese FDI contributes to or undermines sustainable economic development in commodity-exporting emerging economies.

4.1.1 How Chinese FDI affects or restricts economic diversification: Case of Sri Lanka and Zambia

When analysing economic impact, China-Sri Lanka trade is the most direct reflection of Chinese FDI success, especially when studying the Hambantota Port case. According to the Observatory of Economic Complexity (OEC), exports from China to Sri Lanka in 2017 had a value of $4.37B, whereas in 2022 the value stood at $3.76B. Sri Lanka to China trade represented $453M in 2017

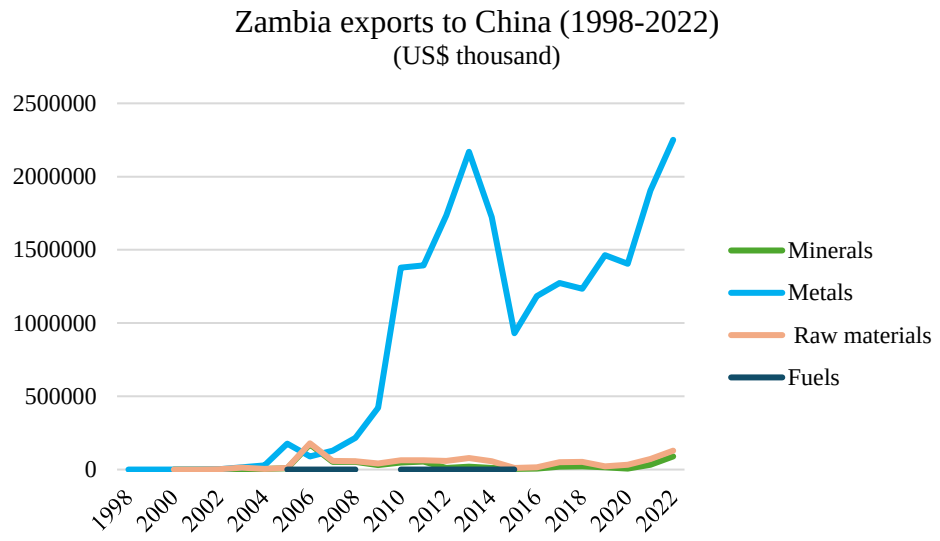
and $293M in 2022. This lack of trade impulse might seem irrational and inexplicable, however, there is a reason behind it.

The Observatory of Economic Complexity (OEC) analyses and explains the correlation between exports from Sri Lanka to China and the reverse situation. The first case depicts disproportionately higher values compared to the second case (OEC, 2024). Sri Lanka's primary export sectors are low-value-added industries such as textiles, tea, and spices—typical of emerging economies—which collectively make up nearly 40% of total exports (WITS, 2025). Furthermore, these industries do not fully benefit from deep-water ports like Hambantota, and together with the unfavourable trade evolution, they make explicit the lack of economic interest of China's loan for building the port. Rather than economic motives, the high geopolitical interest leads the Chinese FDI rationale, according to the IMF, posed by the possibility of easier access to the Malacca Strait and the Indo-Pacific trade routes. In fact, an increasing number of ports around the world have been involved in a process of weaponization of the BRI. The ports, especially in light of dual-use technology, could provide logistical support to Chinese military operations as strategic strong points (Carrai, 2021).

Unlike the case for Hambantota International Port, Chinese FDI has had notable positive effects on Zambian economy. When NFCA acquired the Chambishi mine in 1998 it had been inactive for 13 years, copper prices had hit rock bottom, and a Canadian investor had cancelled its purchase plan of the state-owned mine (Li, 2010). On April 2024, Minister of Finance Situmbeko Musokotwane stated that "Zambia's copper output could rise to about one-million tons by 2026, boosted by investment in expanding production at mines" (Reuters, 2024), evidencing a clear evolution in the country's economy. According to the World Bank, copper (and its derivatives) is the country's main exported product, and Zambia's sectoral composition is heavily concentrated in mining, with copper accounting for over 70% of total export revenue (Čerňák, 2024). n 2023, 96.4% of Zambia's metal exports to China were raw and refined copper (OEC, 2024), reflecting the country's overwhelming dependence on a single commodity. (Because of this high concentration, this study treats metal exports as equivalent to copper exports for simplicity and clarity).

Chinese FDI has largely flowed into this dominant sector, including major investments in infrastructure, processing facilities, and transportation linked to copper mining. Zambia's historical (1998-2022) copper exports to China versus other primary commodity exports reflect the importance of this metal to both countries' relationship throughout the past 30 years, as shown in Figure 7. Moreover, according to the World Bank, China represents 15.41% of overall Zambian exports to the world.

Figure 7. *Zambia historical exports to China (1998-2022)*



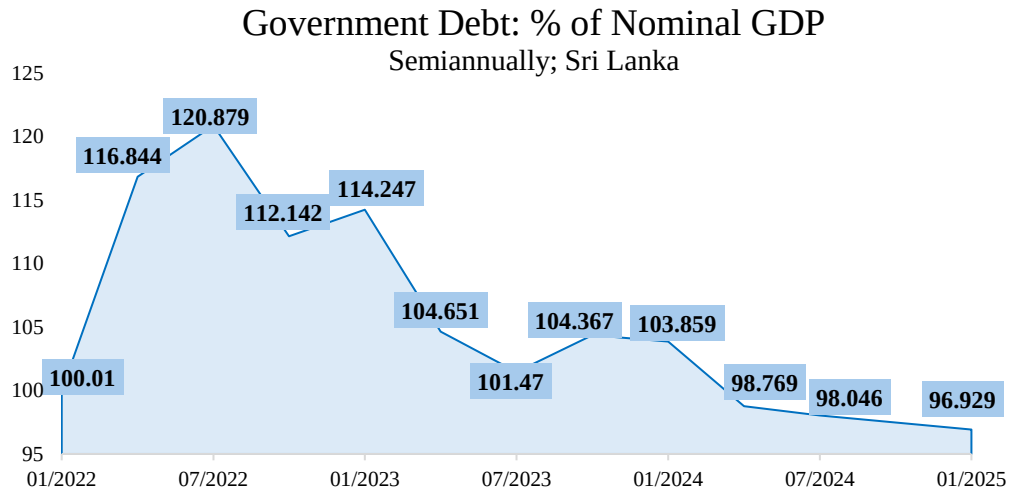
Source: Own computation based on World Bank (WITS) data

The sharp rise in copper exports to China from 2008 onwards (as reflected in Figure 7) is yet aligned with the increase in Chinese investments in Zambia from 2003 to 2022 (Figure 5). With 70% of country's foreign exchange revenue coming from copper (Čerňák, 2024), it is reasonable to assume that this Chinese FDI is directed towards activities in copper-related industries. The sustained focus on this one commodity could imply that, even while Chinese FDI has helped revive the mining industry and bring short-term economic gains, it underscores the challenges of diversification.

4.1.2 Effects of infrastructure and resource extraction projects financed by China on debt sustainability: An example from Sri Lanka and Zambia.

Regarding Hambantota Port, the affirmation that Chinese loans frequently carry exorbitant interest rates, was in this case no different. The project's first phase was funded by a $307 million loan from China's Export-Import (EXIM) Bank, which financed 85% of the total, while the Sri Lanka Ports Authority (SLPA) covered the remaining 15%. The loan carried a 6.3% interest rate (Hillman, 2018), which is significantly higher than the rates typically offered by multilateral development banks. According to Bru (2023), such institutions often provide loans with longer maturities and interest rates around 2–3%, and in some cases, even negative real rates. So, why did Sri Lanka resort to the Chinese loan with higher interest rates? The same reason that has driven many other similar cases; the fact that there tends to be limited availability of alternative financing for many developing countries (Hillman, 2018). As a result, Sri Lanka's debt-to-nominal GDP ratio pre-construction stood at 77.6% in 2017 (Sri Lanka Ministry of Finance, 2018), whilst the indicator in 2024 96.9%, having peaked in 2022 at 120.8% (CEIC Data, 2024), as perceived in Figure 8.

Figure 8. *Sri Lanka quarterly Government Debt as % of Nominal GDP.*



Source: Own computation based on data from CEIC Data.

Regarding financials, in 2016 the port registered $11.8m in revenue, yet was declared inviable as it incurred $10m expenses (Ranaraja, 2020). It handled 0.35 million tons of cargo mainly consisting of vehicles and break-bulk cargoes (Maritime & Transport Business Solutions B.V., 2020). While 2023 revenue has not been disclosed, the port handled 1836 tonnes of cargo between fuel, LPG (liquid petroleum gas) and other oil and gas. Additional 700,000 transshipment vehicles were handled by the port (Hellenic Shipping News, 2024). This demonstrates the clear development of Hambantota Port's business, justified by the overall $1.3billion Chinese loan (or investment, however it shall be named). The correlation between debt-to-GDP ratio reduction after 2022 might be explained by the exponential increase in operation in the port, contributing to national GDP increase. For further argumentation, Table 1 gathers payment amounts and dates, explaining de decrease in debt amount from Sri Lanka to China. The combination of both debt reduction and national revenue increase contribute to the ratio drop.

Table 1. *Hambantota Port EXIM Bank loan repayments 2018–22 ($ million).*

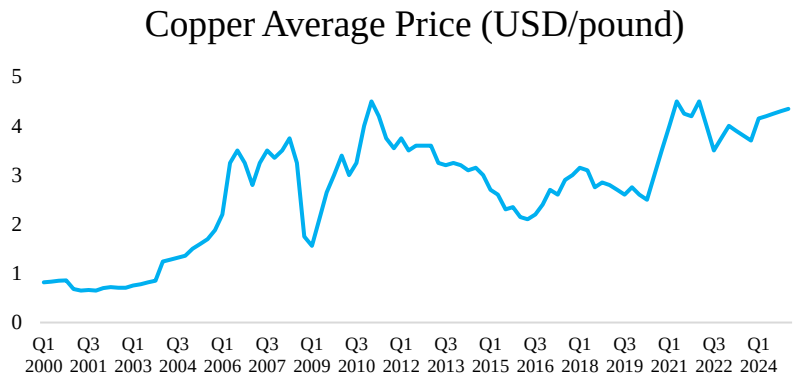
Year	Non-Current Liabilities with Financial Institutions (EXIM Bank) ($M)	% variation with previous year
2018	36.8	
2019	29.9	-23%
2020	22.9	-31%
2021	16.1	-42%
2022	9.7	-66%
2023	8.6	-13%

Source: Own estimation from Sri Lanka Port Authority (SLPA) Annual Reports.

Similarly, despite the positive results of Chinese presence in Zambia, FDI also entails a difficult dependency cycle in which Zambia is already involved. Following the recommendations of the IMF, World Bank, and regional financial organizations, as well as a predicted rise in the price of copper, the nation started to accrue increasing national debt in 2012. The aim was to fund infrastructure projects like bridges, highways, and hospitals, through short-term loans by benefitting from external "solidarity". However, it took longer for these projects to generate money and social value than the repayment period, and solidarity is never a motive for countries' actions.

Zambia experienced significant difficulties repaying its loans due to the failure of copper prices to reach anticipated highs, the advent of COVID-19 in 2020, and an ongoing climate problem (Amnesty International, 2023). Figure 9 depicts the copper prices drop from 2011 until 2020, and their peak from 2020 onwards.

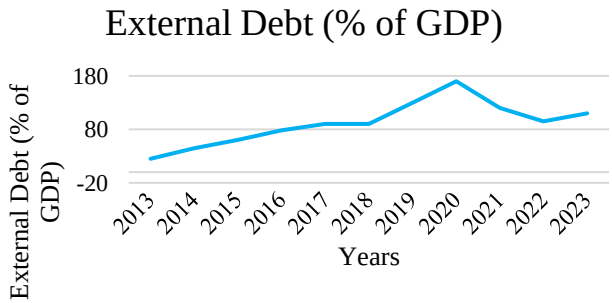
Figure 9. *Worldwide Copper Prices 2001-2024.*



Source: Own computation based on data from Trading Economics, 2024.

For an economy so dependent on this commodity, growth has not been easy nor steady, and it has clearly been linked to increasing levels of national external debt. Figure 10 shows how the peak was reached in 2020 – with an external debt expressed as a % of GDP of 163.8% – after a scandalous initial increase in 2018. If we compare Figure 10 with the copper price evolution (Figure 9), 2020 seems to be a turning point where Zambia reaches a troubled situation, in part dragged by the rise in copper prices amongst other macroeconomic tendencies.

Figure 10. *Zambian External Debt as a % of GDP.*



Source: Own computation based on data from Focus Economics, 2024.

Another influencing factor from the eternal list are benefits from tax agreements. Despite having abundant natural resources, Zambia also loses money due to double taxation agreements (DTAs), which include royalties, dividends, and technical fees paid to businesses that have subsidiaries in Zambia and other nations, which in this case are mostly State-owned enterprises (SOEs) (Curtis, 2015). What's more, Zambia has "the highest number of Chinese lenders" of all African states, and China owns 69% of the construction industry (Hsiang, 2023). This could imply that DTAs are not benefitting local enterprises, yet once again Chinese institutional interests. Overall, tax fraud and avoidance are thought to cost Zambia more than $4.5B a year (Amnesty International, 2023); a 3.3% loss out of its $133B GDP.

4.1.3. The role of institutional frameworks of Chinese investments on economic development: Case of Sri Lanka and Zambia

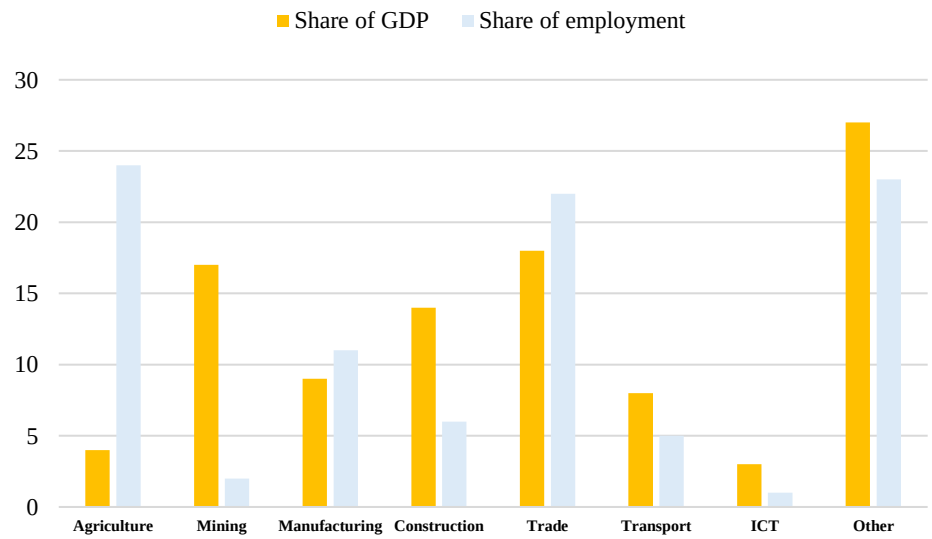
The role of institutional frameworks is shown in the impact on social and environmental factors, when considering local employment and community displacement as indicators of success for the project. Hambantota is considered to be one of the poorest areas of Sri Lanka, with 12% of the households in the region living in poverty according to the Lankan government (Department of Census and Statistics, 2019). By creating jobs, the port expansion project was intended to serve as a catalyst for significant socioeconomic advancement. However, there are fewer local job prospects as a result of China's known practice of deploying its own casual labour. Chinese FDI increases the number of Chinese workers in host countries with weaker collective labour rights (Yang, 2021), and the current system uncovers gaps in labour legislation and weak law enforcement (IMF, 2022). These facts clearly reflect an unsuccessful outcome of the Hambantota port for Sri Lankan local population.

Likewise, throughout its years of operations in Zambia, CNMC and overall Chinese mining investments in the country have been highly criticised over the topic of employment, based on several high-profile incidents (Schoneveld, German et al., 2014). In 2005 a CNMC partially owned factory exploded in Chambishi, causing the death of 50 employees. The following year, the police shot 5 employees, and in 2008 the company dismissed more than 500 unionized employees following a strike over labour conditions in the Chambishi Copper Smelter. Consequently, the Zambian government has faced heavy fire from opposition parties and civil society for their failure

to take action against Chinese corporations' misconduct (Schoneveld et al., 2014). Many blame government hesitation on the fear of ruining diplomatic ties with China (Mundy, 2010). However, China is not to blame for the high rate of incidents, as in 2008 Chambishi Mine did not vary much from the industry average, having the same accident rate (e.g. accidents per number of employees) as, for instance, the Swiss– Canadian Mopani Copper Mines, as MSD data states (Schoneveld et al., 2014).

Moreover, Chinese mining companies operate in the so-called "Copper Belt", formally known as Zambia-China Economic and Trade Cooperation Zone (ZCCZ), where the Chambishi region is located. Apart from CNMC, 13 other Chinese firms have established their copper operations and have created over 3,500 jobs (African Development Bank, 2022). Lusaka and the mineral rich Copperbelt province contribute over half of GDP (IMF, 2023), however, this does not entail job creation, as shown in Figure 11. While mining accounts for 17.5% of Zambian GDP, it represents a mere 3% share of national employment.

Figure 11. *Zambia: Sectoral Contribution to Growth and Employment in 2021 in %.*



Source: Own computation based on IMF Staff Country Reports 2023.

Because of this, development becomes hindered. If we compare the country's Human Development Index (HDI) data from 2008 vs 2023, inverse progress has been made considering

the increase in GDP figures. GDP in 2008 stood at $17.9B, and HDI at 0.506. In 2023 GDP was $28.2B and HDI 0.417 (World Bank, 2024). This means that whilst GDP increased 57.54% over the 15-year period, whilst HDI decreased 17.6%. In fact, more than 60% of Zambia's population lives below the international poverty line compared to 35% across Sub-Saharan Africa (IMF, 2023).

The World Bank (2024) analyses actual and projected poverty rates in relation to GDP per capita and concludes an expected growth of GDP per capita whilst extreme poverty is set to worsen. According to the World Bank, Zambian real GDP growth is projected to decelerate to 2.0% in 2024, worsening extreme poverty. This is despite progress made in debt restructuring and an increase in copper prices. From 2025, growth is expected to rebound, driven by foreign direct investment spurred by demand for energy transition minerals, and economic reforms (World Bank, 2024). This analysis portrays the unlucky economic dependency of Zambia to foreign investment, which is naturally favourable for China as the world's 1st copper importer.

4.2. Discussion

The Hambantota and Chambishi cases demonstrate the difficulties posed by Chinese FDI in trade of commodities, where asymmetric trade benefits, increasing debt, and limited social development frequently obliterate economic growth. While both countries are key nodes within China's BRI, their experiences diverge significantly due to structural economic differences and varying governance capacities.

The justification for this comparison lies first in the contrasting commodity compositions of their exports. Sri Lanka's trade portfolio is dominated by low-value-added goods such as tea, textiles, and spices, which offer little strategic or economic alignment with large-scale infrastructure projects like the Hambantota Port. In contrast, Zambia's economy is overwhelmingly dependent on copper, which accounts for over 70% of its export revenue and aligns closely with Chinese investment in mining and transport infrastructure. This structural difference helps explain why Chinese FDI has facilitated economic revival in Zambia's mining sector, while in Sri Lanka, its

impact on trade and diversification has remained marginal. Moreover, both cases highlight the fiscal implications of Chinese lending. Sri Lanka's high-interest loans for Hambantota contributed to a sharp rise in debt-to-GDP ratios until recent revenue growth from port activity began to reverse the trend. Zambia, despite benefitting from resource-driven growth, also entered a debt crisis, exacerbated by commodity price volatility and loan repayment pressures, underscoring the fragility of externally financed development.

Finally, the institutional dimension reveals shared challenges. Both countries have faced criticism over weak labour protections and limited local employment generated by Chinese projects. In Sri Lanka, job creation was minimal in Hambantota due to reliance on Chinese labour. In Zambia, social tensions surrounding Chinese mining firms have exposed the limitations of state oversight and accountability. For the purpose of a clearer correlation analysis, three main argumentative sets have been made matching the three specific objectives of the paper: economic growth through diversification, infrastructure and resource extraction linked to political/governmental interests, and employment and social development as indicators of successful institutional frameworks.

One of the main arguments against Chinese FDI is that it frequently strengthens already-existing structural dependencies in countries that export commodities rather than promoting economic diversification (Brautigam & Tang, 2011). The Hambantota instance demonstrates how Chinese investments are often made for strategic geopolitical advantages rather than to promote trade diversity. In fact, the port's location enhances China's trade dominance in the Indo-Pacific, which has allowed to solidify its position in the area by securing its maritime routes and diversifying its trade connections (Ruiz Aznar, 2022). Furthermore, Sri Lanka's export composition has not altered despite large infrastructural investments; the country still relies on low-value products like tea and textiles (OEC, 2024). This is consistent with studies on the Belt and Road Initiative, which indicate that Chinese infrastructure investments frequently give trade routes that support Chinese business interests' precedence over local economic development (Nugent and Lu, 2021).

Similarly, in Zambia, Chinese involvement in copper mining has revitalized the sector, yet has not significantly diminished the country's dependence on this single commodity. Copper remains Zambia's primary export to China, with a value exceeding US $2 billion (Figure 8), illustrating

how such investments have done little to foster diversification (Čerňák, 2024). This reliance has left the country vulnerable to global commodity price fluctuations, which played a central role in the 2020 debt crisis—external debt reached 163.8% of GDP, largely driven by exposure to volatile copper markets (IMF, 2024). These outcomes align with broader academic findings suggesting that Chinese FDI in resource-rich countries often perpetuates extractive economic models rather than promoting inclusive industrial development (Kaplinsky and Morris, 2009).

Closely tied to economic vulnerability is the issue of debt sustainability. The Hambantota case demonstrates how financial crisis brought on by high-interest Chinese loans compelled Sri Lanka to relinquish control of the port through a 99-year lease (Brautigam, 2020). The Chinese large lending flows often result in the build-up of high debt servicing burdens (National Bureau of Economic Research, 2019) causing recipient countries to suffer with loan repayment, a pattern seen in several BRI projects (Horn et al., 2021). Chinese debt arrangements are typically inflexible, making renegotiation challenging, in contrast to loans from official lenders (multilateral organizations) like the IMF or World Bank, which frequently provide restructuring mechanisms (Wu and Chen, 2024). Despite significant revenue growth in the port's operations, the $1.3billion Chinese loan is hard to repay, and after five years, Sri Lanka still owes $8.6 billion to China.

In Zambia, a similar trajectory has unfolded. Although national copper production increased linked to increasing copper prices, the anticipated economic gains did not materialize in time to counteract mounting debt commitments (Moyo, 2020). This often is the case of projects that started when copper prices were high, and had to be halted once prices dropped, making government spending unsustainable (Meller and Simpasa, 2011). In fact, a large amount of Zambia's government debt default in 2020 (due to a 163.8% external debt as % of GDP) was attributed to Chinese creditors (Brautigam et al., 2022), linked to construction companies and of which 69% are Chinese. Foreign businesses in Zambia's copper sector contribute to debt instability through Double Taxation Agreements (DTAs) to reduce their tax liabilities, leading to significant capital outflows and less government revenue for debt repayment, worsening external debt (War on Want, 2015).

These developments have fed into broader discussions on "debt-trap diplomacy," where Chinese loans are perceived as a tool to gain strategic leverage over economically vulnerable states (Gort

& Brooks, 2023). However, some scholars urge caution against overly simplistic narratives. They argue that other factors—such as poor governance, mismanagement, and commodity dependence—also play critical roles in exacerbating financial distress (Gallagher and Myers, 2021). This underscores the need for a more nuanced understanding of how local political and institutional contexts mediate the effects of external investment.

Another dimension of Chinese FDI that warrants attention is its limited impact on employment and social development. The extent to which investments benefit host communities often depends on the strength of local institutions and regulatory enforcement. The benefits of the port for the local population in Sri Lanka have been restricted due to weak implementation of regulations and the preference for foreign workers over local ones (Carrai, 2021). Despite the project's portrayal as a driver of regional growth, the majority of the workforce is made up of Chinese expats, and job gains have been negligible (Tang, 2022). Labor importation lowers the anticipated economic spillover effects for host economies, which is consistent with findings from other BRI projects (Lee, 2017).

Zambia presents a similar picture. Despite large-scale mining investments having the potential to create jobs, the sector is still capital-intensive, which means that employment creation is low in comparison to GDP contribution (Tull, 2006). In fact, while mining accounts for 17.5% of Zambian GDP, it represents a mere 3% share of national employment. Additionally, the country fails to distribute benefits, as they are primarily used to pay contracts for Chinese companies, employing Chinese experts and sometimes Chinese labour working with Chinese machines and materials (Lee, 2017); (Gort and Brooks, 2023).

Both cases show minimal beneficial impact on standard of living. Whereas Chambishi only contributed to the creation of 3,500 local jobs, or to part of the 3% of Zambia's total employment created by mining, Hambantota Port’s success was primarily dependent on imported Chinese labour. Weak development outcomes further highlight social dissatisfaction over poor working conditions, as shown thrown Zambian HDI figures. This shows that economic growth does not go hand in hand with social progress (Kanbur et al., 2018). Labor and safety concerns at Zambia’s Chambishi Mine, for instance, demonstrate how FDI agreements that include local job quotas and

environmental regulations may help lessen negative societal effects. Ensuring that investments benefit the local community requires effective monitoring and enforcement of labour and environmental standards (IMF, 2024).

Taken together, the experiences of Zambia and Sri Lanka illustrate the multifaceted limitations of Chinese FDI in promoting long-term development. While it has undeniably facilitated infrastructure growth and resource extraction, it has simultaneously entrenched structural dependencies, worsened debt vulnerabilities, and yielded limited social dividends. The outcomes in both cases highlight the importance of strong domestic institutions, strategic planning, and regulatory enforcement in shaping how foreign investments contribute to sustainable development. Without such mechanisms, Chinese FDI risks serving the interests of the investor more than those of the host country, making diversification strategies and robust governance frameworks indispensable.

Chapter 5

5.0. Conclusion, Implications and Recommendations and Limitations of the study

5.1. Conclusion

The study has demonstrated that instead of promoting significant economic diversity, Chinese FDI in Zambia and Sri Lanka has mostly reinforced preexisting structural dependencies. According to the qualitative and quantitative evidence, these investments are driven by strategic geopolitical and commercial goals, rather than by a commitment to long-term, sustainable economic growth in both host nations. The Hambantota Port instance exemplifies how large-scale infrastructure projects funded by Chinese loans can result in unmanageable debt loads, forcing recipient nations to give up strategic assets.

In a similar manner, Zambia's persistent reliance on copper exports in spite of rising Chinese investment highlights the drawbacks of resource-driven, undiversified economic models. Due to the resulting economic disadvantages, these nations are more vulnerable to outside shocks like volatile commodity prices and growing debt repayment costs. This further supports the argument that FDI runs the danger of escalating rather than reducing economic instability when it is not combined with effective industrial policy and regional capacity-building programs. Although Chinese infrastructure investments have brought certain economic opportunities, their long-term viability is still in doubt. The results suggest that these investments might increase financial risk rather than advance national growth in the absence of policy changes that support economic diversification and responsible debt management.

5.2. Implications and Recommendation

The study's conclusions highlight the intricate relationships between Chinese FDI and commodity-exporting emerging economies, especially when it comes to institutional frameworks, economic diversification, and debt sustainability.

Both Zambia and Sri Lanka's continued reliance on natural resources indicates that these countries will remain structurally vulnerable unless intentional policy measures are taken to include foreign investment into more comprehensive plans for economic diversification. Instead of permitting

investments to be restricted to extractive industries, governments should actively direct FDI toward areas that create long-term value, like manufacturing and technology-driven sectors. To make sure that Chinese FDI promotes economic transformation rather than increasing reliance on primary commodities, it is imperative to strengthen industrial policy, encourage local content standards, and encourage domestic entrepreneurship, sustained by technology transfers and local capacity-building initiatives. A first step would be investing in domestic processing and refining capabilities to eventually achieve robust industrialization for their economy, increase their revenue share and reduce their exposure to volatile global commodity markets.

Additionally, debt sustainability remains an important concern. Evidence shows that Chinese-funded infrastructure and resource extraction projects frequently result in financial stress due to opaque lending practices and strict payback mechanisms. The dangers of relying too much on Chinese finance are demonstrated by the example of Sri Lanka, where unmanageable debt obligations led to the leasing of vital infrastructure. Similarly, Zambia's financial instability has also worsened by its significant reliance on Chinese financing for infrastructure and mining projects, which has led to extreme financial external debt figures. Governments should create independent monitoring systems, increase debt transparency, and look for a variety of funding solutions that involve the private sector and multilateral institutions in order to reduce these risks. The goal is to ensure that projects funded by outside sources produce enough revenue to cover repayment commitments without endangering the stability of the national economy. Furthermore, reducing financial dependency and avoiding unmanageable debt buildup also comes with the need of implementing strong fiscal supervision procedures.

Finally, the role of institutional frameworks is another indicator of whether Chinese investments result in significant development or worsen economic and social inequality. Foreign (Chinese) projects in Zambia and Sri Lanka have managed to develop with little local economic impact, especially in terms of employment and environmental sustainability, due to inadequate governance and regulatory monitoring. Strengthened institutional and legal frameworks that guarantee environmental sustainability, enforce labour rights, and demand technology transfer from international companies to domestic businesses are necessary to address these deficiencies and stop undermining the potential advantages of Chinese FDI. Instead of letting outside interests set

economic priorities, governments need to be more forceful when negotiating investment terms that support national development goals focused on sharing technological expertise and making workforce development investments. Once internal strength is reached among all scopes, national enterprises should focus on building increased bargaining leverage in trade agreements. Stronger negotiating tactics are necessary, as evidenced by the asymmetric trade connections seen in Sri Lanka's infrastructure funding and Zambia's copper exports. Regional economic blocs like the African Union (AU), the Association of Southeast Asian Nations (ASEAN), and Mercosur should collectively bargain with China to secure more equitable trade and investment agreements that protect the interests of resource-exporting countries in order to offset differences in economic leverage.

5.3. Limitations of the study

While this paper tries to offer a comprehensive analysis of China's economic ties with emerging economies, a few limitations must be acknowledged. First, the analysis focuses solely on two particular case studies, which may make its findings not as applicable in other national contexts. To improve generalizability, future studies could take a comparative approach and include a wider range of countries.

Second, the study mostly uses secondary data sources, where contracts or reviewed data is analysed. This could lead to discrepancies in data availability and reporting standards, given the limitations of availability of transparent loan and investment agreements. This happens because of lack of transparency in governmental information for the countries chosen. Deeper understanding of the subtleties of the effects of Chinese investment would be possible by incorporating primary data collection techniques, such as field interviews with legislators, business leaders, and local stakeholders.

Finally, although the study emphasizes how Chinese FDI contributes to economic vulnerabilities, it does not adequately take into consideration how domestic governance and policy choices shape these results. The analysis overlooks how China's foreign policy has changed over time in reaction to domestic pressures, geopolitical factors, and worldwide economic trends. Future studies should

look more closely at the ways that moderate the impact of foreign investments. Further research could consider longitudinal data and the effect of evolving domestic political and economic systems evolving factors in reshaping Chinese investment strategies.

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AI tools declaration of use

Por la presente, yo, CASILDA BERNAL MOSCOSO DEL PRADO, estudiante de ADE y Relaciones Internacionales (E-6) de la Universidad Pontificia Comillas al presentar mi Trabajo Fin de Grado titulado " Resource-Driven Development or Dependency? Analysing Chinese Investment in Commodities in Emerging Markets", declaro que he utilizado la herramienta de Inteligencia Artificial Generativa ChatGPT u otras similares de IAG de código sólo en el contexto de las actividades descritas a continuación:

1. **Brainstorming de ideas de investigación:** Utilizado para idear y esbozar posibles áreas de investigación.
2. **Crítico:** Para encontrar contra-argumentos a una tesis específica que pretendo defender.
3. **Referencias:** Usado conjuntamente con otras herramientas, como Science, para identificar referencias preliminares que luego he contrastado y validado.
4. **Metodólogo:** Para descubrir métodos aplicables a problemas específicos de investigación.
5. **Constructor de plantillas:** Para diseñar formatos específicos para secciones del trabajo.
6. **Corrector de estilo literario y de lenguaje:** Para mejorar la calidad lingüística y estilística del texto.
7. **Generador previo de diagramas de flujo y contenido:** Para esbozar diagramas iniciales.
8. **Sintetizador y divulgador de libros complicados:** Para resumir y comprender literatura compleja.
9. **Revisor:** Para recibir sugerencias sobre cómo mejorar y perfeccionar el trabajo con diferentes niveles de exigencia.
10. **Traductor:** Para traducir textos de un lenguaje a otro.

Afirmo que toda la información y contenido presentados en este trabajo son producto de mi investigación y esfuerzo individual, excepto donde se ha indicado lo contrario y se han dado los créditos correspondientes (he incluido las referencias adecuadas en el TFG y he explicitado para que se ha usado ChatGPT u otras herramientas similares). Soy consciente de las implicaciones académicas y éticas de presentar un trabajo no original y acepto las consecuencias de cualquier violación a esta declaración.

Fecha: 8 de abril de 2025

Firma: CASILDA BERNAL MOSCOSO DEL PRADO